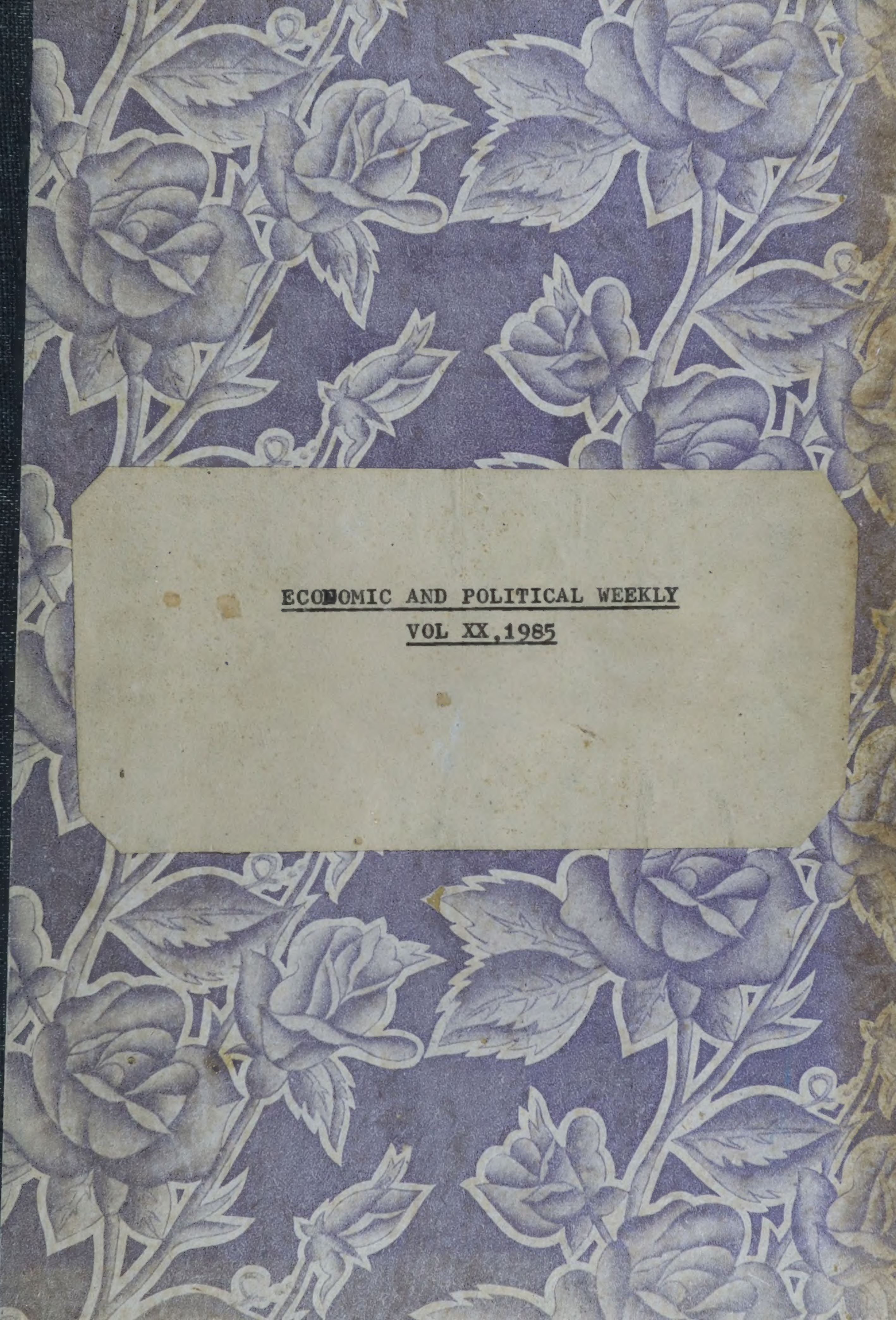

# ECONOMIC AND POLITICAL WEEKLY

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## WORKING OF FOREIGN EXCHANGE MARKETS

## EYE-WASH OF 'PATTA' DISTRIBUTION

## SUPERPOWER CO-OPERATION AND TRANSIT PASSAGE

## HISTORICAL ROOTS OF MASS POVERTY

## BANGLADESH: BETRAYAL OF CIVILIAN POLITICS

## MEMORIES OF BANDUNG

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24 MAY 1985

# Little Cause for Cheer

THE IMF paints an optimistic picture of the world economy both in the immediate future as also in the medium-term upto 1990 in its latest "World Economic Outlook", just published. The report observes that the pace of recovery of industrial output in the industrially developed countries accelerated to five per cent in 1984, the best performance for these countries since 1976. For the developing countries as a whole, the growth of output recovered to about 3.8 per cent with the non-oil exporting countries among them faring somewhat better with a growth rate of 4.5 per cent. For many developing countries, particularly those of sub-Saharan Africa, however, per capita incomes continued to be much below the levels achieved in the past.

The economic performance of even the developed countries continued to be marked by persistence of high levels of unemployment and, as the IMF puts it, "major financial imbalances". The IMF's report is constrained to note that despite the recovery in output in these countries, unemployment levels show no sign of declining—something which according to it "is highly unusual by historical standards". This is hardly surprising if it is considered that the rather weak and faltering recovery comes after a relatively long period of intermittent stagnation. In any event, the present recovery is largely concentrated in the US and has not sufficiently spread to Europe. And even the US economy continues to be plagued by unprecedented levels of budgetary deficits and interest rates. High US interest rates are attracting the savings of the rest of the world to the US in the form of large capital inflows and are thus coming in the way of rise in investment and capital formation in most of western Europe.

The external economic position of the developing countries, it is true, has shown some improvement. The aggregate deficit of the debtor developing countries declined quite sharply from $ 113 billion in 1981 to $ 38 billion in 1984. The ratios of these countries' debts to their exports has also declined. But this improvement in the external position of the developing countries has imposed a heavy cost on these countries in the form of intense adjustment efforts undertaken by them despite already low living standards. The IMF is hopeful that the pressure on these countries to tighten their belts further will ease in 1985. It expects average interest rates to remain lower in 1985 than in 1984 and the developing countries to be in a position to step up their imports modestly by about five per cent (in real terms) in 1985-86 without their external deficit worsening beyond the 1984 level.

The external financing requirements (current account deficit plus net private capital outflows) of the indebted developing countries are estimated to have declined from $ 150 billion in 1981 to $ 47 billion in 1984. Nearly one-fourth of this decline is believed to be on account of slowing down of private capital outflows. The overall improvement in the external position of these countries is reflected in a net increase in their external reserves to the tune of $ 22 billion.

The IMF's medium-term forecast for the world economy, based on its 'best estimate' of likely policies in member countries, places the growth rate of output in industrial countries at an annual average of three per cent during the six-year period upto 1990. While a higher growth rate is anticipated for Japan, the US and western Europe are expected to crawl at the same slow speed. Inflation rate is expected to remain low at around 3.5 per cent per annum. By 1990 international interest rates as measured by the LIBOR, adjusted for the US GNP deflator, is expected to come down to 3.5 per cent, which is clearly based on the heroic assumption of major changes in US policies in regard to budgetary deficits and domestic interest rates. The report also predicts 'moderate' weakening of the US dollar in real terms by about five per cent per annum during the next five to six years. The other scenarios painted in the report assume 'better' and 'worse' policies pursued by member countries. The forecasts with 'better' policies try to suggest a partial return of the world economy to the 'happy days' of the 1960s.

As for the developing countries, their debt to exports ratio is expected to remain high at 108 per cent in 1990 and their average debt service ratio will decline only slightly from 22.5 per cent in 1984 to 20.5 per cent in 1990. This is certainly not a prospect that these countries can look upon with much satisfaction.

## *Congress(I)*

### Cynical Cynicism

TAKING some liberty with the English language, one could aptly characterise the economic resolution presented to the AICC(I) meeting in New Delhi as an exercise in cynical cynicism. This was a thoroughly revised version of the original draft prepared by the Union Minister of Finance, Viswanath Pratap Singh. Singh's draft had not only made no mention of any commitment to socialism and the public sector, but even had sought to justify the omission 'theoretically'. He had held that "in the process of continued development, the policy instruments relevant to one stage cannot be treated as permanently sacrosanct. Nor are they ends in themselves." That this, again, was not a fit of absent-mindedness, but the articulation of a fully thought-out strategy is borne out by the operative blueprint of the Union government for the immediate present, *viz*, the Central Budget for 1985-86, and various other policy pronouncements and decisions made by the Finance Minister and the Prime Minister in the subsequent weeks. Furthermore, the political implications of this policy reorientation was not unclear to the Finance Minister when he had formulated his budget proposals. He had clearly noted in his budget speech the contradictions that crept in between the measures for raising investible resources and the survival of parliamentary democracy in a country with a large proportion of the population below the poverty line. He had even underscored the need for political wisdom on the part of the country's leadership in this situation. In practice, however, V P Singh chose to ignore the imperatives suggested by himself: he heaped burdens on the poor while giving bonuses to the rich.

Socialism, etc, has passed out of circulation in the Congress(I) vocabulary not just recently. Its eclipse really began with the re-emergence of Indira Gandhi in 1980. Overcoming its not-so-short fit of amnesia, the AICC(I) has now declared "unequivocally its commitment to socialism", asserting that "no other way was conceivable for solving the problems of the people". The resolution repeatedly mentions Jawaharlal Nehru to lay claim to the uninterrupted continuity of its commitments.

However, misconceived his plans and programmes and self-defeating his blueprint for socialism in India may have been, Nehru's fascination for some sort of socialism—of course, some milk and water variety of it—was genuine and longstanding. This was never so with Indira Gandhi who started making deliberate use of radical slogans, measures, etc, for immediate tactical gains. The first major instance was the famous 'Glass House' AICC session in Bangalore, during which she used her economic programme, including the call for the nationalisation of the big Indian banks, first to outmanoeuvre the Syndicate old guards and then to sack Morarji Desai from the cabinet. While projecting this supposedly radical platform, she was frank enough not to claim any mature thought devoted to it or any long commitment to or championship of these measures; they were, to quote her, merely 'random thoughts', hurriedly jotted down' on the eve of the session.

Even more cynical was her proclamation of the so-called 20 or 21 point programme about a week after the imposition of the Emergency in June 1975. In her first broadcast about the declaration of the Emergency, she had promised to come out soon with an economic programme, as if to sugarcoat the bitter pill. This she did about a week later.

In the first flush of supreme self-confidence, following the landslide victory in the Lok Sabha elections, Rajiv Gandhi and his so-called computer boys, lacking in any political experience as they were, had become arrogant enough to decide to dispense with the old populist mantle that used to cover the oligarchical rule of the Congress(I) or, for that matter, the Congress without the 'I'. Now against the background of the setbacks suffered by the party in the subsequent round of Assembly elections in 11 states and the by-elections for 26 Assembly seats thereafter, the elders and the junior cadres in the party have become bold enough to be vocal about the usefulness of the old idioms. Hence, the revision of the Finance Minister's draft and presentation of the resolution by the former Finance Minister with liberal incantation of *mantras* like 'socialism', 'public sector', and so on.

## *Assam*

### 'De-politicising' College Teachers

THE Assam Colleges (Taking Over of Management and Control) Bill, 1985, was introduced in the Assam assembly on April 4; and on April 8 (the three intervening days were holidays for the Assembly) it was debated and passed. There was anyway little doubt about the Bill's passage given the overwhelming majority of the ruling party in the Assembly—100 out of an effective strength of 109 (in a House of 126); but the opposition too, barring one independent member, supported the Bill and the leader of the two-member CPI(M) group indeed spoke in support of the measure. With the passage of the Bill, government is now empowered to take over those private colleges which come under the deficit grants-in-aid scheme.

The ostensible purpose of the legislation, as spelled out in the statement of objects and reason appended to the Bill, was that most of these colleges suffered from lack of basic facilities like buildings, equipment, hostel accommodation, etc, apart from the graver infirmities like absence of proper and uniform control and management of these colleges. "In order that the academic standard of higher education in colleges do not suffer for lack of these basic facilities and to help arise (*sic*) the standard of education by providing these basic facilities, it is necessary that government take over these colleges."

It is true that the colleges under the deficit grants-in-aid scheme in Assam (and, even more so, the non-deficit colleges) do suffer from all these ills and many more besides; but few of those concerned with the issue in the state—or even in the Assembly—were taken in by the government's argument that its move to take over the management and control, including the very substantial assets, of the more well-established of these colleges was motivated only by the stated considerations. The fact is that the 120 or so aided colleges in Assam do represent an important social force and the teachers (about 3,000) of these colleges, which are spread all over the state, wield considerable influence, especially in the rural and semi-urban areas, in matters which go far beyond mere teaching. Many of these colleges were established by public personalities who also happened to be academic figures; and the tradition of combining an academic career with public service has not entirely disappeared even now. Since under the existing arrangement it was open to a college teacher to take part in active politics, many of the teachers did so and some leading legislators in Assam, both in the government and in the opposition, have been teachers. Indeed, the present chief minister of the state was himself once a college lecturer.

However, the teachers as a body, like so many similar middle class groups, have by and large been active against the ruling party which, in Assam, has been always the Congress party barring the brief Janata interlude in 1978-79. Further, in the last five or six years of the Assam agitation, the teachers as a body and, certainly, the Assam College Teachers Association (ACTA) which claims, with some justice, to represent the overwhelming majority of college teachers in the state, have extended support to the agitation though they have not become part of the umbrella organisation, the All Assam Gana Sangram Parishad (AAGSP).

The involvement of the more active teachers in anti-Congress politics generally and, in the last five or six years, in pro-agitation politics specifically, has long rankled with the government. Naturally, there were many efforts earlier to break the united organisation of the teachers and during the Emergency, an organisation called All Assam College Teachers' Association (AACTA), comprising mainly pro-government elements, was floated. Little about AACTA is heard nowadays.

However, the prolonged frustrations over non-implementation of some of the long standing demands of the teachers and expectations that a government take-over, by overnight transforming college teachers into Class One officers of the state government, would dramatically improve their social and financial status, has of late influenced a considerable body of teachers to support (and in some cases actively plead for) such a take-over, though the ACTA still remains formally opposed to the move. The state government, acutely aware of these differences in the ranks of the teachers and equally alive to the fact that the governmentalisation of the services of the teachers would, at one stroke, neutralise an always potentially dangerous political opponent, came out with the Bill whose general anti-democratic character and specific anti-democratic provisions are striking. The Education Minister indeed candidly explained that one of the objectives of the measure was to put an end to the 'politicisation of teaching' in the state. The threat of transfer, for instance, would be a most useful weapon to discipline recalcitrant teachers.

The CPI(M)'s decision to support the Bill clearly was influenced by the fact that a substantial body of the teachers and, certainly, their representative body, the ACTA, supported the Assam agitation. While supporting the Bill, the CPI(M) leader in the Assembly dwelt at some length both on mismanagement of colleges and the college teachers' 'undesirable' political activities.

But in a strange reversal, the state committee of the CPI(M) has now come out with a statement which "deplores that the Government of Assam pushed this Bill through the assembly in a hurry, agreeing neither to refer it to a select committee nor to circulate it for eliciting public opinion . . . paying scant attention to the widespread public criticism against the measure". The statement also describes the measure as patently undemocratic and notes that direct control by government of primary education in the state has not merely not improved the situation but has led to endemic corruption. "Its action is politically motivated as it seeks to tighten ruling party's control over the colleges."

This turnabout is explained by party leaders to 'lack of communication' and the very short time that elapsed between the introduction and the passage of the Bill. Though the state committee's statement makes no mention to the support extended to the Bill by the leader of the CPI(M) group in the Assembly, sources close to the party reveal that the CPI(M) leader has been censured. Does this indicate a belated realisation that the party's stand on the Assam agitation need not define the party's stand on every other political question?

## *Nicaragua*

### Economic Sanctions by US

THE Reagan administration's bullying of the Sandinista government in Nicaragua has entered a phase of heightened tension. Perhaps it matters little that the economic sanctions ordered against Nicaragua by the US President on May 1 are something that Ronald Reagan had himself earlier claimed to be against. He was critical, for instance, of former President Jimmy Carter's grain embargo *vis-a-vis* the USSR. But his stand then may well have been influenced by the grain lobbies in the US.

Last week the US House of Representatives had rejected Reagan's proposal that the appropriated amount of $ 14 million be used to fund the operations of the contra rebels against the Sandinista government. Prior to the voting in the House, Nicaraguan President Daniel Ortega had offered a peace package to two visiting US Democratic Senators: a ceasefire with the principal guerilla groups, lifting of press censorship and restoration of civil liberties. The offer was conditional on complete stoppage of funding of the contras by the US.

Reagan has claimed that the Sandinista government's policies and actions constitute an unusual and extraordinary threat to the US's security and foreign policies. The situation, US spokesmen have claimed, was an emergency especially with Nicaragua taking new and bolder steps in its relations towards the Soviet Union. Ortega had indeed visited Moscow to secure financial aid amongst other things, soon after the US House had voted against military aid to the contra rebels. Ortega's Moscow visit is reported to have led some members of the House, who had earlier voted against aid to the contras, to support Reagan's decision to impose economic sanctions. Here the Sandinistas had little choice. Nicaragua's economy has been weakened by two years of war against the contra rebels and by relentless economic pressure applied by the US government. Its continuing attempts at securing a $ 158 million loan for agricultural development from the Inter-American Development Bank was again blocked by the US on March 8. The blocking was purportedly for 'economic reasons', which seems incredible when it is recalled that no similar action has been initiated against other Latin American countries whose economies are in far worse condition than Nicaragua's. The Soviet Union, following Ortega's visit, has assured $ 200 million in aid to Nicaragua.

The US economic sanctions mean prohibition by the US of all imports from and exports to Nicaragua and a ban on entry of Nicaraguan ships and aircraft. Nicaragua's consequent loss might seem small since its exports to the US in 1984, at $ 57 million, were only 17 per cent of its total foreign trade earnings (the value of its imports was about twice as large). But this is so only because, expecting such US action, the Nicaraguan government has reduced its trade with the US. In 1980 its exports to the US country were as high as $ 214 million while its imports totalled $ 249 million. Even so, a fifth of export earnings is still a large amount. Further, the US might now press some other Latin American nations to also break off economic relations with Nicaragua. In this changed scenario, the Nicaragua government's peace proposal seems to have been pushed into the background.

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# Drug Policy in Limbo

THE tussle between the lobbies of Indian companies and that of multinational corporations is most clearly evident in the case of the drug industry. The Minister for Chemicals and Fertilisers, Veerendra Patil, even admitted in the Lok Sabha on April 15 that the long expected new drug policy is being delayed due to lobbies of manufacturers working at cross purposes. There was no unanimity in the recommendations of the three working groups set up by the Ministry to examine various aspects of the policy.

Reports are periodically planted in the press, mostly by spokesmen of the MNCs, that the country's health care efforts are being hampered by the absence of a favourable policy. For instance, introduction of new generation drugs for malaria, hepatitis B and so on, have, it is said, brought extensive relief in other countries. These drugs have so far not been manufactured in India because the prices and terms are unattractive.

The Indian-owned companies, however, contest this interpretation. Spokesmen of their lobby, the Indian Drug Manufacturers' Association, point out that the foreign firms are interested only in securing high returns, through transfer pricing, and monopolising the market. Under the existing policy the MNCs are expected to progress to the manufacture of basic ingredients two years after a new drug is introduced by them, with help from their parent company abroad. But, the IDMA alleges, the foreign firms capitalise on monitoring difficulties to continue importing drugs at the penultimate stage even after the time limit for indigenisation has elapsed. The Association goes on to claim that it is the Indian companies who have introduced all the major new drugs in the country during the past decade. Whether they are themselves making serious efforts to achieve self-sufficiency in drugs is a debatable issue. The Indian firms after all are said to be spending only about two per cent of their turnover on research and development, when the requirement is much larger.

Behind all these claims and counterclaims there are the two central issues of pricing and licensing over which the new drug policy appears to have got derailed. The prices of roughly three-fourths of all drugs is administered by the government, ostensibly as part of its objective of plentiful supplies at reasonable prices. The IDMA is keen that the prices be revised upwards to provide adequate returns. The losses incurred by public sector units like the IDPL are mentioned as illustrations of how the current price policy is adversely affecting financial performance and therefore fresh investment. On the other side, the Organisation of Pharmaceutical Producers of India, the apex body of 55 foreign held firms, is agreeable to a price freeze for two years at current levels, plus ten per cent. This is partly because these firms have mostly diversified into agrochemicals and related sectors which now constitute a major share of their operations. Also it is a shrewd bargaining move, for simultaneously the Organisation wants licensing in the industry to be relaxed. The latter demand is opposed by the IDMA, which on the contrary wants protection of areas pioneered and built up so far by indigenous companies. (This protection is already provided for in the existing policy.) The Association is agreeable though to the MNCs being allowed to market new high technology bulk drugs, for which the knowhow is not locally available, provided they completely indigenise their manufacture within the stipulated two-year limit.

In brief, the IDMA wants prices to be raised while the OPPI seems indifferent, and, the OPPI wants delicensing which the Association opposes. At present roughly 60 per cent of formulations and four-fifths of bulk drugs are being produced by Indian companies, comprising of the public, private and small-scale sectors. The tussle for market share between the foreign and local firms is bound to continue even after the new policy, which has been referred to a parliamentary consultative committee, is finally announced.

*Coir*

## Export Market Going Abegging

ACUTE shortage of coconut husk has caused a serious crisis in Kerala's coir industry which has for the past few years been passing through a difficult period. The drought in the state in the past two years has brought down coconut yields substantially. This, coupled with increasing use of husk as fuel because of the scarcity and high prices of firewood, has resulted in reduced supplies of husk to coir yarn producers. Not surprisingly, the price of coir yarn has gone up by 120 per cent in the past one year. Though the current year's coconut crop is expected to be quite good, it will not be able to ease the raw material supply position immediately since retting of the husk requires about ten months before it can be used for making yarn.

Meanwhile, according to reports, some 4,000 small-scale units in Cochin, employing about 40,000 people, have been shut down on account of the shortage and high prices of coir yarn. Exporters are now offering about 20 per cent more to producers than last year, thanks to the uptrend in the prices of coir products in the international market. But this is inadequate to compensate the producers for the sharp rise in the prices of coir yarn Owners of small-scale units have been demanding a 50 per cent increase in prices paid by exporters. They have also been pleading for larger supplies of coir fibre and yarn and have even suggested import of 10,000 tonnes of the raw material from Sri Lanka to tide over the crisis.

Kerala's age-old coir industry has been facing rough weather for the last few years and the drought of the last two years has only accentuated its difficulties. According to knowledgeable sources, at least a part of the blame for the mounting raw material shortages should be attributed to the licensing procedures and movement curbs introduced by the Kerala government in 1973, with the objective of enabling co-operatives to get their husk requirements at reasonable prices. The Husk Control Order, 1973, provides for monopoly procurement of husk at fixed prices. However, the advisory panels as well as the procurement committees created under the Order have proved ineffective, leading to artificial scarcities. The high-powered B Sivaraman Committee had hence favoured relaxation of these curbs.

Because of the constraints on supplies of husk, exports of coir and coir products have gradually declined since 1979-80. Exports, which account for over 30 per cent of the industry's output, have declined from 47,224 tonnes in 1979-80 to 27,949 tonnes in 1983-84. Corresponding foreign exchange earnings declined from Rs 37 crore to Rs 24 crore. Exports in the first 11 months of 1984-85 amounted to 24,145 tonnes valued at Rs 24 crore as compared to 26,708 tonnes valued at Rs 23 crore in the corresponding period of the previous year.

The Central and state governments are reportedly contemplating a number of measures to help the industry and to protect the interests of the four lakh workers employed by it. With effect from March 1985 the price of husk has been increased by 50 per cent . Amendment of the Husk Control Order is also being considered. In this connection, the Kerala government has proposed that one-third of the total husk available at the retting stage may be sold at a price fixed by the government as usual and the remaining quantity may be allowed to be sold in the open market. The state government claims that about 50 per cent of the workers engaged in the coir industry have been brought into the co-operative fold under its heavily subsidised scheme for the purpose. The number of co-operative societies formed under the scheme is put at 466. Hence, while amending the Husk Control Order, the interests of these co-operatives cannot be overlooked.

## *Tea*

### Dwindling Exportable Surplus

THE Budget for 1985-86 has much to cheer the tea industry which has been in any case having a good time, in terms of both production and earnings, since 1983. In fact the incentives offered in the Budget have exceeded the expectations of the industry. The Budget proposals for 1985-86 permit tea companies to deduct upto 20 per cent of their profits for investment in approved development projects, after first depositing the amount in a special account with NABARD. The details of the working of the fund are yet to be worked out. According to the latest thinking in the Commerce Ministry, the special account with NABARD may be made effective for a period of five years. The date by which this tax-free deposit is to be made and other details are being worked out by the income-tax department to frame the relevant rules.

The government of West Bengal has also proposed certain measures to help the tea industry in the state, which accounts for 25 per cent of total tea production in the country. The state government has reduced the sales tax on tea machinery and tractors from eight per cent to four per cent.

The Union Budget proposal to permit a deduction from the profits of tea companies is intended to help the tea industry to generate more internal resources for investment in new machinery, fresh plantation and replantation. It has been stipulated that withdrawals from the account will be allowed only for specified purposes in accordance with schemes to be approved by the Tea Board. The government wants the tea industry to formulate a long-term policy to increase production of tea so as to meet the rising domestic demand and maintain present levels of exports.

Production of tea had declined from 570 mn kg in 1980 to 560 mn kg in 1981. It stagnated at 561 mn kg in 1982. Thereafter it rose to 589 mn kg in 1983 and further to 644 mn kg in 1984 against the targeted level of 625 mn kg. Export earnings from tea soared to an all-time high level of Rs 750 crore in 1984-85 from Rs 530 crore in 1983-84. Thanks to rising world prices, unit value realisation was much higher in 1984-85, while the quantity exported was only about 15 mn kg more than the 1983-84 level of 200 mn kg. Domestic prices have also ruled high during the last two years, resulting in bumper profits for tea companies.

Government policy with regard to export marketing of tea has also helped the industry in getting a better price realisation. According to the tea marketing policy for 1985-86, it is proposed to export 220 mn kg out of the projected production of 655 mn kg.

If past experience is any guide, the boom phase may not, however, continue for long. In fact there is already a softening trend in international prices and the Commerce Ministry has had to lower the minimum export price from Rs 31 per kg to Rs 26 per kg with effect from April 29. The industry should, therefore, respond positively to the incentives proposed in the Budget. There is an imperative need to draw up a long-term investment plan to cover new plantations, replantation and modernisation.

It needs to be noted in this context that the production of 644 mn kg achieved in 1984, while it represents a significant improvement over the previous year, is much lower than the Sixth Plan target of 705 mn kg. Whereas the annual growth of tea output in the last decade works out to 3.4 per cent, domestic demand has been rising at the rate of 5.3 per cent per annum. Consequently, the quantity available for export has been steadily declining. The fear has been expressed that unless steps are initiated to increase production significantly, India might even find itself an importer of tea by the next decade.

## LETTER TO EDITOR

# National Campaign on Bhopal Disaster

THE Bhopal Poisonous Gas Disaster Rashtriya Abhiyan Samiti met in Bhopal on April 6-7, 1985 to chalk out a national campaign on the wider issues emerging out of the Bhopal episode. The Committee was constituted at the National Convention convened by the Zahreeli Gas Kand Sangharsh Morcha in mid-February this year in Bhopal which was attended by 65 organisations from 13 different states, working in the field of civil liberty and democratic rights, people's science, environmental protection, women's issues and cultural action.

The Rashtriya Abhiyan Samiti has decided that a nationwide programme be undertaken to force the government to take such steps against the US company, Union Carbide Corporation, and its Indian subsidiary, Union Carbide India, that both the companies may not be able to carry on their business any more not only in India but also anywhere else in the world. Such an uncompromising punishment will serve as a deterrent to all other pollution-causing industries all around the world.

To fulfil the above objective, a nationwide signature campaign on a memorandum to the Prime Minister has been started to press the following demands:

(1) Confiscate the entire property of the Union Carbide factory at Bhopal and its Research and Development Centre and guarantee that these shall not be allowed to operate again anywhere else in India.

(2) Provide equivalent and alternative jobs to all the employees of the Union Carbide factory at Bhopal in and around Bhopal city.

(3) Nationalise all Union Carbide factories all over the country, its regional and sales offices and all other properties without paying any compensation and make appropriate arrangements to protect human life from the possibility of any further dangers from hazardous chemicals in these plants.

(4) Take such political and legal steps against Union Carbide Corporation so as to force the company to pay a compensation, roughly Rs 6,000 crore, which will lead to the bankruptcy of the company.

(5) Scrap the judicial inquiry commission set up by the Madhya Pradesh government in view of its restricted jurisdiction and incapability to seek information from the Central government's departments and agencies, and immediately constitute instead an inquiry commission set up by the Central government under the Chief Justice of the Supreme Court. Widen the terms of reference to include the licence agreement, production process and hand-

ling of the aftermath, especially medical treatment and relief.

(6) Replace the Bhopal factory by a modern hospital to provide life-long treatment to more than two lakh gas victims and also by a rehabilitation scheme to give alternative jobs to the gas victims especially those whose reduced physical capacity does not allow them to return to their old jobs.

(7) Erect a national memorial at the site of the Bhopal factory in the memory of the disaster and set up a museum and a documentation centre on the lines of the Hiroshima Museum, in order to record information about all industrial disasters of the world.

The above memorandum will be submitted to the Prime Minister on June 6, World Environment Day, in Delhi by organising a rally. In addition to this the Rashtriya Abhiyan Samiti decided to observe May 3 to mark the beginning of the sixth month after the tragedy and to organise on this day demonstrations against all factories of Union Carbide in the country, its regional and sales offices and other centres. It was further decided to issue an appeal to all trade unions, peasant and student organisations to pass resolutions on May Day in support of the demand for nationalisation without compensation of all factories and other properties of UCIL outside Bhopal all over the country.

The Rashtriya Abhiyan Samiti has also declared that the people of India have an absolute Right to Safe Environment and a similar Right to Know. In this context, the Zahreeli Gas Kand Sangharsh Morcha alleges that Union Carbide and the government have acted in complicity with each other to deprive the people of both of these rights during the Bhopal episode. By suppressing information regarding the number of people who died due to gas leakage, chemical identification of the poisonous emission, effect on the air, water and food materials, post-mortem reports and medical reports of the patients, licence agreement, etc, Union Carbide and the government have given protection to each other misled the public and deprived the gas victims of scientific treatment. According to the Morcha's Technical Cell, the government has added to the misery and ailments of the gas victims by suppressing the fact of the presence of hydrogen cyanide and its role in causing disease and death through cyanide poisoning and also by refusing to give the antidote sodium thiosulphate injections. Similarly, the government refused to caution women against possible dangers to their foetuses during the first trimester of their pregnancy as a result of exposure to the gas and also denied advice to women regarding the need to avoid conception until de-toxification, thus endangering the future generation.

The Morcha also alleges that the government by suppressing information regarding the chemical identification of the gas and the state of health of the gas victims, is helping Union Carbide Corporation to get away with a reduced criminal responsibility in the compensation case in the US court.

The Morcha further points out that the government has tried to mislead the public regarding about a dozen instances of the leakage of hazardous chemicals since December 3, 1984 from the Bhopal factory and has also refused to declare the schedule of removal of such chemicals from the factory site. This act of the state government has been responsible for causing tension and keeping the people of Bhopal in a state of continuous scare.

ANIL SADGOPAL

Zahreeli Gas Kand
Sangharsh Morcha, Bhopal.

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*(Quarterly)*

**Volume II Number 1 March 1985**

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# Living on the Brink

**Romesh Thapar**

WE are now moving into a situation where very soon we will not have a police force worth the name. The police revolt in Ahmedabad, and the vicious assault on a newspaper which was leading the campaign to expose police illegalities and the tie-ups between corrupt business and ruling Congress politicians, has sent shock waves through a startled Parliament. This is the culmination of a series of 'breakdowns' in the now misused law-and-order system, the last being the grotesque pre-Bluestar drama in Punjab.

The attack on individual journalists and photographers is naturally only an extension of the attempt to stamp out the truth about what is happening. In many ways, the press is responsible for allowing police-politician illegalities to escalate until anyone in uniform imagines that he has a right to treat citizens as if they were conquered peoples. It has failed miserably to play the role of a determined watchdog, and so many 'leaders' of the profession have, like ordinary politicians, sought 'suction' in the police system.

Repeatedly, serious observers of the national condition, including distinguished retired members of the police and para-police, as also of the numerous formations raised to support the police-system, have been warning us of the consequences of political interference and manipulation in these sensitive areas. The National Police Commission, prevented from completing its work by a corrupted and criminalised Congress party, has also reinforced this view.

There can be no denying that the *netas* of various ruling groups have set the worst possible standards for the services under their command. After all, the police in Gujarat—or Ahmedabad!—are not the first to batter the press. Politicians have been playing this game in almost every state (witness Bihar and eastern UP), and with the assistance of both police and gang leaders. If in Ahmedabad the politician-police gang up is close and intimate, it should not cause any surprise. Witness the ludicrous analysis of the Union Home Minister about foreign agents and what not.

And, incidentally, it is high time to tell the incumbents of the Union Home Ministry, past and present, that their theories of organised attempts to 'destabilise' the country are farcical. If there are any destabilisers around, they are largely composed of the incompetents and pig-heads who have allowed the police forces to become the wretched things they are. Gujarat's story is not different from any other—even mafia-controlled Bombay.

It required the terrible enactment of the post-assassination assault on the Sikh community in the Capital to investigate the snake-pit that is the local police and to begin a meaningful reorganisation of the force to ensure that such holocausts are not repeated—and it needed someone 'from the outside' to cut through the casteist tangles of formations that should long ago have been purged of these primitive emotions. How long it will take to complete the process is anyone's guess, for the local politicians are as active as ever serving their dirty interests.

It is astonishing how leading newspapers pontificate about the deplorable state of the police and, in the next dissertation, denounce the effort to enquire into the handling of casteist and communal killings, planned or otherwise. This living at many levels has also become a distinguishing mark of all strata of the urban population. At some point in our slide into chaos, a solid diagnosis of the sickness has to be done—and the citizenry had better become conscious of its own contribution to the chaos.

Populism is certainly taking its toll. Only the other day, we were adjusting to the crazy competition among Akali leaders to retain control of their extremist youth, as also to the strange obsession of the military to decorate themselves for police actions. Now we are caught in the web of so-called reservation and so-called anti-reservation trends (vitiated in a hundred ways) as if belonging to a particular caste is enough to ensure your progress through life, and we are confused because we know that the merit system is fast dissolving under a variety of 'fixing' which we tolerate. Even Calcutta, living or dying or plodding along, refuses to look at itself and will probably be called to vote in municipal elections now that the CPI(M) can wallop Rajiv Gandhi for his loose statements on the city.

In every successive situation or crisis, the voice of reason or rationality is becoming more and more feeble. Whether it is the politician or the social worker or the academic presiding over a troubled campus, the desire is to take a position that is easily communicated and popular. We are living on populist titillation, starved as we are of so many essentials of dignified living. All this puts a premium on turmoil, and, ultimately, violence.

Punjab and Gujarat, Assam too, have put the spotlight on the state of the police and the absence of any norms to condition the maintenance of law and order. From all accounts, it is becoming increasingly clear that the people throughout the country are deeply distressed by the insecurities that surround them today. The ruling parties cannot evade their responsibilities, or else a kind of chaos will take over, damaging normal political and economic life.

I don't think any country in the world, with the possible exception of those belonging to the communistic sphere, have as many non-military uniformed formations, although ours have the unique distinction of being largely packed with the alienated and unemployed who could claim a political godfather. It is here that a massive purge has to take place once the regular police force is reorganised and restructured, and made truly representative of our people. It is time the PM was reminded that we have an excellent pool of manpower in the 60,000 annual retirements from the armed forces. Why are we wasting them?

More than ever, the need to establish an Inter-State Council composed of the Prime Minister and the chief ministers, with the President presiding, as envisaged in our Constitution, is being felt. The problems that are surfacing in our new situation demand an all-party consensus in terms of those who exercise power in some region of the sub-continent. Why is there a reluctance to make our federal functioning more cohesive, more energetic, less controversial and devisive? Even official statements could be tempered more intelligently.

That the system of governance under which we have lived and progressed these 38 years needs considerable repair and innovation is widely understood. The danger signals are out because we are beginning to witness simultaneous eruptions at widely separate points, making it increasingly difficult to concentrate disciplining power.

*April 26.*

# STATISTICS

## Index Numbers of Wholesale Prices
(1970-71 = 100)

| | Weights | Latest Week (13-4-85) | Variation (Per Cent) Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85++ | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| All ommodities | 1000 | 347.9 | 2.3 | 7.5 | 0.9 | 7.2 | 9.2 | 2.6 | 9.3 |
| Primary Articles | 417 | 324.9 | 1.1 | 5.1 | 0.4 | 5.1 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 299.8 | 0.9 | 6.5 | 0.2 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 315.7 | 2.2 | 4.0 | 1.0 | 3.7 | 15.7 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 555.6 | 6.6 | 9.5 | 1.9 | 7.3 | 6.7 | 7.5 | 20.7 |
| Manufactured Products | 499 | 331.8 | 2.1 | 9.0 | 1.1 | 8.9 | 8.3 | 0.6 | 5.2 |

## Cost of Living Index

| | Base | Latest Month | Variation (Per Cent) Over Last Month | Over Last Year | Over March 1984 | In 83-84 | In 82-83 | In 81-82 | In 80-81 |
|---|---|---|---|---|---|---|---|---|---|
| For Industrial Workers | 1960 = 100 | $585^{2}$ | –0.5 | 4.3 | 4.8 | 12.6 | 7.8 | 12.5 | 11.4 |
| For Urban Non-Manual Employees | 1960 = 100 | $538^{1}$ | 0.2 | 6.8 | 6.5 | 10.3 | 8.0 | 11.9 | 11.8 |
| For Agricultural Labourers | July 60 to June 61 = 100 | $523^{1}$ | 0.2 | — | 1.8 | 11.4 | 5.2 | 12.4 | 9.7 |

## Money and Banking

| | Unit | Latest Week (12-4-85) | Variation Rs Crore (Per Cent in Brackets) Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85++ | In 83-84++ | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| Money Supply ($M_3$) | Rs Crore | 1,02,136 | 1,405<br>(1.4) | 15,237<br>(17.5) | 7,815<br>(8.3) | 14,651<br>(17.1) | 13,031<br>(17.9) | 10,442<br>(16.7) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 50,685 | 699 | 8,589 | 4,455 | 6,509 | 5,757 | 4,734 | 4,965 |
| Bank Credit to Commercial Sector | Rs Crore | 69,506 | 516 | 9,230 | 4,791 | 9,320 | 8,830 | 8,797 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 2,991 | 516 | 1,431 | 809 | 1,419 | –104 | –895 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 71,996 | 919<br>(1.3) | 11,536<br>(19.1) | 810<br>(1.1) | 10,590<br>(17.5) | 9,451<br>(17.8) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets** | Rs Crore | 6,953 | 500 | 1,475 | 8 | 1,463<br>(26.7) | 1,233<br>(28.9) | 911<br>(27.2) | –1,468<br>(–30.4) |

## Index Numbers of Industrial Production
(1970 = 100)

| | Weights | Latest Month | Average of Months* 1984 | 1983 | Variation (Per Cent) In 1984++ | In 1983++ | In 1982 | In 1981 | In 1980 |
|---|---|---|---|---|---|---|---|---|---|
| General Index | 100.00 | $206.6^{12}$ | 191.6 | 179.7 | 6.6 | 4.8 | 4.2 | 9.3 | 0.8 |
| Basic Industries | 32.28 | $239.6^{10}$ | 237.5 | 210.7 | 12.7 | 5.5 | 7.9 | 14.6 | –1.0 |
| Capital Goods Industries | 15.25 | $197.1^{10}$ | 206.7 | 183.3 | 12.8 | 3.3 | –1.2 | 7.6 | 4.6 |
| Intermediate Goods Industries | 20.95 | $163.4^{10}$ | 161.8 | 158.5 | 2.1 | 7.7 | 2.2 | 3.7 | 0.8 |
| Consumer Goods Industries | 31.52 | $146.5^{10}$ | 156.4 | 156.6 | –0.1 | 0.5 | 5.6 | 8.2 | 0.4 |
| Durable Goods | 3.41 | $191.8^{10}$ | 189.0 | 167.1 | 13.1 | 0.1 | 3.6 | –0.1 | 3.5 |
| Non-Durable Goods | 28.11 | $147.5^{10}$ | 153.2 | 155.4 | –1.4 | –0.1 | 6.5 | 9.3 | — |

## Foreign Trade

| | Unit | Latest Month (Jan 85) | Cumulative for* 1984-85+ | 1983-84+ | 1983-84 | 1982-83 | 1981-82 | 1980-81 | 1979-80 |
|---|---|---|---|---|---|---|---|---|---|
| Exports | Rs Crore | 994 | 9,258 | 8,131 | 9,866<br>(11.7) | 8,834<br>(13.2) | 7,803<br>(16.3) | 6,711<br>(3.9) | 6,459<br>(12.8) |
| Imports | Rs Crore | 1,977 | 13,122 | 12,625 | 15,763<br>( 9.8) | 14,360<br>(5.0) | 13,671<br>(9.2) | 12,524<br>(40.6) | 8,908<br>(30.7) |
| Balances of Trade | Rs Crore | –983 | –3,864 | –4,494 | –5,897 | –5,526 | –5,868 | –5,813 | –2,449 |

## Employment Exchange Statistics

| | Unit | Latest Month (Nov 84) | Cumulative for* 1984 | 1983 | 1983 | 1982 | 1981 | 1980 | 1979 |
|---|---|---|---|---|---|---|---|---|---|
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,649 | 23,649 | 21,707 | 21,953<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) | 14,334<br>(13.1) |
| Number of Registrations | Thousand | 447 | 5,991 | 6,019 | 6,555<br>(11.8) | 5,862<br>(–6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) | 6,132<br>(15.1) |
| Number of Vacancies Notified | Thousand | 51 | 686 | 784 | 828<br>(1.0) | 820<br>(–8.4) | 895<br>(6.6) | 840<br>(–4.1) | 876<br>(5.8) |
| Number of Placements | Thousand | 30 | 376 | 456 | 486<br>(2.5) | 474<br>(–6.1) | 505<br>(5.2) | 480<br>(2.6) | 468<br>(2.6) |

* For current year upto latest month for which data are available and for corresponding period of last year.
** Excluding gold and SDRs.
+ Variation in current year upto latest month for which data are available over corresponding period of last year.
++ Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript[1] indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

# Memories of Bandung

### GPD

ON April 24, the thirtieth anniversary of the Bandung Conference of African and Asian states (and not 'Afro-Asian states'—the organisers of Bandung were rather particular on the nomenclature) was celebrated in Suharto's Indonesia. There have been two major conferences of the post-war world which are assured of a safe place in the history of the third world. One is the Asian relations conference that Nehru was instrumental in organising in New Delhi from March 23 to April 2, 1947. The other is the Bandung Conference in Soekarno's Indonesia. There was not much of African representation in Bandung because decolonisation of Africa began in earnest only in the sixties. Only five African states were present there. The other nineteen were Asian. But the numbers do not matter. It was the first and perhaps the last time that the African and Asian states, whether aligned or non-aligned, gathered together.

Bandung seems to be such an ancient past. How much the world has changed since is obvious from the fact that it was Soekarno's Indonesia in 1955, while in 1985 it happens to be Suharto's. Soekarno was not an ideal statesman. Nor can it be argued that his performance in terms of economic development was notably better than Suharto's. The hapless Indonesian masses are now caught in the trap of dependence and underdevelopment from which there seems little chance of escape. The difference between Soekarno's time and that of his successor consists in the resurgent character of Indonesian nationalism. It was still possible then to talk of 'imperialism' and, to borrow Panikkar's phrase, of "western dominance", a term which nobody would understand in Indonesia today.

Bandung was the first collective assertion of the young nations and ancient peoples that Asia and Africa represented. It must have also been a spectacular gathering. A suave Zhou Enlai, an ebullient Soekarno, a shade condescending but warm Nehru and a remarkable colonel of the name of Gamal Abdel Nasser make up a galaxy which a puny Reagan or a slavish Margaret Thatcher, a colourless Kohl or the so-called socialist Mitterand (why European politicians are referred to as socialists is a mystery) and others getting together cannot hope to match. They were giants of Asia and Africa. It was a new world which they led. Yet they were the inheritors of ancient civilisations. The white man had left or was about to leave these continents. Bandung seemed to announce the end of western dominance.

This is not to suggest that these statesmen gathered at Bandung with a very clear perspective. There was, for instance, Sir John Kotelawalla of Sri Lanka. He had tremendous problems with the term 'imperialism'. After all he had been knighted by the British crown. There was a stormy and apparently an endless meeting about the draft of the final Bandung statement. One of the problems which this drafting committee faced related to 'imperialism'. A group of statesmen led by Sir John Kotelawalla objected to the term. Like the contributors to the second volume of the "Cambridge Economic History of India", they seemed to be a little wary of this business of imperialism. Sir John thought of a brilliant idea. He argued that if the final statement has to refer to imperialism it must then refer to both imperialisms—imperialism of the West and the imperialism of the East (i e, east in European terms). You can see that neither Lin Biao, nor Mao, nor even Bettleheim can claim credit for inventing the notion of Soviet imperialism. Sir John was the author. Later writers have simply plagiarised from the great Ceylonese mind!

Anyway, there was Krishna Menon there. His name has become unmentionable in foreign policy parlance in this country. Some time ago we wrote in this column that Parthasarathy and his men are the inheritors of the Menon mantle. The number of friends who thought that we were attacking Parthasarathy was amazingly large! So you see, Menon's has become such a bad name. Be that as it may, while Menon's acerbic tongue is well known his diplomatic skills are not. He came out with a brilliant formulation, a perfect example of a (useful) Brahmanic exercise. He suggested that the final draft should refer to "imperialism in all its manifestations". Sir John was persuaded. Krishna Menon was not very kind to those who wanted to keep the flag of western dominance flying in Asia. He is reported to have said about the accepted phraseology that "we made them agree to something they do not understand". Krishna Menon was not very wrong. The Bandung spirit has gone sour precisely because over the years 'imperialism' has become respectable. Nobody would suggest that the LDCs must sever all connections with the West. That is not possible, nor is it necessary. But it requires a certain toughness to deal with the West. It also requires a perspective. The element of loot has not disappeared from the relationship of the West with Africa and Asia. The Bandung spirit has been killed in the sense that there are hardly any statesmen left in Africa and Asia who would recognise that the epoch of imperialism is not over yet.

It is not a question of loot alone. It is also a question of what these states are like and should be like. The Chinese can afford to take such liberties as they are taking because there is no imminent danger to their statehood either from within or without. There is scarcely an African-Asian state which does not face that problem today. It is true that it is partly the doing of what the ruling elites in these states have been doing. But that is not the whole story. It cannot be. There are also bigger actors. During the fifties there were some statesmen who saw clearly and vividly who they were. Bandung created the impact that it did largely because of these small number of people.

Bandung would also be remembered, we imagine, for Zhou Enlai's tremendous entry on the African-Asian scene. The suave Prime Minister took everyone by storm. He must have resented being introduced to people there by Nehru. Much is made of the unfavourable impact that Nehru's condescension at Bandung made on Zhou Enlai. Nobody knows. We would think that given the Chinese finesse and the surety of touch that a civilisation gives, Zhou Enlai must have taken it not only in his stride but perhaps also with that typical all-knowing smile. Zhou Enlai once remarked many years later that Indians continue talking of Everest with extraordinary fondness but do not even know what the peak was named in ancient times. Not that the Chinese had any name for it. They simply appropriated the Tibetan name. Anyway the point is that the man who went to Bandung in 1955 was a consummate diplomat. An inheritor of a revolution as also its maker was going to leave some impact, irrespective of who introduces him, to whom and where.

As the memories of Bandung fade, what is going to be lost is the elan of early nationalist leadership of Asia. It is not for the Suhartos of the world to understand it, let alone celebrate it. The thirtieth anniversary of the Bandung celebrated there was a useful reminder of what Asian (and African) states have lost over the last thirty years and precisely that the celebrations in Bandung missed.

# Innovations Begin to Pay

**Hansavivek**

*WIMCO* started manufacture of matches in 1923 and is today the country's largest manufacturer. It has spread its activities too. Paper and chemicals were the earliest diversifications, based on matches. Today Wimco is also engaged in the manufacture of metal anodes, processed fruit juices and concentrates, packaging materials and machines. It is the largest exporter of tropical fruit products from India and is in the forefront of farm forestry and horticulture. The company has turned in good working results for 1984 with sales, profits and margins higher than those of the previous year. Turnover has increased from Rs 75 crore to Rs 85.30 crore and gross profit from Rs 5.34 crore to Rs 8.29 crore, reflecting a significant improvement in profit margins. Although tax liability has claimed considerably more, net profit is still Rs 3.83 crore compared to Rs 2.32 crore of the previous year. Dividend has been raised by two points to 20 per cent and is covered 2.27 times by earnings against 1.52 times previously.

The labour problem at Ambarnath unit was amicably settled in September last and normal operations have since been resumed there. The production of matches and chlorates at Ambarnath was adversely affected for the first nine months of the year due to the closure. The metal anodes project went into commercial production and substantial orders from leading caustic soda manufacturers have been executed. The results obtained by the customers using the company's metal anodes have been in line with the guaranteed performance and are comparable with international standards. The operations of processed food activity were adversely affected due to an unusually poor mango crop. However, timely modernisation and upgradation of technology resulted in a wider product range and helped the company to tide over a difficult situation. Considerable orders are in hand and the prospects appear to be good for the current year. The engineering division showed a marked improvement in its working. It executed an export order for packing machines from USSR. Amongst its customers for the new Expresso range of machines, built under licence from AR Packaging Systems, are well known companies such as Lipton and HMM. The management expects the demand for such systems packaging machines to add greatly to the conventional range of fillers and other packing machines. The forestry operations started yielding positive results during the year. Adequate provision for nursery development and multiplication has been undertaken. R and D programme for rapid multiplication of existing and new species and varieties has been undertaken in collaboration with Wimco Seedlings. Extension work for the horticultural development and supply of tomato and mango required for the processed food activity has also been taken in hand. The total value of exports was Rs 11.8 crore. There should be an improvement in the export performance during 1985. During this year, Cleanfoods Corporation as well as A R Packaging Systems have become subsidiaries of the company. The directors view the current year's prospects for the company as good due to favourable market conditions and a comfortable order position. Moreover, the technological innovations and rationalisation measures in the traditional activities have started yielding results.

**The Week's Companies** *(Rs Lakh)*

| | | WIMCO | | Tribeni Tissues | | Century | |
|---|---|---|---|---|---|---|---|
| | | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 |
| Paid-up Capital | | 845 | 845 | 795 | 636 | 1597 | 1597 |
| Reserves | | 1080 | 866 | 593 | 758 | 20555 | 20643 |
| Borrowings | | 3408 | 2800 | 817 | 683 | 12620 | 6152 |
| *of which* Term borrowings | | 819 | 784 | 189 | 204 | 7269 | 3480 |
| Gross fixed assets | | 3747 | 3572 | 2442 | 2306 | 32221 | 25442 |
| Net fixed assets | | 1998 | 2071 | 1190 | 1214 | 32519 | 21638 |
| Investments | | 181 | 76 | 14 | 14 | 284 | 284 |
| Current liabilities | | 2212 | 1938 | 766 | 615 | 9695 | 7294 |
| Current assets | | 5327 | 4259 | 1765 | 1412 | 11664 | 13764 |
| Stocks | | 2026 | 1690 | 1035 | 840 | 4081 | 4192 |
| Book debts | | 624 | 451 | 450 | 340 | 1862 | 1705 |
| Net sales | | 8530 | 7500 | 3039 | 2360 | 24534 | 21472 |
| Other income | | 272 | 253 | 19 | 17 | 1058 | 665 |
| Raw material costs | | 3668 | 2549 | 1205 | 877 | 6766 | 5532 |
| Wages | | 1334 | 1251 | 383 | 322 | 4534 | 4100 |
| Interest | | 405 | 353 | 101 | 99 | 960 | 451 |
| Gross profit (+)/loss (−) | | 829 | 534 | 468 | 340 | 2206 | 3196 |
| Depreciation provision | | 246 | 222 | 163 | 89 | 1387 | 1065 |
| Tax provision | | 200 | 80 | 168 | 83 | — | 650 |
| Net profit (+)/loss (−) | | 383 | 232 | 137 | 168 | 819 | 1481 |
| Investment allowance reserve | | 31 | 44 | 9 | 16 | 300 | 200 |
| Transfer to reserves | | 183 | 36 | — | 19 | 136 | 898 |
| Dividend | | | | | | | |
| Amount | P | — | — | — | — | — | — |
| | E | 169 | 152 | 143 | 133 | 383 | 383 |
| Rate (per cent) | P | — | — | — | — | — | — |
| | E | 20 | 18 | 18 | 21 | 24 | 24 |
| Cover (times) | | 2.27 | 1.52 | 0.95 | 1.26 | 2.13 | 3.87 |
| *Ratios* (per cent) | | | | | | | |
| Gross profit/sales | | 9.72 | 7.12 | 15.40 | 14.40 | 8.99 | 14.88 |
| Net profit/capital employed | | 19.89 | 13.56 | 9.87 | 12.05 | 6.50 | 12.12 |
| Inventories/sales | | 23.75 | 22.53 | 34.05 | 35.59 | 16.63 | 19.52 |
| Wages/sales | | 15.64 | 16.68 | 12.60 | 13.64 | 18.48 | 19.09 |

*TRIBENI TISSUES* has turned in good results for 1984. Production, sales and profits have all been higher compared to the previous year. Production of paper was 13,283 tonnes against 10,958 tonnes in 1983, sales in volume terms amounted to 13,366 tonnes against 11,042 tonnes and in turnover they were Rs 30.39 crore against Rs 23.60 crore. Turnover increased with improvement in the offtake of cigarette tissue and considerable increase in sales of commercial grades with a reasonably good product-mix. Gross profit increased from Rs 3.40 crore to Rs 4.68 crore, reflecting enhancement of profit margins. With both depreciation and taxation requiring more, however, net profit slipped from Rs 1.68 crore to Rs 1.37 crore. The directors have recommended a dividend of 18 per cent on the capital as enlarged by a one-for-four bonus issue against 21 per cent paid last year on old capital. This is slightly short-earned. A sum of Rs 30 lakh has been withdrawn from the general reserve to enable payment of the proposed dividend. Last year's distribution was covered 1.26 times.

These results have been obtained in spite of a serious crisis in the procurement of raw materials like jute cuttings and sann hemp. Jute cuttings became so scarce that the company could build only a small inventory at a price as high as Rs 12,000 against the actual price of Rs 3,000 per tonne in the previous year. The area of cultivation of sann hemp in UP was limited resulting in lower quantum of production with a consequent rise in price upto Rs 7,500 per tonne. The problem of raw material availability still persists and the company has taken some innovative measures to tide over the situation to an extent possible. There was also the problem of availability of coal, as the coal received by the company had an ash content of as high as 40 per cent. Besides, power supply was erratic which affected production many a time. S Boothalingam, Chairman, who is relinquishing his office as Director and Chairman of the company at the conclusion of the annual general meeting, holds a "robustly optimistic' view about the company's future. N G Choudhury, who has been Managing Director since 1979, will be the new Chairman. The company has set up, at considerable expenditure, an effluent treatment plant at its factory to purify the water which could otherwise pollute the neighbouring farm lands. For the farmers this has turned out to be a boon. Realising that the treated water was fit for irrigation, the company released it to a large paddy growing acreage. Today the farmers happily receive free irrigation water round the year.

*CENTURY SPINNING AND MANUFACTURING COMPANY* proposes in due course to enter into the business of exploration and production of oil and gas either in collaboration with some foreign companies or on its own. The management feels that in view of the changing industrial profile of the country, the energy technology and ocean engineering industry offers good scope for possible diversification, particularly in view of the Central government's policy to encourage Indian companies to invest in the oil field sector. For the present, the company intends to confine itself to the business of owning and chartering operating rigs and associated equipment for offshore oil exploration. As a first step in this direction, the company's Memorandum of Association is being suitably altered to cover these activities.

The company's shipping division is seeking permission of the government to acquire a second-hand edible oil carrier of 6,400 DWT built in 1981 in Japan. The pulp and paper division started initial trials in June/July 1984 and, after overcoming teething troubles, commercial production of rayon grade pulp was started in September last and that of paper soon thereafter. Because of deficiencies in certain plant and machinery coupled with the undue delay in deliveries of some of the machinery and equipment by the suppliers, the present production is approximiately 50 per cent of the rated capacity. Steps have been taken to overcome the problems and the management expects that by the middle of 1985 full production of both the plants will be more or less achieved. While the quality of pulp is not as yet satisfactory, that of paper has been well received in the market. Efforts are being continued to bring the quality of pulp to the approved standard. The start-up of the Manikgarh cement plant has been delayed due to serious delays by several Indian suppliers. The imported plant and machinery, however, were received more or less in time. The company is also awaiting clearance of the Central government under the Forest (Conservation) Act to start mining operations. The plant is expected to be ready for commissioning during the second quarter of 1985.

The company has shown poor results for 1984 with a drop in gross profit from previous year's Rs 31.96 crore to Rs 22.06 crore even though turnover rose from Rs 214.72 crore to Rs 245.34 crore. These figures disclose a sharp dimunition of profit margins. In spite of a saving in tax, which claimed Rs 6.5 crore last year, net profit is Rs 8.19 crore compared to Rs 14.81 crore of 1983. Dividend has been maintained at 24 per cent and is covered 2.13 times by earnings as against 3.87 times previously.

The company could effectively meet the recessionary trend in the textile market, caused by stiff competition from the powerloom sector, by concentrating more on exports. The company's textile exports amounted to over Rs 42 crore as against about Rs 25 crore in the previous year. The phased programme of renovation and modernisation is being speeded up. The yarn prices remained depressed and the offtake of rayon yarn was not satisfactory till the third quarter of the year. There has been a gradual improvement in the offtake and selling prices of yarn thereafter. Demand for tyrecord and fabric continued to be low and the future outlook of these products seems to be bleak. The rayon industry has made several representations to the government for fiscal and other reliefs, but the government has not so far responded positively. With a view to facilitating a solution to the problems arising out of the declining demand for rayon tyrecord and the uneconomic working of the tyrecord plant, an agreed scheme of voluntary retirement was introduced and 404 workmen voluntarily retired. The working of the chemicals division and salt works was generally satisfactory. Despite stiff competition, tyre yarn and fabric worth about Rs 212 lakh were exported during the year.

Century and Maihar cement divisions produced 8,00,400 tonnes and 7,31,606 tonnes of cement against 8,16,510 tonnes and 6,95,407 tonnes, respectively, in the previous year. The power situation continues to be unsatisfactory and the quality of coal has further deteriorated due to increase of ash and shale content in the coal. The profitablity of both the divisions was adversely affected due to a steep rise in the cost of production and continuing slack offtake of non-levy cement resulting in lower sales realisation.

*USHA MICROPROCESS CONTROLS,* which brought in the Eagle and Alpha series of computers and was responsible for bringing down the prices of computer systems to ⅓rd their existing levels, is now going in for large scale expansion in the field of large computer systems, computer peripherals, office automation and electronic PABXs. According to the company's Vice Chairman, Vinay Rai, the company is poised for rapid growth with a turnover target of over Rs 100 crore by 1990. It has already paid dividends of 10 per cent and 15 per cent in its very first two years of operations and it recorded a gross profit of Rs 47 lakh on a sales turnover of Rs 229 lakh in 1984.

The computer industry is poised for rapid growth. The new import policy would go a long way towards helping increased production. The company is not afraid of foreign competition, as it has the best of technology available in the world. It is also in the process of finalising a joint venture with a Norwegian consortium for large export of software from this country. Usha Microprocess is promoted by the Rai Group which has a controlling interest in over 20 different manufacturing and marketing units in fields as diverse as steel, defence equipment and electrical goods and electronics. Among its sister concerns is Usha Rectifier Corporation (India), a pioneer in the field of semiconductors, electrical and electronic equipment. The company is entering the capital market with a public issue of 10.20 lakh equity shares of Rs 10 each at par. The issue will open on May 10, 1985. The issue is being managed by the Merchant Banking Division of Grindlays Bank, New Delhi, and Canara Bank is advisor to the issue.

# New Policy Changes Acknowledge Auto-Industry as Vital to Economic Growth

## Ashok Leyland Limited

### Speech by the Chairman **Mr Mantosh Sondhi** at the Thirty-sixth Annual General Meeting on April 23, 1985

Ladies and Gentlemen,

IT gives me great pleasure to welcome you to the Thirty-sixth Annual General Meeting of your Company. The Report of the Directors and the Audited Accounts for the year ended 31st December 1984 have been circulated and, with your permission, I shall take them as read.

**REVIEW OF OPERATIONS**

1984 has been a year of unprecedented crises for our country—the tragic assassination of the Prime Minister, Mrs Indira Gandhi brought to a sudden end a remarkable era. It is a matter of profound relief that the basic national values asserted themselves through the democratic process leading to a smooth and stable transition of governmental power. All of us must wish the new Government under the dynamic leadership of Shri Rajiv Gandhi, well in its endeavours.

The events on the national scene cast their gloomy shadow on the road transport industry also. Troubled conditions in economically strategic states exerted an adverse influence on road transport operations. Though the economic revival in 1983-84 was robust, growth in 1984-85 has been on a low key. Agricultural production which showed a strong performance in 1983-84, had only a marginal growth in 1984-85. The economy, though maintaining plan growth rate on average, did not offer adequate market pull for the road transport industry which was beset with a trying combination of adverse factors affecting the viability of operations from 1982 onwards.

The signs of market recovery noticed in the early part of 1984 could not, therefore, be sustained, and the year ended with a lower total industry volume which was about 7% less compared to the previous year.

Against this adverse background, it is a matter of satisfaction that your Company effected a marginally higher sale of 14425 vehicles compared to 14372 vehicles in 1983. While a higher domestic sales volume was achieved despite reduced market demand, export markets continued to cause concern in the absence of structural support in terms of long term bilateral deferred credit arrangements particularly with the Third World and developing countries.

Apart from the adverse market factors, your Company had to contend with a severe cyclonic storm which lashed the Madras coast on 11th November 1984 as a result of which production at the Ennore Unit was seriously dislocated.

Gross turnover was lower by 4% due to a shift in the marketing mix in the prevailing environment, towards lower priced models.

The decline in turnover posed a major managerial challenge in the face of continual escalation in input costs. As you are aware, your Company effected a modest price increase in April 1984 after three years of voluntary price discipline. The extent of the pricing action was limited in view of the partial withdrawal of excise duty concessions in the 1984-85 budget. The impact of even this small increase was significantly eroded with further escalation in costs of key input materials like steel and other metals during the year. Due to depressed market conditions, your Company did not take any pricing action, even partially, to cover the cost increases. Your Company could achieve a profit before tax of Rs 6.49 crores as compared to Rs 6.92 crores in 1983 through rigorous control of manufacturing and other expenses, and by a significant reduction of interest charges. Having regard to the healthy funding profile and intrinsic strengths of your Company, the Directors have recommended a dividend of 18%, at the same level as in the previous year, on the enhanced share capital of Rs 1,813 lakhs, subsequent to the first conversion of Series III Debentures for shares entitlement on November 1, 1984.

## OUTLOOK FOR 1985

As you are aware, 1984-85 marks the end of the Sixth Five Year Plan. The road transport industry which started on a buoyant note in 1980-81 has undergone a series of travails during the plan period and the overall environment in the transport industry cannot, perhaps, be more sobering than it is now. While the need to stimulate the vital infrastructure has been acknowledged in various governmental and quasi-governmental forums, the only tangible action was the rather shortlived excise duty reduction.

In the wake of the downturn in vehicle market in 1984, and the slow momentum in the economy, I am inclined to take a cautiously optimistic view of the prospects for this year.

The Seventh Plan aims at a growth rate of 5%. If this rate, is indeed, attained each year on a larger GNP base as obtaining at the end of Sixth Plan, there should be a considerable growth momentum in the economy.

Your Company has plans for product improvement and diversification which aim at consolidating existing markets and penetrating new markets with superior product attributes, traditional high product quality and application-oriented design. These should considerably strengthen your Company's market position.

I must assure you that your management would continue to follow the strategy of strict control on operating costs and optimum utilisation of all available resources with the objective of trading profitably. However, with the recent increases in prices of steel, tyres and tubes and the overall budget-induced increases in costs of various inputs, it has become inevitable to increase vehicle prices by about 8% to relieve the pressure on margins.

As I touch upon these prospects for your Company in the short term, I would like to share with you my thoughts on the contours of an emerging techno-economic environment. I will confine my comments to the two essentials of economic policy and technology policy.

## LIBERAL ECONOMIC POLICY

The Finance Bill 1985 and the new Import-Export Policy clearly indicate that the present Government is intent on giving a new direction to the economy, and as a precursor several policy changes have been announced to stimulate corporate growth. Some of these measures are exclusive to the automobile industry.

Notable among the changes is the policy on broad-banding of licensed capacities in terms of generic definition of 4 wheelers and 2 wheelers. The policy theoretically allows a 4 wheeler manufacturer flexibility to manufacture any type of car, jeep or commercial vehicle.

Prima facie, the policy needs to be welcomed as established companies can diversify to utilise available infrastructure while new companies can revamp and reorient plans to match market potential before committing investments irrevocably. More intense competition could assure greater choice for the consumer, while overall market size itself may increase with new products creating new markets. The significance of the policy change, to my mind, lies in the underlying acknowledgement that structural redefinition of industry is vital to industrial growth.

The other major change pertains to the concessional rate of customs duty for import of components for fuel efficient commercial vehicles. Import of components by ancillary manufacturers catering to manufacturers of fuel efficient commercial vehicles, would also attract the concessional customs duty. The increase to Rs. 100 lakhs of the assistance now available under the TDF Scheme is very welcome. These moves in combination have the potential for supporting effectively the proposed technological upgradation of the automobile industry.

While appreciating the spirit and scope of these changes, one cannot escape observing that these are skewed in terms of stimulating the supply side. The more important aspects of end user needs and viability have not received the attention they deserve. The typical road transport operator has, in fact, slipped into a more unenviable position with escalation in prices of petroleum products, increase in excise duty on commercial vehicles and costs of vehicular inputs and spare parts.

While it may be argued that increased costs could be covered with a hike in freight rates, it is not easily achievable in practice. The socio-political compulsions on public transport systems preventing increase of fares are well documented. The private trucking industry though free of such compulsions is subject to intense competitive pressures as overaged and second hand vehicles which are operated almost indefinitely undercut freight patterns. Freight rates themselves are subject to cyclical and seasonal patterns and cannot be sustained with administered freight increases as in the case of monopoly transport systems such as the Railways.

The problem of generation of surpluses in road transport industry is indeed real, eating into the vitals of this crucial economic activity. Durable steps must be initiated within the framework of the fiscal policy to alleviate the problems.

The focus of such approach should be on trust-based financing of road transport operations. Despite the close relationship between the transport industry and banking systems, the needs of the former are met only perfunctorily. At most times there is a suspicion in the banking system that recoveries from transport loans are unlikely to be good. It is necessary to banish the archetypes and conceive a radical reorientation of fiscal and monetary policies towards this sector.

Firstly, the exigencies for creating an apex financing body for transport operations can no longer be ignored. Such a move would be the first step in establishing the necessary linkage between financing and operation of vehicles. The traditional banking system which has already a wide lending portfolio cannot muster the organisational infrastructure necessary to develop such linkages.

Secondly, the concept of limiting priority character of lending to a fixed fleet size should be dispensed with. Regardless of fleet size, road transport operations generate grassroot employment and entrepreneurship signifying the quintessence of our socio-economic philosophy.

Thirdly, the period of recovery should be refixed at 6 or 7 years taking into account the prevailing high levels of capital requirements and interest charges and low levels of business returns. The existing period of 3 or 4 years is not only unrealistic but is in itself a compulsion for erratic repayments.

Fourthly, a more direct rapport should be established between banking institutions, or the apex body when set up, and the hire purchase companies. Hire purchase companies have built up over the years a responsive field mechanism for sustained contact with transport operators, which incidentally, is an area of weakness for the banking system. Despite this, hire purchase operations have not grown to potential due to high effective rates of interest which the hire purchase companies are forced to charge due to non-availability of low cost funds. A sort of quid pro quo by which concessional rate of finance is made available to hire purchase companies with a franchise for lending and recovery on behalf of the bank deserves to be considered.

## EMERGING TECHNOLOGICAL DIMENSION

The industry and the Government are indeed in total agreement that the level of technology in the automobile industry must be substantially upgraded. Liberal licensing of collaborations for modern automobile technology and the sharp pace of implementation of various projects support the point.

As I mentioned earlier, the recently announced broad band licensing policy gives a further fillip to bringing in modern technology to cover hitherto neglected market slots. While appreciating the inevitability of this growth direction, your Company will need to be wary of the temptation to enter exotic market slots merely on import crutches without either durable market potential or firm commitment to an indigenisation programme. Your Company which has a proud manufacturing record of over twenty-five years considers establishment of manufacturing capability as the sine qua non of any product diversification move.

Your Company has, over the years, developed considerable technological expertise which has gone into development and perfection of commercial vehicles appropriate to India and other developing countries. Future product diversification can only be sensible when tested against the corporate tenet of absorbing and indigenising the imported technology in an acceptable time frame.

In this light, may I assure that your Company is actively exploring such of product diversification moves that can effectively utilise the emerging environmental opportunities and the existing internal strengths.

## PRODUCT PLANS

The policy of sustained product development to which your Company always subscribed has been a source of immense strength in meeting the vicissitudes of market during the recent years. It is significant that your Company has strong product strength in the two areas where Government has recently announced concessions in excise-duty. I refer to the vehicles with 3-axles and those with turbo-charged engines. Indeed your Company is the only one in India manufacturing multi-axle vehicles. The reputation of the products for their technological superiority and operational reliability and durability will continue to be nurtured most assiduously by your Company. A number of product plans have been drawn up to meet the requirements of a competitive market. Apart from consolidating the product strengths and market standing in traditional truck and bus markets, plans are afoot to realise new applications.

As you are aware, the Company's expansion programme to achieve a capacity of 40,000 vehicles by 1987 had to be considerably slowed down in the face of depressed market conditions. Over the past two years investments had been reshaped or halted to ensure an optimal funding profile and streamlined operations to face the adverse market conditions. This also provided the Company an opportunity to reappraise the long term technological and product options. Your Company considers that the core of future product development and diversification must pertain to development of modern, fuel efficient, weight effective and reliable engines which can meet the technological requirements of the 90s. The engine range would pave the way for introduction of a diversified and technologically up-to-date product range.

I am happy to inform you that after an extensive appraisal of reputed overseas engine/vehicle manufacturers' offers, your Company has entered into a technical collaboration agreement with Hino Motors Limited, Japan, for manufacture in India, of their 'W' series of engines. The engines employ the latest state-of-the-art technology and offer a characteristically high level of fuel efficiency. With a power band extending from 70 to 175 HP, Hino engines would be an invaluable asset in future product diversification. An application has been submitted to the Government seeking approval of this agreement. Your company will, in due course, firm up investment plans for this project. There would, no doubt, be an emphasis on assimilating the best of Japanese manufacturing technology in this venture. To my mind, it is of considerable strategic significance that finalisation of this crucial collaboration should coincide with the reactivation of expansion programme. With the availability of greater product options, this phase of growth would be qualitatively different ensuring a technological lead right into the nineties.

## DIRECTORS

Mr P D Plant resigned from the Board and in the casual vacancy caused by his resignation, Mr C J S Woodwark was appointed to the Board. I would like to record our appreciation of the advice and assistance given by Mr Plant during his tenure on the Board.

## ACKNOWLEDGEMENTS

I would like to record our gratitude to British Leyland plc. and Land Rover-Leyland Group for their continued active support and assistance in our developmental plans. I would also like to record our sincere thanks to the Government of India, State Governments particularly of Tamil Nadu, Rajasthan and Maharashtra, financial institutions and our bankers for their continued support and encouragement.

1984 has been another year of challenge for your Company. Our special thanks are due to our employees for their loyalty and commitment which has enabled your Company to face these challenges with confidence.

We are grateful to our dealers and our suppliers for their unfailing co-operation. Finally, I would like to thank all of you, our shareholders, for your continued keen interest in the affairs of the Company and in affording me an opportunity to share some of my thoughts as your Chairman.

*Note: This does not purport to be a record of the proceedings of the Annual General Meeting.*

## NEW PRODUCTS

Mini Bus

Integral Bus

18 T Rear Dumper

### ANDHRA PRADESH

# Eye-Wash of 'Patta' Distribution

**M Shatrugna**

THE attack on harijans by caste Hindu landlords on February 14 at Moogavada village of Punganur taluk in Chittoor and the failure of the authorities to provide security to the affected is yet another incident in the growing atrocities on weaker sections in the country. Though the incident did draw some attention in the local press, adequate importance has not been given to the developments. To fill this gap a Fact Finding Committee (FFC) constituted by Salaha (Forum for Legal Assistance and Education) visited Punganur and Moogavada village on February 20 and furnished a report.

Punganur taluk, located to the west of Chittoor district bordering Karnataka, comprises the main parts of the erstwhile zamindari. It has six revenue firkas. An interesting feature of Punganur taluk is the vast areas of public lands over which stand thousands of tamarind trees. There is no systematic survey of the tamarind trees on public lands and it can be assumed that the actual number may be at least double the recorded number. There are villages where the total number of tamarind trees may exceed five hundred. With the rising prices of tamarind, the trees have acquired growing significance in the structure of village income distribution. The yield from a tree ranges from 150 kgs to 600 kgs of raw fruit and at current price it would mean Rs 500 to Rs 2,000. Yet the produce of these trees referred to as 2C trees in government parlance is auctioned for a song, benefiting the rural rich. For instance, the fruit of the 350 trees identified in Ramasamudram firka was auctioned for Rs 1,500 this year. With the existing scarcity employment and low wages in the region, a tamarind tree on hand would mean as much as regular employment on a farm. Moogavada is a village of five hamlets located on the Punganur and Bangalore highway, about eight kms from Punganur and about the same distance from Ramasamudram, the firka headquarters. Moogavada is particularly rich in its tamarind trees. The whole approach to the village gives an impression of a large tamarind grove. At least half of the estimated five hundred tamarind trees in the revenue village are on the public lands.

The potential of the tamarind tree as a means of providing the means of livelihood of the poor was officially recognised by the government in late 1970s when it tried to use the allotment of tamarind trees as incentive for inducing the poor to undergo sterilisation. A beginning was made in Mugavada when N Muneppa and seven other harijans were given 'pattas' on two tamarind trees each for undergoing vasectomy operation in February 1978. Besides, 45 other harijan families were allotted one tamarind tree each. These harijan households enjoyed the produce of the trees for two years, but in the third year in 1981, D Thimma Reddy and three other landlords brought a stay order preventing the harijans from collecting the produce from the trees. Helpless against the court stay order and the absence of any legal aid the harijans gave up collecting the produce from the trees. The caste Hindu landlords not only succeeded in denying the tamarind to the harijans but also imposed a fine of Rs 5 on anyone collecting dry twigs or ripe fruit falling from the trees.

Two years ago the harijans formed the Ambedkar Yuvajana Sangam with the main aim of working unitedly to improve their lot. The Sangam opened its membership later to other castes including Valmikis, barbers and dhobis. One of the main issues before the Sangam, right from the beginning, was regaining 'pattas' over the 2C tamarind trees. Repeated representations were made to the entire hierarchy of the revenue administration right upto the District Collector for regaining the already allotted trees and the grant of fresh 'pattas'. Their efforts started bearing fruit when the revenue authorities of the taluk ultimately conceded the demand after ascertaining from the landlords that they had no known claims either in the form of court orders, settlement claims or petitions.

### ALLOTMENT OF PATTAS

Accordingly, on January 16 this year the Revenue Inspector, assited by a clerk, visited Moogavada and distributed 'pattas' on 176 tamarind trees spread over the five hamlets of the village to 142 weaker section households. Each 'patta' carried the number of the tree allotted. Of course, not every tree allotted was capable of improving the income of the poor. Some of the trees allotted were a mere eye-wash, and were not capable of bearing any fruit. It was somewhat reminiscent of the 'pattas' over barren land declared as surplus. The harijans and the few other weaker section people who received the 'pattas' for the trees were aware of this, but they contented themselves with gaining rights over some tamarind tree rather than none.

After the allotment, the ryots who earlier had given their 'consent' on the trees could not reconcile themselves to the fact that the poor could also have rights over property, however meagre. For generations the fruits of these public trees had been theirs for a song. Year after year, there would be a 'thandora' (announcement) of auction. The village Karnam, a Brahmin, would offer the produce of the trees for a paltry sum at the firka auctions and the ryots would share the trees for collecting the produce by paying a small sum as a consideration for the services of the Karnam. Some of the big landlords like Chennamagari Chenna Reddy, Doddapagari Venkata Reddy and Ramakkagari Chenga Reedy would get as many as 30 to 80 trees as their share. Besides they were the main collectors of tamarind in the village for trade. The harijans were confined to working as labourers in collecting the produce from the trees at a wage rate of Rs 4 for men and Rs 3 for women.

Allotment of 'pattas' to weaker sections on tamarind trees obviously had an impact on class relations in the village. The 'rich' pattadar was seen as a threat to the domineering position of the landlord. This is something the landlord could never accept. The ryots were ready to take the law into their hands to maintain their supremacy. As a first step to meet the harijan challenge, they called for a meeting of the Ryotu Sangam, an association representing their interests. Chennamagari Thimma Reddy, Ramakkagari Venkata Reddy and Gundlapalli Narayana Reddy mobilised ryots from different parts of the taluk for the meeting. Cherala Ramalinga Reddy and others addressing the meeting exhorted the ryots to check the activities of the harijans and warned that allowing agricultural labourers to exercise their right over the tamarind trees would spell disaster to their own properties. The meeting unanimously decided to prevent, if necessary by force, the harijan and other weaker section households from gathering the produce from the 176 tamarind trees.

The Ryotu Sangam's decision unnerved the harijans. A meeting of the Yuvajana Sangam was called on February 11. The meeting discussed the Ryotu Sangam's decision and acknowledged the impossibility of individual households collecting the produce from the trees for which they had received 'pattas'. It was decided to collect and dispose of the produce from all the 176 trees collectively after retaining a portion to be shared for domestic consumption. In view of the threat from the landlords, it was decided to gather the produce without further delay. A strategy was worked out to mislead the ryots. The strategy was to announce publicly that the produce would be collected from February 14 onwards but actually to carry out the operation a day earlier. It was further decided to seek police protection. On February 12 representations were sent to the Tahsildar at Punganur through advocate Suryanarayanachari seeking police protection. Though the Tahsildar 'directed' the SI to proceed to Moogavada, barring a head constable there was no one in the police station to implement the order. Desperate requests were made once again on the 13th for police help without success. As planned, on the 13th the pattadars started collecting the tamarind in a group from a tree allotted to them. Some ten persons climbed the tree and about fifty persons were ready to gather the fruit from the ground. It was meant to be a swift operation without giving scope for the landlords to intervene.

But the operation was not that simple, as there was a division in the harijan ranks. A small faction of 10 households was aligned with the landlords. Apart from supporting the landlords, they were also serving as informers. Naturally the strategy failed. Within an hour of the commencement of the harvesting, the ryots led by Ramakkagari Sankara Reddy, Muniramappagari Ramakrishna Reddy, D Ramasubba Reddy, D Venkata Reddy, M Reddeppa Reddy and fifty others, including some women came and forcibly stopped the collection. The expected police help did not arrive and the harijans were forced to stop their rightful operation. Frantic efforts were made to get the police help once again, but none came.

### ATTACK BY LANDLORDS

In the meanwhile, the ryots had started mobilising their supporters from different parts of the taluk. Razak of Palamaner, a tamarind contractor and 'controller' over a large number of 2C tamarind trees in the taluk, Yelaktur Appoji Reddy, Rachepalli Ajja Reddy, Punganur Krishnama Raju, Mittapalli Ipole Narayana Reddy, Sarpanch Ramakrishna Reddy—a landlord-contractor combine—actively mobilised hired men from the neighbouring villages, and goondas from Punganur and Palamaner. Anticipating trouble the harijans withdrew to their hamlet and were scared of moving out for fear of reprisals. While they waited hoping for police protection throughout the night, the landlords used the cover of darkness to mobilise more people "to meet the harijan challenge". Mobilisation was done secretly so as to launch a surprise attack. While Razak pressed his lorries into service for the purpose, Sarpanch Ramakrishna Reddy supplied his tractor. Realising that their low social background would come in the way of their getting the attention of the authorities, the harijans had sought the services of a voluntary organisation, Rural Education Society (RES), and an advocate, Suryanaryanachari, Punganur Taluk Secretary of CPI. The advocate and the RES representatives went to Moogavada on February 14.

Around 10 am, a group of ryots led by Razak and Rachepalli Ajja Reddy trooped into the harijan hamlet with the apparent purpose of negotiating a compromise between the weaker section 'patta' holders and the ryots, but it transpired later that they were only trying to gain time for mobilising more men from the neighbouring villages for an offensive. During the 'negotiations' the landlords' representatives referred to 'stay orders' of the court and suggested that the pattadars give up their futile efforts to collect the produce. Instead they suggested cash compensation. The harijans were not convinced about the so-called court orders as it was not long ago that the landlords had said that they had no rights over the 176 tamarind trees. As the talks failed, the ryots left the place and returned with a thousand men armed with sticks, daggers and country bombs an hour later. Advocate Chari had also arrived by that time.

The ryots converged on the harijan hamlet from one side fully armed. The unarmed harijans numbering about 150 gathered on the opposite side not knowing what to do. It was noon and there was no sign of any police. At about 12.30 the sub-inspector of Punganur accompanied by an aged constable arrived. The arrival of the unarmed SI emboldened the landlords to launch a full-scale attack. Sensing the tense situation, the SI persuaded the harijans to move to a safer place, but in the process unwittingly cleared the path for the landlords to occupy the area. Suddenly three bombs exploded and the panic stricken harijans ran helter-skelter. In the stampede many fell down and became targets of the landlords' attack. Advocate Chari fell and was beaten with sticks and stones. As a bleeding Chari ran for his life, a dagger scratched his right side. Many harijans were beaten up with sticks and stones. An old man was beaten till he became unconscious. Even a week later he and another person were convalescing in the Punganur hospital when the fact finding team visited them on February 20. The hirelings did not spare even the women. Papakka was beaten up and her mangalasuthram snatched away. Rathnamma was attacked with sticks.

The most humiliating treatment was, however, meted out to advocate Chari who had gone to the rescue of the harijans. He was stripped of his blood stained clothes, paraded in his underwear, pushed into the village tank and forcibly confined in a house. The feudal fury was let loose on everyone who intervened. After Chari, they attacked the SI. He fell unconscious and was carried to a nearby village. The constable ran away to some other village for shelter. The SI on regaining consciousness reached Ramasamudram, engaged a vehicle and reached Palamaner from where he requested for Reserve Police force for Moogavada. The police men reached Moogavada later in the evening. The advocate was released from wrongful confinement and was sent for treatment in Punganur hospital. The presence of the police force did not mean that the harijans could collect the produce from the trees. Strangely, the Tahsildar advised the harijans and other pattadars to wait till February 21 for the execution of the government order. When the FFC team met the Tahsildar on February 20 at Punganur, he swore that he would see to it that the harijans got the produce from the trees allotted to them the next day. But the committee felt that the Tahsildar was only playing for time.

### FEUDAL REPRISALS

The attack on February 14 was only the beginning of feudal reprisals against the weaker sections. The reprisals were swift and ruthless. From that day none of the members of the harijan and Valmiki households, except for the ten families who had lined up with the landlords, was allowed to work for wages in the village. Attached labourers were sent out. No harijan was allowed to enter the village market even to buy betel leaf. Workers were brought from neighbouring villages for carrying on farm work. The harijan sharecroppers who had raised paddy in plots ranging from 15 to 30 cents each were not permitted to go anywhere near the fields. Lachimakka who was tending the cattle of the village was stopped from doing so forthwith. Three out of the four dhobis were not permitted to work in the village. When the committee met the landlords they complained that the harijans were becoming 'well-to-do'—they were beginning to have lands and 'even tamarind trees'. The landlords were angry that the police force could arrest landlords. They complained that there was 'no police protection to ryots'. One complained that he had lost Rs 500 given as loan to one of the harijans. On enquiry it was found that it was the case of bonded labour. Another interesting thing which came out from the conversation was the landlords' feeling that every activity of a harijan which was likely to question landlord supremacy was seen as being the result of 'inspiration' by the 'radicals'. Also the welfare prgrammes of the RES were dubbed as 'radical activities'.

But the harijans showed a grim determination to face the socio-economic boycott with united action. Talking with them revealed the precarious nature of their existence. On the day of the attack most of them had gone without food for the whole day. On February 20 when the committee met some of them, hunger was writ large on their faces. Also there was no sign of any relief to these families from the government. The Moogavada episode exposes the chasm between the precept and practice of the government with regard to the weaker sections. Increasingly the sources of livelihood of the weaker sections is a much professed objective of the government, in the state as well as at the Centre. One of the measures accepted as a means to achieve the objective is the distribution of surplus land, public lands or income-yielding assets to weaker sections. But the Moogavada incident shows that appropriate machinery for impelmenting the measures has not been evolved. The revenue administration is grossly inadequate for handling the welfare schemes. Sometimes it may even be an obstacle. The government has failed to distribute even public assets like tamarind trees, let alone carry out other welfare measures. Secondly, protection of weaker sections from exploitation and atrocities continues to be confined to the level of rhetoric. The very fact that the landlords could take the law into their hands shows who actually rules the countryside. Once an asset is passed on to a beneficiary it is the obligation of the government to see that the beneficiary enjoys its fruits. Equality before law, without the will to enforce it, is a myth. Thirdly, the absence of adequate information about public lands and trees like tamarind on public lands shows the gross neglect of public property management. Proper accounting of these resources and access to the public to such accounts have great potential for improving the condition of living of the people. Finally, there appears to be an increasing tendency towards blaming everything on the so-called 'radicals'. When a government gives 'patta' to a weaker section household it is done with lot of fan-fare and publicity and everyone in the government claims credit for it. But no one in the government takes responsibility to see that the 'pattas' are in the actual possession of the allottees.

*Post-Script*: Despite the fact that the Tahsildar swore that he would get the harvest done in favour of the beneficiaries by February 21, no action was taken. Instead advocate Chari and two office-bearers of the RES were arrested on false charges and remanded to judicial custody from where they were released on February 23 on condition that they would not leave Madanapalle town. On the 22nd, a week after the incident, the Director of Scheduled Castes and Scheduled Tribes, Southern Region, visited the village. After that the Tahsildar proceeded to the village with a police party to help the pattadars. But because of the terror created by the landlords and the inaction of the authorities, only 36 families took courage to harvest the produce on roughly 36 trees. The rest of the harijans had given up.

### PREVENTIVE DETENTION

# Erosion of Constitutional Safeguards

**K G Kannabiran**

BY the National Security (Second Amendment) Act, 1984, the grounds of detention were made severable and each ground was made an order of detention by a legal fiction. Moving this Amendment Bill to the National Security Act, Narasimha Rao stated that the aim of the amendment was only to resolve the conflict between the multiplicity of judgments on the Act with some holding that invalidation of one ground was sufficient to make the detention order itself invalid and the other holding a contrary view. He also relied on a judgment of the Supreme Court delivered in 1983 wherein it was held that the invalidation of one out of several grounds need not make the detention order invalid. When the opposition made references to the use of MISA during the Emergency, Narasimha Rao said, "we are now talking of a different situation and a different concept and let us not go into the past". He even asserted that the Preventive Detention Law he was defending was not draconian and that it did not add one iota of power.

Every one of these assertions is a lie. Narasimha Rao could confidently assert his party's right to introduce the amendment because he had behind him the solid support of yes-men who are there not to deliberate but to support every governmental measure. The opposition in Parliament is too weak to even formulate a strategy to focus the attention of the public on the real issues involved and expose the democratic swindle. Organised and intelligent protest outside Parliament is practically non-existent.

The result was that Indira Gandhi's government was able to brazenly bring in a series of repressive laws which can be effectively used against political dissent without the necessity of invoking the provisions relating to the declaration of Emergency. By the first amendment the maximum period of detention was extended to two years. By the second amendment the government saw to it that none of the persons arrested are released by courts. The scope for judicial review which is already minimal has been reduced to nothing. The latest proposal of the Punjab government to do away with the advisory board procedure is the logical culmination of the previous amendments.

Article 22 of the Constitution is in two parts. Clauses 1 and 2 of the Article deal with arrests and production before the Magistrate within 24 hours. The arrested persons should be informed of the grounds for their arrest and they have also, while in custody, the right to consult the lawyer of their choice. The first two clauses are systematically violated by the law enforcing agency all over the country. Protest, if any, proceeds invariably from civil liberties organisations. We are at present not concerned with these clauses.

These two clauses are not applicable to any person who has been detained under any preventive detention law. Sub-clauses 4 to 7 deal with preventive detention laws. Recognising that preventive detention is a complete negation of all freedoms, more particularly freedom of movement and personal liberty, these clauses as they stand now impose on Parliament certain limitations in the matter of legislation on preventive detention. No law can provide for preventive detention for a period of more than two months without the intervention of the Advisory Board. The Advisory Board is to be constituted in accordance with the recommendations of the Chief Justice of the High Court. This is to ensure that the case of the detenu should be considered by an independent body. By clause 7, Parliament alone is given the power to prescribe the maximum period of detention. By the first amendment, taking advantage of the Punjab situation, the maximum period has been extended from one year to two years.

### GROUNDS OF DETENTION

Apart from these, the safeguards provided by clause 5 are very important, for this clause gives the person detained a right to approach the court and contest that his detention is invalid. As preventive detention is a pre-emptive step to forestall a particular type of activity defined in the Act, the decision-making process will have to be a subjective assessment of the detaining authority. This subjective exercise of power is by its very nature arbitrary. The safeguards provided are to reduce the arbitrariness. The power to act and its subsequent validity are dependent on scrupulous compliance with the safeguards provided. The detaining authority should serve the grounds of detention on the person detained. These grounds do not mean mere factual inferences. They mean and include factual material which lead to the factual inferences. They must be self-sufficient and self-explanatory. If any documents and other material are referred to in the grounds, copies of such documents and material should be supplied to the detenu along with the grounds. The grounds and the material relied on in the grounds should be made available in the language known to the detenu. As the power to detain is entrusted to the subjective satisfaction of the detaining authority the obligation implied is that he should while considering the material for arrest take into account the pertinent and the proximate eschewing the irrelevant and the remote with reference to every one of the grounds.

The grounds should not be vague. These safeguards are not provided in the Act. They are read into and are part of clause 5 of Article 22. These flow out of the right of the detenu to obtain information regarding the grounds of his arrrest and the consequential right to make a representation questioning his detention. This right is independent of the duration of the period of detention and the provisions regarding the Advisory Board. Infraction of the safeguards read into Article 22(5) will make the detention invalid and the detenu has the right to approach the court demanding his release forthwith. The Supreme Court always regarded preventive detention as a serious invasion of personal liberty and violation of the meagre safeguards provided by the Constitution against improper exercise of power was annulled without any hesitation. The principle evolved was nothing new and it was part of Anglo-Saxon jurisprudence. The innovation was to read them into Article 22(5) with a view to preventing the State from bringing forth legislation which may shut out the courts from reviewing orders of detention.

### ATTEMPTS TO PREVENT SCRUTINY

The Indian state has been making attempts to prevent scrutiny of detention orders by courts from the very inception. The Preventive Detention Act 1950 contained provisions which prohibited disclosure of the grounds of detention or any representation made against such detention before any court. The injunction was directed against the court from receiving such information from the detenu. Nor can it call for the production of records containing such information from any public officer, including the proceedings of the Advisory Board. Any such disclosure was made a punishable offence. This provision was struck down by the Supreme Court unanimously in A K Gopalan's case.

Atmaram Shridhar Vaidya, an active trade unionist of AITUC was arrested on April 21, 1950. On April 29, 1950 he was served with a detention order. Four months after his detention order and one month after he moved the court for his release, the government served on him supplemental grounds. In this case, the Supreme Court held by a majority that the person detained is entitled, in addition to having the detention order communicated to him, to a further right to have particulars 'as full and adequate as the circumstances permit' furnished to him so as to enable him to effectively make a representation against the order of detention. It was also held that the second communication, if there be any, after the initial order of detention and service of grounds is also justiciable. These rights were declared to be part of Article 22(5).

Ramkishan Bharadhwaj of the Hindu Mahasabha questioned his detention order in 1953. One of the grounds was vague and it was contended that even if one ground was vague it would infringe the safeguards guaranteed by Article 22(5). The argument of the State was that if a ground is vague it was always open to the person detained to ask for particulars before making his representation.

> The question however is not whether the petitioner will in fact be prejudicially affected in the matter of securing his release by his representation, but whether his constitutional safeguard has been infringed. Preventive detention is a serious invasion of personal liberty and such meagre safeguards as the Constitution has provided against the improper exercise of the power must be jealously watched and enforced by the court. In this case the petitioner has the right under Art 22(5) as interpreted by this court by a majority to be furnished with particulars of his detention sufficient to enable him to make representation which on being considered may give relief to him. We are of the opinion that this constitutional requirement must be satisfied with respect to each of the grounds communicated to the persons detained subject of course to a claim of privilege under clause (6) of Article 22.

After this decision the court has not resiled from this position.

### NEW STRATEGY

The government evolved a new strategy. It realised that a single Preventive Detention Act for all classes and categories of people was the mistake Nehru had committed. Why should one lump communists, socialists, members of communal organisations, lumpens, black-marketeers, smugglers, etc, together? Separate laws for each category or class would divide the protest and that way there would be less scope for challenge in courts. A draconian piece of legislation against lumpen elements or a smuggler is not likely to evoke protest. We may not even challenge such a measure because we tend to take a moralistic stand and justify the draconian measure. Courts may also take a moralistic view and uphold such measures. If it stands the test of public opinion, and if courts uphold such a measure a principle is laid down. It is then time to extend the principle to other sensitive spheres of activity which need to be suppressed, The arbitrary provision gets legitimised and dons the mantle of legality and survives from then on as an abstract juristic principle.

The Conservation of Foreign Exchange and Prevention of Smuggling Activities Act was passed in 1974. Immediately after Emergency was proclaimed Section 5-A was introduced. The provision in terms seeks to nullify the safeguards contained in Article 22(5) as laid down by the Supreme Court. If a person has been detained in pursuance to an order of detention on two or more grounds such order shall be deemed to have been made on each of such grounds and hence such detention shall not be invalid merely because one or some grounds is or are vague, irrelevant, remote or non-existent.

The validity of this provision has never been challenged. The provision seeks to sustain the validity of the detention order on a legislative fiction. How can a fiction take the place of 'satisfaction' of the detaining authority at the time of passing an order of detention? The provision dispenses with the necessity of application of mind by the detaining authority as also his satisfaction that the material placed before him relates to the classes and categories of activities which are sought to be prevented by the arrest. How can the detaining authority be presumed to pass several orders of detention when in fact he has passed only one? Legal sophistry in and by courts can be totally divorced from reality as was ably demonstrated by the majority in A D M Jabalpur's case. Add to this the tendency to write dissertations instead of judgments and to make general observations which are not relevant for the decision of the case. Such observations are taken note of by the executive and offered as explanation for introducing unpopular and undemocratic measures, as was done by Narasimha Rao in Parliament.

The classic instance is that of Justice Varadarajan delivering judgment for himself and on behalf of Justice Chinnappa Reddy. While quashing the order of detention under the National Security Act, in a case coming from Madhya Pradesh it was observed:

> Now there is no provision in the National Security Act 1980 similar to Sec 5-A of the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974, which says that where a person has been detained in pursuance of an order of detention under sub-section(1) of Section 3 which has been made on two or more grounds, such order of detention shall be deemed to have been made separately on each of such grounds and accordingly, (a) such order shall not be deemed to be invalid or inoperative merely because one or some of the grounds is or are vague, non-existent, non-relevant, not connected or not proximately conneeted with such persons or invalid for any other reason and it is not therefore possible to hold that the government or officer making such order would have been satisfied as provided in sub-section(1) of Section 3 with reference to the remaining ground or grounds and made the order of detention; and (b) the government or officer making the order of detention shall be deemed to have made the order of detention under the said sub-section(1) are being satisfied as provided in that sub-section with reference to the remaining ground or grounds (AIR 1984 SC 211).

In short the learned judge said in so many words that had there been a similar provision in the National Security Act, 1980, we would have upheld the detention order. A piece of gratuitous advice.

The learned judge when he made this statement did not verify the long catena of cases wherein the Supreme Court has read into Article 22(5) safeguards which cannot be defeated by such legislative devices as are contained in COFEPOSA or the Second Amendment to the NSA.

Way back in 1970 to put down the Naxalite movement, the Andhra Pradesh legislature passed the AP Preventive Detention Act. It contained a provision similar to the one found in the COFEPOSA and the Second Amendment to the National Security Act. It read as follows:

> Sec 6(a): No detention order shall be invalid or inoperative merely by reason that one or more of the grounds on which the order is made, is or are vague, or irrelevant, when the other ground or grounds does not or do not suffer from any such infirmity.

Revolutionary writers Charabanda Raju, Nikhileswar and Jwalamukhi were arrested under this Act for their writings and speeches. The validity of this provision was challenged in the High Court. Justice Chinnappa Reddy and Justice A D V Reddy struck down the provision as violative of Article 22(5) wherein they traced the entire history of the safeguards read into Article 22(5) (ILR 1972 AP 1025).

This was the first of the series of the measures introduced by Indira Gandhi's government taking advantage of the Punjab situation.

### TELUGU DESAM FOLLOWS SUIT

The Telugu Desam government, not to be left behind, has passed a Preventive Detention Act covering communal offenders. 'Communal offenders' is defined by reference to the relevant provisions of the Indian Penal Code. Indictable offences have been made the basis of preventive detention orders and courts have been examining them in the context of public order. Classification of offences and offenders in a penal code is perhaps the accepted method of management of crimes by the state. But classification of suspects for purposes of preventive detention and passing of different sets of laws covering various categories of suspects is to replace a just procedure by a wholly arbitrary one—to give up indictment followed by trial and to introduce subjective satisfaction as a measure to punish pre-emptively suspects without proof and with flimsy procedural safeguards.

The process of classification of suspects may not stop here. Already there are four enactments covering the entire spectrum of political dissidents and economic offenders. Telugu Desam has introduced a fresh Bill to check bootlegging, land-grabbing, etc. The pattern of legislation and the fate of accusatory procedure are visible for anyone to see. With the Punjab issue converted into a question of the integrity of the nation, we are trapped in the threat-to-national-security syndrome. Security, as the good of the nation, is incompatible with the permanent insecurity of the people. The very idea of a threat to security invites repressive measures and with these follow arbitrary arrests, illegal confinements and custodial violence. State does not any longer represent the value system it is intended to promote and sustain, but works towards the sytematic destruction of the value system for which so many people laid down their lives.

Sometimes it becomes necessary to dig into the past to understand the extent of distortions that have been introduced into the legal system almost imperceptibly and always in times of crisis. Many members of the Constituent Assembly felt that Article 21 as it was approved "gave to Parliament a *carte blanche* to provide for the arrest of any person under any circumstances it deemed fit". Therefore the present Article 22 was introduced to curtail the power of the executive to make arrests. When this Article was being debated, Mahavir Tyagi alone was able to foresee the distortion that in fact has taken place when he said that "the adoption of Article 15-A [present 22] would change the character of fundamental rights into a penal code worse than the Defence of India Rules of the old government. The business of the Constitution makers was to guarantee the rights of people and not to make laws to deprive them of their rights."

## Polar Industries

POLAR INDUSTRIES, a dividend paying company engaged in the manufacture of electric fans, is coming to the market with a public issue of 8.10 lakh equity shares of Rs 10 each to raise a part of the finance required for expansion of installed capacity from 1.50 lakh fans to 3.60 lakh fans per annum. The issue will open on May 7. The project is expected to be commissioned by August next. The company's factory is situated at New Okhla Industrial Development Area (NOIDA) in Ghaziabad district of UP. The state government has granted the company exemption from sales tax for six years, which is of great advantage to the company. It is promoted by Sajjan Kumar Aggarwal who has been associated with the electric fan industry for the last 20 years. With a well-established product brand name in the market, the company envisages no difficulty in marketing its expanded production. The demand for electric fan is expected to rise steadily. The company started manufacturing activities in December 1982 and turned out good working results from the very first year of operation. Sales turnover increased from Rs 104 lakh in 1982-83 to Rs 210 lakh in 1983-84 and profit before tax doubled over the same period. The company declared a maiden dividend of 12 per cent for th eyear ended September 30, 1984, the first full year of operations.

**BANGLADESH**

# Betrayal of Civilian Politics

### T V Sathyamurthy

WITH the referendum of last March and the announcement of the elections in May 1985 of 460 *upazilla* councils[1] as a prelude to the process of 'civilianisation' of military rule, the stage has been set for yet another repetition of what is by now a familiar pattern of events in Bangladeshi politics. Since the original coup of 1975 which brought Bangladesh's infant parliamentary democracy to an abrupt end, there has been no real return to civilian politics as they are normally understood. The course of Bangladesh politics, over the last decade, seems to have jelled in the form of a cycle in which a coup is followed by a series of invariably violent readjustments within the armed forces involving different groups contending for power, the emergence of a single leader whose capture of the executive power of the state leads to the esablishment of a base for the regime in the form of a new political party, the eventual alienation of the armed forces from the Head of State thus 'civilianised' which paves the way for another major coup aimed at a reassertion of the dominance of the military.

Mujib inherited an extremely fragile state structure from the Pakistani colonial power after a truncated liberation movement which was quickly brought to an end by the intervention of the Indian armed forces. Right from the beginning, Bangladesh's condition was marked by the almost parasitic dependence of its economy on foreign (and especially western) countries, and the sheer inability of the party in control of state power to carry out its main tasks. Those consisted of finding ways and means of generating the surplus needed to keep Bangladesh's non-producing and comprador petit bourgeois ruling class (whose interests the party in power represented) satisfied, while simultaneously creating conditions in the rural economy under which the vast majority of the population engaged in agriculture would be able to survive their hyper-exploitation at the hands of rural power-holders on whom Awami League (AL) relied for support.

The monumental corruption of AL, the fecklessness of the new bureaucracy at all levels, the alienation between a pro-Pakistan army and a pro-India ruling party which was exacerbated by the persistence of para-military elements in the society at large, the failure of the government to utilise the massive injections of foreign aid that it received for the purpose of laying the foundation of a producing (let alone a modern) economy, and, above all, its ineptitude in the face of drought and famine, were some of the main factors underlying the assassination of Mujib and the overthrow of the AL government.

However, for all its deficiencies, AL does have a long history of populist political protest stretching back to the early 50s and marked by militant struggle against the Pakistani military rulers from time to time. After the 1975 coup, however, it stood exposed as a party which had totally failed to consolidate its hold on the new state. Factionalism within the party rapidly undermined even the semblance of cohesion that it had been able to maintain during the initial years of independence. Awami League, out of power, soon proved to be incapable of recovering the credibility that it had lost when it was in power. Nevertheless, its tattered remnants, occasional gasps of revival, and the political skills of at least some of its leaders to forge coalitional links between their splintered party and other political parties serve as constant reminders of the failure of civilian politics in Bangladesh and the uphill struggle that any credible civilian alternative force will have to face if it were to wrest political power from the military.

## ZIA'S APPROACH TO POLITICS

It is interesting that, after consolidating himself in power, Zia turned his attention to the task of keeping the loyalty of the armed forces intact while building a civilian political base for himself at the same time. As a populist, he even surpassed his predecessor in his ability to reach out to the rural masses of Bangladesh. But, under the existing conditions of Bangladesh, popularity among the masses was going to be of little relevance to survival in power unless fortified by solid support from the class of rural power-holders and urban exploiters whose easy access to the corrupt bureaucracy ensured their economic dominance. However, this class has always been in an acute state of crisis and fragmentation which tends to become aggravated whenever a new regime, in search of legitimation, attempts to mobilise it.

For a time, Zia seemed to be successful in his efforts to retain the support and loyalty of the armed forces. He achieved this end mainly by engineering a series of assassinations and courts-martial designed to get rid of potential rivals including a number of military officers who had been present in the country at the time of the liberation struggle during 1970-71.

In the political sphere, however, a daunting spectacle presented itself in the shape of a massive splintering and emasculation of all existing parties on the right, the centre, and the left. Even so, AL seemed to be the only party which had any life left in it, and Zia's original strategy of founding a political base upon which to legitimise and 'civilianise' his rule consisted of an attempt to step into Mujib's shoes as the leader of AL. In this, he had grossly underestimated the extent of the animus against the military within the ruling circles of AL and the hostility that even the thought of such a development was bound to evoke in the minds of leaders and followers alike in the party.

Zia was thus left with the only alternative of creating a new political party through which money, jobs, as well as other forms of patronage and opportunities for the exploitation of primary producers could be provided to supporters who, in turn, would help impart civilian legitimacy by mobilising popular following for the regime. The basic aim was to retain control of the substance of state power in the hands of the military, while co-opting civilian political forces as a junior partner with a view to giving the regime a civic gloss.

Zia's political philosophy has been described to me by a noted Bangladeshi intellectual as basically Hobbesian in character. It was derived from the assumption that there is no one who could not be bought and it is the duty of a political leader in need of support to buy loyalty by paying the appropriate price. Zia's approach to politics thus consisted of systematically corrupting key individuals in society (at all levels) in order to gain their support.

The Bangladesh National Party (BNP) emerged as the political offshoot of Zia's efforts to create a base for himself. Unlike AL which had a mass populist orientation, deeply intermeshed with its essentially comprador petit bourgeois character, BNP was a party of a section of the same petit bourgeoisie of Bangladesh with a much more restricted popular base. Zia's own dynamism and popularity of course had some effect in recruiting grassroots support for the new party, but any such support did not necessarily rub off on BNP as a party.

Zia's quest for civilian legitimation inevitably distanced him from the armed

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forces which were averse to sharing a sizeable proportion of the resources, to which the state had access, with leading segments of the newly established ruling party. Underlying the restiveness of the military in the face of this new development were two other major factors—*viz*, the resentment of the military against the bureaucracy raking off more and more of the surplus, aid money, and other resources under the new dispensation; and the political consequences of the interposition of a civilian structure of authority in the hinterland where the military had become accustomed to regarding itself as the direct extension of state power.

Zia's brand of corrupting the system in order to win legitimacy floundered on the shoals of military mistrust of his political motivation. The inevitable coup against him was followed by a brief experimentation with propping up BNP as a ruling party and at least formally a major partner in a civil-military condominium exercised through a diluted form of franchise.

This was bound to fail given the fact that BNP, a fragile offspring of artificial political insemination, was even less suited to wielding control of state power than AL with its strong roots in Bangladesh's chequered history. The interim between the overthrow of Zia's partially 'civilianised' regime and the next major coup against the shortlived BNP government under Sattar, was thus characterised by endemic confusion in civilian as well as military circles as to the path that Bangladesh politics should follow in order to break out of the vicious circle in which it had become caught during the first decade of its history.

It is an interesting commentary on the role of AL that, even in this confused condition of the country, it was in no position to unite its fragments and give leadership to the country. If it had, no doubt the military too would have united its ranks and resisted AL's march to power. But, the antipathy between AL and the military need not necessarily have persisted as a stumbling block to a fresh political start had AL actually demonstrated its ability to open to a new chapter in the history of the country.

### ECONOMIC STAGNATION

Ershad, like Zia before him, emerged as a figure over whom different factions within the military could agree as the Chief Martial Law Administrator. He inherited an economy which had hit rock bottom even by Third World standards. Despite foreign aid to the tune of over Taka 1,000 crore received during the first half of Zia's rule, Bangladesh had hardly started to industrialise, because Bangladeshi entrepreneurs would not invest in industry whilst the state simply emptied money earmarked for industrialisation into the pockets of Bangladesh's rapacious comprador petit bourgeois class. The agricultural economy, at the best of times dependent upon nature's whims, had not yet benefited to any significant degree from the policies of the government. The economic stasis into which Bangladesh had sunk emphasised the political bankruptcy which lay at its root.

Unlike Zia, Ershad is a recessive figure who has so far managed to remain more or less secure as the military's candidate for the office of Head of State. But, as in the case of Zia, his way to gaining all round acceptance within the military has also been paved with the blood of rivals and opponents alike. Although he has trained himself to make frequent appearances before the public, his preference for the security of a Commander-in-Chief's secluded residence to a life style that would bring him into contact with the masses[2] has been so marked that in his attempts to gain 'civilian' legitimacy he has had to face even greater obstacles than Zia.

Ershad's initial attempt to bring the civilian polity into the picture took the form of overtures to BNP with a view to becoming its leader. This, in view of the fierce loyalty of dominant segments of the party to Zia and the political ambitions of Khalida Begum, Zia's widow, who was held in especial esteem in BNP, proved to be a non-starter. At the same time, rapid economic deterioration was accompanied by many a political voice raised against the military regime. Even although no united political force was yet in the offing, the conditions for the emergence of coalitions based on a lowest common denominator of opposition to military rule were present. Under these circumstances, there was an even more urgent need for Ershad to seek political legitimacy and 'civilianise' his rule than had been the case for Zia.

Thus, by the beginning of 1983, political parties were ready to activate their demands for an end to military rule and the establishment of a popular government based on a general election. The students once again came to the fore by organising agitations in favour of such a change of regime. AL, under the leadership of Shaikh Haseena (Mujib's daughter) and BNP with Begum Khalida at its head, as well as other political parties entered the fray. The revulsion of the urban middle classes and in particular the intelligentsia against military rule showed itself in an unambiguous manner.

And yet, the student leaders as well as the leaders of the various political parties were far behind their followers when it came to a question of actually mobilising the masses to confront the military regime, expose its hollowness, and throw it out of power. This aspect of Bangladesh politics

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is crucial to an understanding of the more or less chronic impasse in which Bangladesh polity seems to be caught.

### FAILURE OF POLITICAL PARTIES

Ershad was sufficiently frightened by these manifestations of restlessness to believe that the legitimacy of his regime would have to be shored up by means of some sort of a political alternative to BNP upon whose support he could base his claim to power. The Union Parishad elections of (August) 1983, represented the first step in his attempt to build a civilian grid of political influence capable of reaching down to the grassroots. But he knew that the coming into being of these Parishads would not be a sufficient basis for legitimising or 'civilianising' the military regime. By the end of 1983, the beatific smile that he wore on his face in his television appearances had already begun to yield place to a countenance that betrayed a vague sense of apprehensiveness.

Throughout 1984, a struggle was mounted against the military regime in which AL, at the head of a coalition of 15 parties (latterly including, paradoxically, even the Jamaat-e-Islam) and BNP at the head of a seven-party coalition openly challenged Ershad's legitimacy and advocated the rejection of the military regime. But, characteristically, the political leaders' disturst of the masses was reflected in their simultaneous decision to engage in negotiations with Ershad in which the two sides sought to bargain with one another on five main points.

At the same time, having put themselves forward as forces seeking a total and unequivocal rejection of military rule and its replacement by a civilian government elected by universal adult franchise, neither coalition saw fit to outline concrete policies to which they would be prepared to commit themselves should they be returned to power in the event of an election. The rallies addressed by the two leaders invariably degenerated into Shaikh Haseena voicing a desire to avenge the death of her father or Begum Khalida demanding that Zia's assassins should be made to pay for their 'crime'.

Thus, an intelligent and discriminating populace was exposed to civilian politics of a brand which failed to arouse its enthusiasm. In fact, such was the cynicism of civilian leaderships belonging to all types of political parties and at all levels that, on one occasion, when an entire student body had assembled to start a march to the Chief Martial Law Administrator's office protesting against the military regime and demanding its resignation in order to pave the way for elections, the leaders who had issued the call in the first place were nowhere to be found. The students were so enraged that instead of getting on with the march by themselves they went out on a search for their leaders whom they beat up in disgust.

The strategy of negotiating with the military government, whilst paying lip service to popular mobilisation, simply could not work. It became increasingly clear to Ershad that the two coalitions were no more than paper tigers. He therefore waited for an opportunity to call their bluff. When the coalitions attempted to block Ershad's move to hold a general election on April 6 of this year, on the ground that no election held under the aegis of the Chief Martial Law Administrator could be trusted to yield a clean result, he was faced with a choice between temporising further (in which case he would almost certainly have alienated powerful groups in the armed forces which were already growing impatient with his 'soft' line) or going ahead with an alternative plan of 'civilianising' his regime and giving it legitimacy.

The vehicle for the alternative plan in the form of a new party launched by Ershad about two years ago was still very weak. Jana Dal (JD) is an even more highly synthesised political concoction than BNP. Its social base is identical with that of BNP. And, as the latter is well established, the appeal of JD is bound to be restricted even although in rural areas state patronage through the Union Parishads may, over the past year or so, have given it a footing in the countryside. It was the feebleness of JD as a political force that lay at the root of Ershad's hesitation until the last moment, to take on the two seemingly formidable coalitions.

Early during 1985, the *immobilisme* into which Bangladesh politics had sunk had to be broken. Taking a leaf from Zia's experience in 1978 and also Zia ul Huq's defiance, towards the end of 1984, of Pakistan's political parties, Ershad decided to hold a referendum with the aim of proving that the Martial Law Administration in general and the rule of the Chief Martial Law Administrator in particular had popular approval and was therefore legitimate. It is a well known fact that in the referendum a vast majority of the people voted with their feet, the actual results were cooked, and a fake 94.7 per cent victory announced even before polling ended!

The really important point about Ershad's referendum, it must be remembered, is not its patently counterfeit character, but, rather, the political bankruptcy and shallowness of the two coalitions which challenged the legitimacy of his rule and to which the electorate has shown its scarcely concealed contempt. Thus the issue which the electorate saw in the referendum was not the one relating to the legitimacy or otherwise of the martial law administration. Rather, the referendum provided an occasion for recording the disillusionment of the mass of the Bangladeshi people with military rule while, at the same time, permitting them to demonstrate their lack of confidence in the civilian political alternatives available by ignoring them altogether.

A montonous repitition of well-worn alternations of coups with chaotic and bloody interludes in between seems to be what is still in store for the unfortunate people of Bangladesh. In the meantime, the dawn of an era of civilian politics based on free elections has been pushed further forward by the spinelessness of the leaders of all the political parties of Bangladesh. No electorate, least of all the Bangladeshi electorate, deserves such impotent political leadership.

## Notes

1 This represents the second stage in local government reform by which two tiers of political administration controlled by locally elected leaders are to be brought into existence. The first consists of Union Parishads which are already in existence. Each Union consists of an average of ten villages; *upazillas* will be delimited by bringing together ten to twelve Unions to form one *upazilla*. In a recent official communique, Ershad has announced that *upazilla* council chairmen will enjoy rank, perquisites, and privileges equivalent to that of a Major in the army or a Deputy Secretary to the government, whilst the Chief Executive or Administrative Officer will enjoy a substantial salary by local standards.

2 During a recent visit to Dhaka, I happened to pass by the house in which the Bangabandhu lived when he was in power. It is an ordinary unpretentious two storeyed dwelling of moderate size which is not even set far enough inside the compound to ensure a modicum of security. For all this faults, Mujib was a truly fearless leader who lived in the midst of his people even though this made him an easy target of assassins. Zia became more and more accessible to the people as he felt increasingly secure in power, but he lived more or less well insulated from the teeming masses. But, Ershad lives under such heavy security that his residence cannot even be seen from any of the roads running in the Cantonment area.

# The Steel Story

### Bagaram Tulpule

**Engineering Change: India's Iron and Steel** by K Krishna Moorthy, Technology Books, Madras; pp 434, Rs 250.

HISTORY of the Indian iron and steel industry since independence has been a chequered one. The successful completion and commissioning of three one million tonne integrated steel plants early in the sixties and fruitful collaboration and transfer of technology from three distinct sources was no mean achievement. It held out promise of brighter things to come. Indeed, even before the original capacities of the three plants had operationally stabilised, their expansion was taken in hand. An additional new plant at Bokaro was conceived. With TISCO and IISCO also going in for expansion, a yearly ingot output of around 10 million tonnes from the integrated steel plants did not seem too distant.

That the promise was not realised is old story. Little seems to have gone right with the industry since that early success. A wide diversity of views have been expressed by lay people as well as by experts as to why this has been so. Faulty planning, political pressures on decision-making at the highest level, bureaucratic bungling, lack of continuity in policies and leadership, inept management, irresponsibly militant trade unions and various other things have been held responsible for the stagnation and stultification of the industry. The problem, however, is too big and complex to lend itself to a ready, simple answer. Indeed, adequate information about how policies came to be formulated and decisions and actions actually came to be taken, may itself not be readily available to one who may want to understand better why the industry could not fulfil its early promise.

Krishna Moorthy's book throws a great deal of light on this murky field and should be a valuable aid to both the lay reader and to the serious student. His knowledge of matters relating to the steel industry is both extensive and deep, garnered as it is over a period of three decades. He seems to have had access to much relevant material and also to most of the persons who played key roles at the level of policy as well as execution, over this long period. Being a journalist by profession, he brings to this wide knowledge, a picturesque, entertaining style of writing that holds the reader's interest. One cannot, however, help feeling that the material could have been organised better, some repetitions avoided and the first person singular, a little less prominent. These too, perhaps, are features of a journalistic way of writing!

Krishna Moorthy traces in his book how the first three plants were conceived, what obstacles had to be overcome, how the assistance of the three collaborating countries was enlisted, the contributions made by the concerned political personalities and civil servants, the role assigned to indigenous technical talent available as consultants and managers. He also points to the probable causes why the actual performance of these plants over the years has been so dissimilar.

But that is a fairly straightforward story. The meat of the matter is where Krishna Moorthy narrates the twists and turns before the foreign collaboration for the Bokaro plant and, far worse, for the Vishakhapatnam plant were to be decided upon. Both these episodes are really very educative case studies of how a relatively straightforward techno-economic issue becomes a very complicated political one and how in the process time is wasted, costs escalate, indigenous talent and expertise languish and national interest suffers.

Krishna Moorthy has strong likes and dislikes of persons involved in the steel story and the roles played by them. The present reviewer rejoices that he is not among those the author strongly dislikes, judging by the comments in the book! His great admiration for the early participants—Nehru, T T Krishnamachari, Bhoothalingam, Khera, C Subramaniam (who has contributed a brief but pointed forward to the book) *et al*—is in striking contrast to his assessment of those who came to occupy key positions later on as ministers or civil servants or technocrats. About Hiten Bhaya, presently member of the Planning Commission, he is not exactly complimentary; about former SAIL Chairman Wadud Khan he is positively adverse. But his sharpest attack is reserved for Kumarmangalam whom he considers to be an egotist and whose decision to bring under a holding company all the public sector steel plants, coking coal, raw materials and some other related organisations, he considers to be a blunder. Many inside and outside the steel industry will agree with his view about the holding company. But many who knew Kumarmangalam will disagree profoundly with Krishna Moorthy's view of him as a man and a minister.

On at least one fact, the author is less than fair to Kumarmangalam. His statement that "Kumarmangalam did not have the courtesy of informing senior HSL and Bokaro managers in advance of his final choice of Mr Wadud Khan as SAIL chief" (p 277) is simply not true. The present reviewer who was in HSL at the time, can assert from personal knowledge that most of the senior HSL and Bokaro managers were given that information by Kumarmangalam himself.

The way Indian technologists were trained on the shop floor in the Soviet Union comes in for much praise, deserved no doubt, from the author. Unlike many others, however, he does not see any special excellence in the Soviet technology in the Bhilai plant. The superior performance of that plant he attributes to the large number of Soviet technologist who have been there all along. That, even if true upto a point, is perhaps not the whole story and, besides, is not very flattering to Indian technologists and managers.

The field covered by the book is very wide indeed. It deals with the private sector plant of TISCO besides the public sector plants, indigenous consultancy and R and D work in the industry, quality of raw materials, machine building capacity and organisations for building steel plants, profitability, or rather the lack of it, of the plants and what he considers to be the causes for this, new technologies for steel making that are either in the laboratory or pilot plant stage and many other facades. He also deals at some length with the internal problems of Durgapur, the sick child of the industry. His treatment of various aspects of the industry is mainly narrative/descriptive. Although he does not hesitate to make pointed comments when he feels them in order, he has desisted, wisely no doubt, from offering any comprehensive diagnosis or remedies for all the ills of the industry.

When such a wide field is sought to be covered, and that in considerable detail, some factual errors are bound to creep in. For instance, the author says at p 215 about Sanjeeva Reddy that he "... is reputed to have influenced the Janata government in choosing Vishakhapatnam when he was President". In fact, that venue for a steel plant had been decided upon long before Janata came to power and a chief executive and considerable staff had already been deployed there by 1973. Preparatory steps for the construction of the plant had already been taken. Some political manoeuvring might have been attempted in later years, but it was already too late to change the venue when Janata came to power. Biju Patnaik's announcement of October 1979 had to be more of a formality, apart from the fact that by that time the Janata government at the Centre had already fallen and the curious interregnum of Charan Singh was under way.

Another example. At page 360 Krishna Moorthy tells us that "from the time of lighting of a blast furnace to the first tap it may take about 24 hours". Actually that period is about three months! Wisely, he does not dwell too long upon such topics of technology.

To sum up, a reader interested in knowing not only the history of the Indian steel industry but also its past and present problems, strengths and weaknesses, is unlikely to find so much factual information and trenchant comment so readably presented in a single source as in Krishna Moorthy's book.

# Tragedy of Kosi

### S Hashim Ali

**Some Aspects of Irrigation Administration: A Case Study of Kosi Project** by Niranjan Pant; Naya Prokash, Calcutta; pp ix + 128, Rs 45.

IT is now increasingly realised that better irrigation administration is essential for improving the performance of irrigation projects which are constructed with huge investments. The present study provides further evidence to the growing feeling that irrigation utilisation is generally much below the planned level. In spite of its many natural resources, Bihar is the poorest state in the country. This study by Niranjan Pant of irrigation administration in Kosi Project brings out how the failures in administration, inter-departmental rivalries, improper planning, red-tapism, apathy, corruption, hostility between technocrats and bureaucrats and interference by influencial public men have all contributed to the low utilisation of the irrigation resources, besides creating added problems of water logging and siltation.

The Kosi Project, which was one of the first multipurpose major projects of the country, was launched with the objective of controlling floods and providing irrigation for about 1.58 million acres. However, the actual areas irrigated are much below the targeted figures and the author quotes from official records to show that only 18.2 per cent of the area is irrigated due to various reasons. Further, due to heavy siltation during kharif season the carrying capacity of the canals is reduced to 60 per cent of its original designed discharge. The uncontrolled and excessive use of water in the head reaches both in kharif and rabi, which is three times more in kharif and 13 times more in rabi, has resulted in low water use efficiency and created water logging problems.

Even though a Kosi Area Development Commissioner had been functioning since 1965, and was converted into Kosi Area Development Agency in 1974, many of the administrative bottlenecks still persist. The new Kosi Area Development Agency has been made a high-powered body but is virtually ineffective since it is based on technical diagnoses of the problem and has neglected institutional considerations like operating procedures of irrigation bureaucracy. The CAD Agency has no real authority to fix and enforce a cropping pattern, regulate the release of irrigation water accordingly and redistribute funds under various programmes to secure optimum results.

It is a sad commentary on the fact that the Government of India and the state government have not been able to take some tough decisions in the interest of development of irrigated agriculture. The decision whether water management, agricultural extension and allied matters should be under the co-ordinating authority created for this purpose or whether they should be outside this authority and continue to pull in different directions has not been taken even after an experience of nearly two decades. Water management instead of being with the co-ordinated agricultural production group continues with the Irrigation Department which has always tried to function in isolation.

Added to this, unequal distribution of water with big and powerful farmers taking away the entire water without allowing anything to go to lower reaches and cutting canals anywhere to suit their convenience have all aggravated the problem. The Command Area Development's most important function of equitable distribution of water is therefore neglected or remains ineffective.

Apathy and corruption have proved to be the stumbling blocks in the way of effectiveness.

The author strongly advocates formation of local associations of irrigation farmers consisting of users of the same water courses which could be an effective institutional means for not only solving local irrigation problems but also to work as pressure groups to safeguard their interests. This is supported by the evidence found in the CAD projects in Andhra Pradesh and Sharda Shayak in UP.

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The silt and water-logging problems are attributed to the flows in kharif. As the rainfall in the command is above 50" and is normally sufficient for a rainfed kharif crop, the best solution would be not to run the canal in kharif except as supplement when rain fails and provide irrigation in summer when the water is free of silt.

In the above circumstances the author has recommended the closure of the canal during kharif season to avoid siltation of the canals and threat of water-logging of the low lying areas. This will provide an opportunity to attend to the repairs of the canals system during the kharif period. However, this will increase the pace of siltation of the reservoir bed which will ultimately affect the efficiency of the project.

Another alarming aspect to which the author has drawn attention is that in view of the adequacy of rainfall and availability of other sources, it was not at all desirable to have such a big canal system. Thus the expenditure incurred on having the canal system proved to be an infructuous investment though the project was successful as a flood control measure. However, the author has not suggested how the impounded water could be used. It may ultimately pose serious threat to the very safety of the dam.

The construction of such infructuous and badly planned projects is the result of absence of a strong multi-disciplinary planning group at the Central and state levels where all the implications of the construction of a project are looked into by experts belonging to all the disciplines concerned. The desire of political bosses to have a project during their own regime does not make possible such a detailed examination and the irrigation hierarchy does not consider it necessary to have such a multi-disciplinary group to delay its expenditure-oriented work. Many projects have therefore failed in one respect or the other and more serious attention has to be paid by governments to such infructuous expenditure. The money thus saved could be used for health, education and other useful purposes.

The author has complained that the Kosi Area Development Agency could not deliver the goods in view of certain procedural constraints. These procedural constraints have been found in all projects covered by Command Area Development Authorities all over the country but the rulers of the country have not yet been able to understand these problems and to take some hard decisions to make the development of irrigated agriculture possible at a faster pace and in a more organised manner and to put an end to the construction of inefficient, unwanted and infructuous projects.

Niranjan Pant has ably covered all aspects of the complex problem of irrigation utilisation and this book is an excellent contribution to the scarce literature on this important subject. It should be read by all persons dealing with the problems of Command Area Development, whatever their discipline or level in the hierarchy.

# Nepal's Economic Development

**Employment and Development in Nepal** by Rizwanul Islam, Azizur Rahman Khan and Eddy Lee; International Labour Organisation, Asian Employment Programme, Bangkok, 1982; pp vii + 122.

THE volume under review is in fact a survey of Nepal's overall economic situation done by some people connected with the ARTEP programme of ILO in Bangkok. It is a shorter version of a report prepared for the Nepal National Planning Commission.

One of the poorest and most stagnant countries in the world, the latest "World Development Report" of the World Bank lists Nepal fourth from the bottom, and with a slight negative growth rate of GNP over the period 1960 to 1982. Its problems are exacerbated by a difficult terrain subject to rapid ecological degradation and conditioned by being a small economy on the periphery of a large one. Perhaps one should say two large ones, but trade relations with China are relatively insiginificant. It is also the country that was the concern of a book published a number of years ago entitled "Planning without Facts" or some such and has a very limited statistical base for the kind of effort the volume under review represents.

The study goes beyond the broad income figures to specify Nepal's shortcomings in meeting such basic human needs as those for food, clothing, and housing, and the very unequal distribution of income in the country. The study asserts, incidentally, that landlessness is "not as widespread and serious" as in other South Asian countries, but the data hardly confirm this statment. The totally landless seem to be over 20 per cent of the rural population, *versus* perhaps 30 per cent in some neighbours and those with less than subsistence holdings perhaps 50 per cent, *versus* 60-70 per cent in some of the neighbours.

The ecological issue is discussed summarily, but presumably the source referred to, "Himalayan Ecosystems Research Mission: Nepal Report" (Economics Department and South Asia Institute, Heidelberg University, 1976) has a fuller coverage, as do several other well reviewed volumes on Nepal.

The report pinpoints the connection between the income inequality in Nepal and the possibility of rice exports in the face of widespread hunger. It urges the government to 'do' something about it—and then recognises that the government is perhaps not capable either of ending inequality or constraining exports in its present state.

In fact, the brunt of the report is a recognition of the rather narrow limitations on the Nepali government's ability to pursue an economic policy separate from India's and its need to carefully coordinate its policies with its larger neighbour.

Some of the thrust of the report is directed to the Indian relationship. For example, the recommended industrial policy is to "strengthen the domestic preconditions for industrialisation", "improve the terms and conditions for transit of Nepalese trade", and "lessen Nepal's economic dependence on India". This latter is to be accomplished by diversifying Nepal's trading partners. Apparently the currency exchange rate has been manipulated to this end and there has been some increase in third country exports of which some considerable portion goes to Bangladesh and much greater increase in third country imports. An alternative would presumably be greater economic integration with India—but this approach is clearly not endorsed, nor considered in this report.

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# Functioning of Foreign Exchange and Financial Markets

## Some Key Issues

**S K Verghese**

*While recognising the need for encouraging flexibility and dynamism in the financial markets, the author wonders how much of what is happening in the name of innovation and sophistication is simple froth and how much of it is actual improvement to help serve the interest of the real sectors of the world economy.*

*The financial and foreign exchange markets are no longer hand-maidens of the real economy. They have assumed a life of their own. Unless the basic functions of the financial and foreign exchange markets are restored to serve the real sectors of the world economy, it is unrealistic to expect stability in the foreign exchange and capital markets.*

WHEN a generalised floating of currencies emerged in early 1973 there was widespread expectation that more stable rates than those that existed in the final years of the Bretton Woods era would prevail. It was believed that exchange rates would move smoothly in the free market to adjust for changes in relative prices. It was also held that since exchange rates would take the brunt of adjustment, countries with floating rates could conduct domestic policies to promote economic growth, employment and so on without having to worry about the maintenance of external equilibrium. However, experience of the last 13 years has convinced the world that exchange markets do not behave as was expected. On the contrary, exchange rates of all major currencies have undergone unprecedented magnitudes of volatility and misalignments. Though there is a great deal of controversy about the reasons for the high volatility and prolonged misalignment of currencies and also regarding the need for and the specific measures required to bring about greater stability in the exchange markets, there is a near unanimity among central bankers and financial analysts that, a return to a fixed rate system is neither feasible nor sustainable in the foreseeable future due to the widely divergent economic and financial conditions that prevail today.

### MAGNITUDE AND EFFECTS OF VOLATILITY

Due to the importance of the US dollar in international financial transactions and reserves, exchange rate upheavals now, as in the past, centre around the rates of the dollar against other major currencies. The magnitude of the volatility of exchange rates has been higher during the floating regime than during the Bretton Woods era. Volatility of exchange rate is generally defined as day-to-day, or short term variability of nominal rates, whether bilateral or weighted average nominal rates. According to IMF estimates "the weighted average monthly changes in nominal effective exchange rates among the major industrial countries was 0.2 per cent during the period 1961-70, and averaged almost 1.2 per cent over the period 1974-83, a six-fold increase ... Day-to-day changes in excess of one per cent and quarter to quarter changes in excess of 5 per cent have also been frequent."[1] After a period of relative calm in 1983 as compared to 1981 and 1982, the volatility of exchange rates accentuated in 1984 and the first quarter of 1985. For instance, between February 27, 1985 and March 28, 1985 the dollar fell as much as 15 per cent against the pound sterling and 11 per cent against the deutsche mark.

Volatility of exchange rates offers opportunities for gains as much as it exposes the parties to risks of potential losses. But banks can protect themselves by squaring their currency sales with an equivalent amount of purchases and *vice versa*, just as exporters and importers can reduce their risk exposure by taking recourse to forward cover. The problem in this respect is that many developing countries do not have a well-developed forward exchange market, and the facilities available are generally too expensive. It is also to be noted that forward cover may not fully eliminate currency risks as the maturity period of the cover may not coincide with the actual time taken between the date of the contract and the date of receipt/payment for the relative transaction for a variety of reasons. If the two do not coincide, additional costs may entail from extension/cancellation or early delivery, etc, of the original forward contract. However, it is possible to a large extent to protect oneself against the exchange risks arising in trade contracts. Experience with large exchange rate variability under the generalised floating regime has not only enabled the parties involved to develop expertise in managing exchange risks but has also encouraged many to develop innovative financing techniques for reducing the risks.

There is no consensus among analysts regarding the effects of exchange rate volatility on trade and investments. Some earlier studies have come to the conclusion that exchange rate uncertainty has had no significant adverse effects on trade.[2] Williamson dismissed the adverse effects of exchange rate volatility by saying "for all that, exchange rate volatility is a nuisance rather than a major source of concern".[3] A recent IMF study also came to a similar conclusion. However, this study cautioned that "the failure to establish a statistically significant link between exchange rate variability and trade does not, of course, prove that a causal link does not exist. It may well be that the measures of variability used are inadequate measures of uncertainty; that other factors overwhelm the impact of variability in the estimating equations, or the presence of statistical problems ... interferes with the effectiveness of statistical test".[4] However, a recent study by economists of Federal Reserve Bank of New York showed that volatile exchange rates have led to a significant reduction in the trade between West Germany and the United States.[5]

### MEASURES OF COST OF VOLATILITY

A related aspect is the cost of hedging exchange risks to exporters and importers. According to an IMF study, the cost of covering uncertainty of exchange rate variations is negligible as it is measured by the bid-offer spread in the forward exchange markets. The study pointed out that "while for an individual transactor the cost of forward cover may appear to be the discount from the spot rate, it should be remembered that this discount is matched by a premium facing those wishing to make transactions in the other direction. The net cost facing traders in the aggregate is the difference between the discount in one direction and the premium in the other (i e, the spread)." From this the study concluded that "since spread between bid and offer rates in the 3-month forward market have rarely exceeded 0.2 to one per cent for major currencies, the implicit cost of short term exchange rate uncertainty would appear to be too small to have a significant effect on aggregate trade flows".[6]

This interpretation of the cost of hedging exchange rate uncertainty does not appear to be appropriate. The spread in the foreign exchange rates, similar to those in the money market, represents the profit margin to the foreign exchange trader at the particular moment of time. Since the trader who gives the quote does not know whether the counter-party who is asking for the quote is a buyer or seller of the currency he perforce has to give offer and bid rates together in his quote, thereby incorporating a profit irrespective of which side of the transaction he finds himself. The bid and offer rates quoted are aligned with the ruling market trend at that particular moment of time. For instance, if the currency is at a discount in the forward, in the buying side (bid) the dealer will quote a slightly larger discount and in the selling side (offer) he will quote a smaller discount. This means that he intends to have a slightly larger discount if he is buying but is willing to give a slightly smaller discount to the counter-party if he is on the buying side. If the counterparty sells him the currency with a larger discount, he can still expect to make a profit by selling in the market the same currency immediately with a slightly lower discount than what he purchased. This is the rationale for the spread in the foreign exchange market. This spread is not really relevant for determining the cost of hedging foreign exchange risks to a trade customer. The cost of hedging is ambiguous and can be assessed from more than one point of view. If he is pricing his contracts in a foreign currency on the basis of the current domestic cost (plus profits), or a certain estimated average targeted cost, converted at the current spot exchange rate, the cost (or benefit as the case may be), is the absolute discount (of the premium) in the forward market. He loses if the currency is at a discount by the full extent of the discount and gains if the currency is at a premium to the full extent of the premium. This cost (or gain) is minimised if the trader is able to incorporate the discount (or premium) in the price itself at the time of quoting the price. Normally if the interest differential is not changing significantly in short periods, the forward margins remain fairly stable in short periods which helps in pricing the transaction appropriately. Due to the volatility of interest rate in recent years there has been significant changes in the forward margins, making it difficult to incorporate this element in the pricing formula. Besides, in the international markets normally when a currency is at a premium the buyers take advantage of it by bidding down the price to that extent. But a similar willingness to tolerate a hike in price to the extent of the discount is seldom encountered. This advantage is not available to developing countries where the forward margin-interest differential parity seldom holds good. Another way of looking at the problem is in terms of the opportunity cost, i e, the loss of an opportunity to gain because he has hedged his transaction in the forward market. This cost is measured by the difference between the contracted forward rate and the actual spot rate on the maturity date of the forward contract. If the forward contract rate is at a discount while the spot rate on the maturity date has actually appreciated he loses an opportunity to gain because he has hedged his currency exposure in the forward market. In any case the spread between the bid and offer rate is not appropriate for measuring the cost of hedging exchange risks.

## MISALIGNMENT AND ITS IMPLICATIONS

For the purpose of judging misalignment, what is relevant is the real exchange rates, effective as well as bilateral rates. There is much disagreement among analysts about the definition of misalignment and its measures. Traditionally the magnitude of the misalignment or 'over-shooting', as it is some times termed by central bankers, is assessed from the standpoint of the rates warranted by economic fundamentals such as current account balance and changes in relative prices. A broader concept of equilibrium exchange rates has been used by some analysts to measure the degree of misalignment.[7] Unlike in the case of volatility, the general view is that misalignment of exchange rates, being unsustainable in the medium and long run, can impose significant costs to the economy by giving wrong signals for resource allocation which will have to be corrected when the exchange rates reverse subsequently. Williamson defined fundamental equilibrium rate as "the rate which is expected to generate a current account surplus or deficit equal to the underlying capital flow over the cycle, given that the country is pursuing internal balance as best as it can and not restricting trade for balance of payments reasons". According to his estimates, in the first quarter of 1983 the dollar was overvalued to the extent of 18 per cent and the pound sterling by 11 per cent over their 1976-77 levels. His findings were that the deutsche mark and the yen required a nominal appreciation of about 18 and 15 per cent, respectively, against the dollar to esablish fundamental equilibrium levels. In a study of the dollar-yen relationships for 1983 an economist of the Federal Reserve Bank of New York came to the conclusion that from a macroeconomic and trade point of view, the dollar was too strong but yen was not particularly weak. He further concluded that "Japan's recent gains in competitiveness against the United States have resulted from an overall strength of the dollar and not from any overall weakness of the yen".[8]

In view of the complexity of the interactive process of exchange rate variations on the balance of payments and the latter on exchange rates and also due to the sharp differences in the views of policymakers about what economic factors are more relevant for assessing the appropriateness of exchange rate levels, the Working Group on Exchange Market Intervention (1983) observed that the "assessment of the appropriateness of the exchange rate has to rely essentially on eclectic, qualitative judgments".[9] This approach being the one in practice adopted by all authorities on the major countries, obviously there is little agreement on whether there exists a misalignment and if so, what is its magnitude. Each country interprets its exchange rate level from its own national point of view rather than adopting any automatic technical measures. Though there is much disagreement regarding the precise magnitude of misalignments, each of the concerned party claimed that in the period 1976-79 in the case of the deutsche mark, 1977-78 in the case of the yen and 1980-1985 (first quarter) in the case of the dollar there was marked misalignments from the rates warranted by economic fundamentals. The potential for the market to overshoot has been recognised by the IMF. According to the IMF, in a narrow sense one can even say, in the absence of intervention by the authorities in foreign exchange markets, exchange rates are always at equilibrium levels since they are simply a reflection of the preference and expectations of market participants engaged in free and open trading based on information available to them. But that observation does not imply that serious misalignments cannot occur in terms of the relative prices at which international trade takes place. Whenever stable economic and financial conditions are absent, developments in financial markets can lead to swings in exchange rates that while reflecting the free play of forces in the foreign exchange market may not be consistent with the functioning of the adjustment process in the goods market.[10] Thus, the free market price in the foreign exchange market is only a limited market-clearing price and it is not an indicator for efficient allocation of resources globally. This feature is indeed a serious handicap when considered in the context of the sole role assigned at present to free market forces to allocate resources without any interference from the governments. Subsequently when exchange rates again overshoot on the reverse side, the reverse process of adjustment also gets exaggerated affecting the efficiency of resource allocation in the second round. If these swings witnessed in the last 13 years are to continue in the future, as can be expected, it is to be recognised that efficient resource allocation globally cannot be ensured if it is left entirely to the market forces.

### VULNERABILITY DUE TO INHERENT DEFECTS

There are many basic reasons for the wide swings and misalignments of currencies. Some of these have become permanent features of the international financial system. One of the important reasons for volatility and misalignment is the fundamental change that has come about in the nature and motives of the market participants, in the process of functioning of the market and in the facilitating environment of financial and foreign exchange transactions. The second but allied reason is the easy availability of enormous liquid funds and the complete freedom and facility to move these funds across national frontiers. The floating of currencies and the ensuing volatility have encouraged banks, finance companies and even non-financial corporate entities to reckon their foreign exchange dealing rooms as profit centres rather than as service centres. Earlier when banks used to pool their innumerable customers' genuine foreign exchange requirements, they appeared on both sides of the market thereby providing stability to the movements of exchange rates. At present only less than 5-6 per cent of the total volume of business of about $ 200 billion per day is attributable to genuine commercial transactions, the overwhelming balance being accounted for by 'cable game', i e, just buying and selling of currencies to take advantage of the intra-day and short run exchange and interest rate movements. These transactions in the wholesale market are undertaken by banks, other financial institutions and large corporate entities, including pension funds, money market mutual funds, etc. The number of such institutional participants are obviously small as compared to the large number of small commercial customers. In terms of number of participants and the volume of their business, the foreign exchange market is a monopolistic market.

Since the current spot exchange rates are influenced by their expected future rates, and all known information is already incorporated in the current rate, it is only new information or changes in the interpretation of existing information that can affect exchange rates. Due to the revolution in telecommunication facilities the same information is available simultaneously to all the market participants. Since generally the information is partial and most of the participants have managed to acquire market skills only at the dealing desks, their confidence levels are not sufficient to enable them to take an independent view of the market. Therefore, their views are influenced by what they perceive as the views of the market leaders. Since the amounts of the deals involved are very large, the majority of the dealers hesitate to go contrary to the views of market leaders. This process accentuates the trend in the market and results in prolonged undervalutation or overvaluation of currencies in phases. In terms of the number of participants involved, and the process of their decision-making and also the enormous volume of business transacted by each, foreign exchange markets are free markets only in name. The emergence of futures markets in foreign exchange in many financial centres has further accentuated this distortion. The foreign exchange market has tremendous potential for 'bandwagon' effects for prolonged periods, the more the uncertainty and the higher the volume of business, the greater the potential for such accentuated 'bandwagon effects'.

Another contributory factor is the availability and the freedom for capital movements. The progressive dismantling of all barriers to fund movements, the availability of instant financial information, the facilities for instantaneous transfer of funds, the development of specialised institutions to manage portfolios and above all the official encouragement to market participants to earn from banking and allied service sectors in order to compensate the loss to countries on their trade front are some of the reasons for the enormous upsurge in capital flows in recent years. Even the governments/central bankers who have so far been reluctant to liberalise their financial markets completely are now increasingly changing their policies. France and West Germany which have long resisted opening up completely their financial markets to innovative techniques of the Euro-currency markets have recently begun to reverse their approach. The idea seems to be if "we cannot beat them, let us join them".

The ability of governments to control some of the key macro-economic variables such as exchange rates and interest rates has been eroded to a large extent by the market developments in the 70s and the 80s. While recognising the need for encouraging flexibility and dynamism in the financial markets, one wonders how much of what is happening in the name of innovation and sophistication is simple froth and how much of it is actual improvement to help serve the interest of the real sectors of the economy. The financial and foreign exchange markets are no longer hand-maidens of the real economy. They have assumed a life of their own. Unless the basic functions of the financial and foreign exchange markets are restored to serve as hand-maidens of the real sectors of the world economy it is unrealistic to expect stability in the foreign exchange and capital markets.

### LIMITED EFFECTIVENESS OF CENTRAL BANK INTERVENTION

In the context of the present structure and functioning of the foreign exchange markets the consensus of central bankers is that market intervention by central bankers, though at times it may prove useful to counter disorderly market conditions, is ineffective in maintaining a specific exchange rate or target levels against strong market sentiments. There was a time when it was believed that co-operative intervention by all the major central banks, by indicating strongly the direction that the monetary authorities believe the market should be moving, could achieve some measure of success. But the concerted intervention by many central banks in the first quarter of 1985 proved beyond doubt the ineffectiveness of such efforts in bringing about any substantial change in the market trend. On the other hand, the market has become more bold after that as they had proof of the central banks' inability and unwillingness to continue market intervention.

Monetary policies, unless they are too restrictive or too expansionist, also have their limitations. In this respect it is important to recognise that the relationship between interest differentials and exchange rate movements is complex and ambiguous. Interest differential and expectation of future exchange rate changes together are the main determinants of portfolio allocation and hence capital flows. Thus, when the interest differential in favour of a currency is declining, capital flows into that currency can intensify if the expected future appreciation of the currency more than compensates the decline in interest earnings. In this respect what matters is the nominal interest differential. Foreigners who are investing in short term financial instruments in a country are not affected by the inflation rate in that country, they could as well spend their earnings in their home country, which is usually the case, or elsewhere. But inflation rate can have an effect on yield computation through its effect on future exchange rate changes. Here again what matters is the expected inflation differential rather than current inflation. It has been found that at times the motivation for portfolio reallocation is to gain from asset price rise due to an expected decline in interest rate. Therefore, even when a currency is expected to depreciate and interest rate differential in favour of it is narrowing, increased capital inflows may still take place. Probably it is due to this type of complex relationship between changes in interest rates and changes in exchange rates that it has become difficult to find a consistent statistical relationship between changes in the interest rate differential and changes in the exchange rate of the dollar during 1980-84 period.

## CO-ORDINATED ECONOMIC POLICIES MAY PROVE INEFFECTIVE

Since capital flows constitute the key factor in the persistent misalignment of major currencies, and changes in yield expectations are caused by divergent underlying economic policies, there is a convergence of view that co-ordinated economic policies are a necessary condition for establishing stability in exchange rates. According to the IMF "it is becoming increasingly apparent that the smooth functioning of the exchange rate system requires stable underlying conditions in the major industrial countries, including low rates of inflation, sustainable growth of real incomes and a stable pattern of financial conditions".[11] The need for co-ordinated economic policies has been repeatedly emphasised by all concerned ever since the gyration of the exchange rates under the generalised floating arrangements began in 1973. So far there is no evidence that any positive steps in this direction are taken by the authorities concerned. It is unlikely that any effective measures will be taken in the future also. Besides, no practical set of co-ordinated economic policies that can be reasonably conceived, can bring about a durable environment, in which expectation of future yields of a multitude of financial instruments. in a multitude of related markets, can be ensured. As already indicated, the structure and functioning of the foreign exchange and financial markets constitute a very unsatisfactory and weak framework and tool for the efficient allocation of financial resources globally. Financial markets of today are oversensitive. The allocation of financial resources resulting from impulse and gut feelings based on inadequate information can hardly be expected to be an efficient system. Besides, interest differential is not a true reflection of the differences in the marginal productivity of capital. It is well known that in the case of dollar and the recent capital inflows into the USA, it is the domestic financial disequilibrium, arising from the enormous budget deficit, that is the underlying factor rather than any significant improvement in the relative productivity of the US manufacturing sector. It cannot be claimed that this is a sound ground for reallocating international capital on such an enormous scale to the USA.

The irony in the functioning of the present international financial system is that the richest and the largest economy of the world is enabled to enjoy the bulk of the savings of the world, to support its higher economic growth, consumption and military expenditure. By 1983 the USA has become a net borrower abroad. Since then it has been borrowing at a rate in excess of $ 100 billion a year, which according to Paul Volcker, Federal Reserve Board Chairman, is about 15 per cent of the total net savings of all the OECD countries put together. If this trend continues, the net external debt of USA may exceed $ 1,000 billion in 10 years' time. Thus, the most affluent country in the world, instead of contributing out of its savings to the development of the less affluent countries, is pre-empting the bulk of the savings of the world from being used elsewhere. Another important aspect is that the bulk of the capital inflows into the US is not for real investment purposes, in fact foreigners were net sellers of stocks in the US market during this period. The great part of the capital inflows into the USA has been invested in short-term instruments, including bank deposits.

Yet another disturbing feature of the capital inflows, *viz*, the unprecedented appreciation of the dollar, by hurting the competitiveness of US exports and import substitutes has further worsened the trade balance. This has triggered protectionist pressures in the US.

In the international financial ethos of today, it is out of fashion to expect those who benefit from the economic activity of their country, and hence amass enormous surpluses, to ensure its continued prosperity by reinvesting their surplus there. Similarly, it is also out of fashion to expect affluent countries in the world to contribute towards the capital formation of less affluent ones and in that process ensure a more diversified and durable global economic growth. The process of allocation and re-allocation of capital with the sole motive of maximising expected short run yields has become the 'be-all, and end all' of the international financial system. The real challenge facing the world community and policy-makers is how to let dynamism and innovative spirit of the financial and foreign exchange markets grow but yet keep a strong hand on the 'tiller' so that the destructive elements of these forces are kept under effective check.

## Notes

1 IMF, "Exchange Rate Volatility and World Trade", Occasional Paper 28, 1984, p 12.

2 R Blackhurst and J Tumir, "Trade Relations under Flexible Exchange Rates", GATT Studies in International Trade (1980) and G E Wood, 'Do Exchange Rates Overshoot?", *The Banker* (London), May 1981, p 53.

3 John Williamson, "Exchange Rate System", Institute for International Economics, Washington, 1983, p 39.

4 IMF, op cit, p 36.

5 M A Akhtar and R Spencer, "Effects of Exchange Rate Uncertainty on German-US Trade", Federal Reserve Bank of New York, *Quarterly Bulletin*, Spring 1984.

6 IMF, op cit, p 8.

7 Shafiqul Islam, 'Currency Misalignments: The Case of the Dollar and the Yen', Federal Reserve Bank of New York, *Quarterly Review*, Winter 1983-84, pp 49-60; and Williamson, op cit.

8 Shafiqul Islam, op cit, p 60.

9 Report of the Working Group on Exchange Market Intervention, 1983, p 31.

10 IMF, Annual Report, 1984, p 35.

11 Ibid, p 35.

# Historical Roots of Mass Poverty in South Asia

## A Hypothesis

**Tapan Raychaudhuri**

*The contemporary phenomenon of underdevelopment is not a continuation of the traditional economic order of pre-modern times. The patterns of economic organisation and levels of economic performance in the traditional societies of Asia, before they were enmeshed into the international economy created by first the merchant and later the industrial capitalism of western Europe, were significantly different from their contemporary counterparts.*

*In the case of India, the pre-colonial economy in its normal functioning did not generate large groups of half-starving people. The author traces the roots of mass poverty in India, as we know it today, to the new institutional framework of agriculture introduced after 1813 which deprived small holders, both tenants and proprietors, of nearly all their surplus, if it did not actually reduce them to landlessness.*

*Not only the new institutional arrangements, but even the positive developments in agriculture augmented the traditional disparities of India's agrarian society. Thus development of a market for cash crops implied a change in the ratio of non-food crops to food crops until, with increases in population, the output of foodgrains per head of population declined quite sharply. And where irrigation provided the means of increasing productivity, those in control of large holdings tried and increased their holdings, often at the cost of the poorer agriculturists.*

*The all-too-familiar phenomenon of today's mass poverty was thus already an established fact of life by the time population began to increase at a steady pace. Thereafter, given the pyramidal structure of rural society, there was a concentration of the increasing numbers in the lower rungs, until the very poor accounted for a half or more of the rural population.*

THE approach and method adopted in this essay are very much those of what is now described as 'old economic history'. This implies an emphasis on the qualitative rather than the quantitative, on arguments historical rather than economic in their essence. Of course, any such distinction is, beyond a point, artificial. The reason for this preference goes beyond deficiencies in one's training which are considerable. Where quantitative data are not available—on such crucial matters as national income and population—the attempt to squeeze the blood of aggregated series from the stone of fragmentary evidence is more courageous than prudent. Secondly, this paper is an attempt to present in a few pages the main ideas in what, hopefully, will emerge some day as a medium-sized volume. Some of the statements are hence in the nature of shorthand: the very considerable differences over space and time are 'de-emphasised' and the focus is on the uniformities rather than the variations without, one hopes, distorting the essential historical reality. Finally, the imprecision which marks most of the statements which follow is not accidental. It represents what, to my understanding, is the closest approximation to our present level of knowledge and possible perception.

Let me begin with an imprecise definition. Mass poverty is a situation where very large numbers in absolute terms and a very large percentage of the population suffer from a chronic shortage of food and other basic consumer needs like clothing, adequate housing, medicine and education and hence are victims of ill-health, disease, reduced longevity and ignorance. In any Third World country the phenomenon is obvious to any casual observer, and objective assessments only help to confirm with some precision the first impression of untrained eyes. One of the less complex definitions of poverty equates it with levels of income barely enough to secure the minimum of food—i e, caloric intake—required to sustain the human body. In recent years, it has been estimated, some 45 per cent to 53 per cent of the rural population in the territories of the Indian Union have had incomes around or below that level. The situation in the sub-continent as a whole is surely not better. In other words, somewhere between 250 and 300 million people are in conditions of near starvation in that part of the world. These figures represent something like 2½ to 3 times the number of the sub-continent's estimated population around the year 1600. Two other well known facts from the contemporary situation have a relevance to our understanding of the historical process which generated this phenomenon. First, not every one in South Asia is poor. Leaving aside the Birlas, the Tatas and Pakistan's 200 families, there is a large slab of urban and rural population with a very comfortable and rising standard of living. These are the beneficiaries of the very substantial growth achieved by the territories in question, which is the second well known fact I wanted to emphasise. True, per capita income remains low in South Asia but it is not so low as to keep consumption at the level of bare subsistence or below it for such vast numbers. What is perhaps more important, the self-sufficiency in food achieved by the Indian Union has not, so far as one knows, affected the quantum of food consumed per head by the rural poor. Nor has the emergence of India as a major industrial nation made any significant difference to the percentage of people below the poverty line. In one view, the percentage has actually increased. Without getting involved in that rather inconclusive debate, I would like to emphasise a central fact: growth and development have by-passed a very large section of the population which remains hopelessly poor. I shall later argue that this end result is built into the historical circumstances which explain the emergence of mass poverty in South Asia.

### MYTH OF OVERPOPULATION

Students of economic underdevelopment have recognised for some time that the contemporary phenomenon of underdevelopment is not a continuation of the traditional economic order of pre-modern times. The patterns of economic organisation and levels of economic performance in traditional societies of Asia, before they were enmeshed into the international economy created by first the merchant and later the industrial capitalism of western Europe, were significantly different from their contemporary counterparts. To take one elementary fact into account, the prevalent image of the underdeveloped world today is one of overpopulation. For the Indian sub-continent, such a description would have been of very little relevance as late as 1921 when its population was below one-third of the present level. In the seventeenth century, the corresponding proportion was probably nearer to one-eighth, though one estimate puts it as high as one-fifth. To take a different criterion, Kuznets estimated that the income per head of population in the traditional societies of Asia was probably higher than that in the pre-industrial phase of modern industrialised nations. In the Indian case, there is some direct evidence to support such a proposition. The Ain-i-Akbari gives the average yield per unit of three qualities of land—good, medium and inferior. A well known Indian statistician has estimated that the wheat yield for Abul Fazl's medium quality land compares well with the highest yield of post-Green Revolution Indian agriculture. Early 19th century accounts of yield per acre in Awadh, in eastern UP—then described as the 'garden of India', now a chronically deficit area—quotes figures which are higher than those available for England after the agricultural revolution. The implications of such nearly incredible evidence, confirmed by Buchanan-Hamilton writing in the first two decades of the nineteenth century, have to be tempered with reference to a negative fact he mentions, namely the uneconomically high ratio of crop to seed as compared with Europe at that time. Still the central fact relevant for our purpose is beyond doubt: a very favourable man-land ratio, and a technology evolved from long experimentation to make the best possible use of given resources, generated very high yields both per unit of land and per head of population. If economic underdevelopment as we know it today is not a pre-modern phenomenon, one of its characteristic manifestations—food deficit—is certainly even less so, at least so far as the South Asian sub-continent is concerned.

One could still argue that since pre-modern technology and pre-capitalist economic organisation implied inflexible ceilings to per capita income, and vast disparities in wealth and income were characteristic features of the pre-colonial Indian economy, mass poverty could still be one of the negative inheritances from the pre-colonial past. In fact, some of the evidence from Mughal times would support such a conclusion. All foreign observers of the Mughal economic scene invariably emphasise the contrast between the spectacularly conspicuous consumption of the Mughal nobility and the meagre livelihood of the urban artisans, the relative absence of a middle class in northern India, the extreme arbitrariness of the ruling class *vis-a-vis* the peasantry, who had to yield up 50 per cent of the gross produce to the state on pain of loss of liberty and break-up of their families, and the ultimate horrors of famine and war reducing multitudes to utter destitution. None of these observations are fallacious in themselves, but taken with other evidence and read between the lines, they do not, I submit, project a picture of mass poverty or at least anything remotely comparable in magnitude to the contemporary phenomenon to which we apply that term.

## Poverty in Pre-Colonial India

Let us first consider the urban aspects of the question. While destitution was not unknown—I shall try to explain its economic origins later—not one observer mentions the army of deformed or starving beggars one invariably encounters in the towns and cities of South Asia today. Housing of all but the wealthy was constructed of flimsy material, but again we hardly come across any descriptions of urban slums in the writings of the 17th and 18th centuries. The urban poor who evoked the sympathies of the Dutch factor, Pelsaert, were mostly artisans and shopkeepers subject to the arbitrary demands of the nobility who, allegedly, paid them little and often enough only with strokes of the Korah, or the cat-o'-nine-tails hanging at each nobleman's door. The same artisans, according to his own account, could however afford ghi with their evening meals—incidentally, beyond the means of all but the affluent in contemporary India. In the illustrations of the "Ain-i-Akbari", the artisans are shown as wearing simple tailored upper and lower garments, head-dresses and footwear—more than most of their contemporary counterparts can afford. The pay scales mentioned in the same account cover a range which would allow, according to the food prices quoted by Abul Fazl, a reasonable to very comfortable existence, though by no means anything approaching wealth. The Mughal cities and camps on the move attracted such artisans, workers and petty shopkeepers by the thousand and at times hundreds of thousands, without the incentive of the Korah. In an agrarian economy with plentiful supply of land and a small population where shift to agriculture from other occupations was always possible, the type of response just mentioned suggests that pull rather than push factors were at work. And since such people were the core of the city poor described by the foreign observers, we do not see in them the pre-colonial counterparts of contemporary mass poverty. In fact, they are actually reckoned among the petty hoarders of gold and silver who, by disgorging their nest-eggs, contributed to the inflationary situation at times of famine.

The rural scene is in many ways more complex. First, one encounters a wide variation in levels of economic performance. An outstanding example of high agricultural yield and plentiful supply of every variety of food-stuff was Greater Bengal, a region free from recurrent famines for some two centuries down to 1770. The bulk of such areas, which included Malwa in Central India and Awadh, was characterised by what may be described as 'affluent subsistence', i e, an economy geared to production for purposes of consumption rather than exchange, but having high levels of output and consumption attained with relative ease and rather small inputs of labour, permitting a fair measure of slack which could be taken up as and when the economy responded to market incentives. In areas characterised by such abundance of food-supply—parts of which were actually exported—inadequacy of food and clothing was unlikely to have been the lot of large numbers, whatever the pattern of income distribution. The possibility of such shortages affecting sections of the population cannot, however, be precluded for less fortunate regions, especially those like the South Coromandel coast which habitually imported food from the surplus areas. However, the pattern of regional variations suggests that the fate of the agrarian classes, often described by the foreign observers as semi-servile in view of the rapacity of the ruling classes, was at least not uniformly miserable.

In fact, the economic consequences of a rapacious ruling class and a very high level of revenue demand have apparently been misunderstood by the foreign observers upto a point, as their own evidence indicates. First, the rapacity of the ruling class—despite the system of frequent transfers of revenue-extracting officials—was limited by their own self-interest. The hereditary surplus-extracting cultivating zamindars had a long-term interest in the survival and prosperity of the peasantry and often acted as a buffer against the more transient class of officials. The official class itself, besides being limited by their own organisational inefficiency, had to reckon with the fact that people, not land, was in short supply. The oppressed peasants could always protest with their feet, migrating *en masse* to areas where their welcome would take the form of reasonable demands on their output. That they protested often enough with guns, bows and arrows and successfully defied unreasonable claims is evidenced by the foreign accounts as well as indigenous sources. The widespread use of fire-arms by the peasantry itself suggests a level of income well above subsistence. It is also known that such peasants as successfully defied the land revenue demand were exceedingly prosperous. It is unlikely that the Mughal state could as a rule collect the 50 per cent of the produce which at times was the level they did aim at. The state's concern with agricultural prosperity was also real, being rooted in self-interest as well as a conscious ideology. The concern was expressed *inter alia* through the system of revenue itself which imposed lower rates of demand per unit of land if the more highly priced cash crops like indigo, opium or mulberry for purposes of sericulture were cultivated. In other words, both variations in the natural levels of productivity as well as the operations of state policy permitted differences in wealth and income in the agricultural sector, both as between regions and within the same region. One end of the spectrum was surely close to modest affluence, if not substantial wealth. The contemporary accounts emphasising the arbitrariness of the ruling class project a blanket picture of rural misery which thus does not stand up to scrutiny. The expansion of exchange activity in the countryside, fostered by the increasing collection of revenue in cash and facilitated as much by the cross-country roads built by the Mughals as by the influx of bullion from the new world, and evidenced by the 3,200 *qabas* or rural market-towns mentioned in the "Ain", further suggests the existence of focal points of prosperity in rural-agrarian society. In short, the rapacity of the nobility was real. The resilence of the agrarian economy, its capacity to evade, curb and survive that rapacity and thus enjoy at least some share of the benefits derived from abundant supply of obviously very fertile land, was no less so. The economy which supported the colossal structure of the Mughal state and rendered possible its monumental constructions obviously generated a very large surplus. It is unlikely that a level of output from which such extraction was possible could be maintained for nearly two centuries without positive incentives to the producer. The known facts regarding the Mughal polity cannot be squared with any picture of a uniformly immiserised peasantry. The question to ask then is whether, despite very high levels of output rendered possible by abundant supply of fertile land and, despite the evidence for considerable agrarian prosperity, large sections of the rural population suffered from extreme poverty, especially near-starvation.

## NO CHRONIC FOOD SHORTAGE

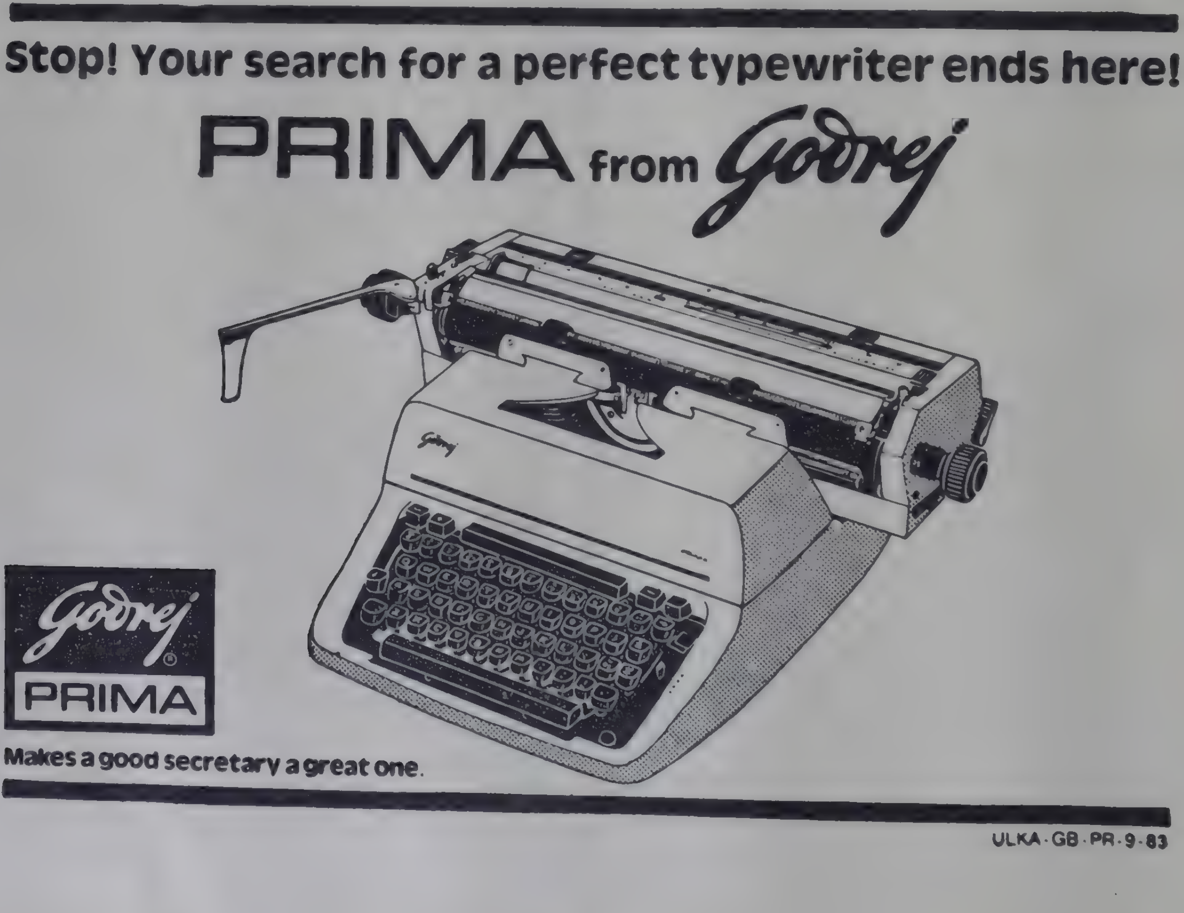
In all probability, if we are looking for the seeds of mass poverty in the pre-colonial economy, the structure of agrarian society, inter-acting with the rapacious tendencies of the Mughal jagirdars, does provide a clue. The pre-colonial village in India was nowhere an undifferentiated egalitarian society. While its structure varied from region to region. it contained everywhere a top layer of 'superior rights' in land—usually a group belonging to high or agricultural castes who emerged as full-fledged proprietors if a land-market developed—another group with equally hereditary rights, but comparable in terms of village servants producing goods and services mostly, but not exclusively, in return for hereditarily fixed shares of the village produce. This third group included service castes whose professions were considered defiling and whose perquisites were very small and others who had duties on land but no sort of recognised rights to it. In parts of southern and western India (Gujarat and the Deccan), the third group contained an important part of the work force in agriculture—agrestic slaves and serfs without any rights in lands but cultivating it for proprietors belonging to superior castes and receiving what was in all probability a bare subsistence. The lowly service castes without rights to land in the northern regions were unlikely to have been better off. In normal times such groups evidently had enough to live on. This is a logical assumption for an economy producing an abundance of basic consumer goods, and that for consumption rather than exchange. There is no economic incentive to starve a section of the work force in such a situation. But in times of famine, or when warfare dislocated production, they were the first to be pauperised, that is if they did not actually perish. Describing the Great Famine of the 1630s, Peter Mundy mentions regular movement of grains and shops full of food-stuff and people dying within sight of both for lack of money to buy. The lowest strata of the rural population, perhaps without even the nest egg of hoarded silver or gold to fend off the first onslaught of scarcity, were no doubt the first victims. If they survived, the chances were that they did so as paupers. It is unlikely that such flotsam and jetsam were all easily accommodated within the structure of established rural communities. The relatively easy availability of general labour for road building and other public works, in even remote parts of the country—without recourse to forced labour—indicates the existence of a fairly sizeable floating population. War and migration probably contributed to their numbers. The question as to why such displaced sections of the rural population, like the migrant agriculturists, did not take advantage of the abundant supply of land is not easily answered. Capital, even the small quantum required to start cultivation or reclaim land, was not in abundant supply and the phenomenon of low caste village servants living on the margin of subsistence even in normal times suggests that entire social groups were excluded from any access to it. To repeat, the historic roots of mass poverty are probably traceable to the existence of these social groups on the margin of subsistence in rural society. However, some facts are worth emphasising in this context. Neither the *a priori* conclusions derived from the known facts of man-land ratio nor the direct evidence available indicate any chronic shortage of food supply in any part of the sub-continent (deficit areas being supplied from food surplus regions). The most distressing feature of contemporary mass poverty is inadequate supply of food. This phenomenon was, at least until recently, linked both to inadequacy of total output and availability, as well as of purchasing power. At least the first of these two deficiencies was absent from the pre-colonial scene. In rural India, the supply of food was dependent on the producer's own effort or, in case of those not deriving their livelihood primarily from their family holding of agricultural land, on the share of the village produce customarily allocated in return for services required. In a situation of relatively high productivity—one can assume—even the small family holdings must have produced yields, net of all liabilities including revenue demand, which guaranteed at least an adequate supply of food, probably much more. As to the hereditary village servants, even the lowliest of them are unlikely to have lived for generations on the brink of starvation when food was available in plenty, however inegalitarian the character of Indian rural society. True pauperisation was hence, in all probability, the result of abnormal, if recurrent circumstances, and the subsequent failure to resume the customary economic function. Such displaced elements may well have included segments other than the lowliest service castes, but the better off with their cattle stock and small savings had more sustaining power and hence better chances of recovery. If, then, the hard core of absolute poverty is to be sought among the displaced bottom strata of service castes, one must remember that they constituted a small percentage of the rural population. In the north, the bulk of the work force in agriculture accounting no doubt for the great bulk of the population consisted of the 'right-holders' family labour, so that castes with duties on, but no rights in land, constituted a small minority. Even if we add to this the lowly non-agricultural service castes, the total numbers could not have been large. In the south, the low castes in semi-bondage or actual bondage played a more important role in agricultural production. This fact, however, is likely to have facilitated their rehabilitation after economic catastrophes. Such circumstancial evidence suggests that those who did not have enough to live on could have accounted only for a small proportion of the rural population in pre-colonial India. By no stretch of imagination could this population have been anywhere near 45 per cent. The direct evidence bearing on the question—the substantial body of descriptive accounts—supports my conclusion.

In short, the pre-colonial economy in its normal functioning did not generate large groups of half-starving people. However, the recurrent shocks to the system regularly threw groups out of the system reducing them to penury, but such groups accounted for a relatively small part of the population. The warfare and the rapine associated with the downfall of the Mughal empire, the Maratha aggressions and the establishment of British rule subjected the economy of vast areas to continuous shocks from the 1680s to 1803 and in some cases, like Awadh and the Punjab, even much later.

## ECONOMIC CONSEQUENCES OF EMPIRE-BUILDING

In considering the record of the colonial era, it is necessary to emphasise the relevance of a very obvious but often forgotten fact—that there were two distinct phases of colonial rule in the subcontinent. In the earlier phase, the East India Company's monopoly shielded the territory from virtually all impact of industrialisation in Britain, so that the characteristic features of colonial trade and all associated phenomena, postive or negative, could emerge only after that monopoly was effectively undermined in 1813. In the first half century, and for some regions like Oudh much later, the economic consequences of empire-building were predominantly negative. I shall consider only such features of these negative developments as are relevant to the present enquiry. In the Presidency of Bengal, both the early efforts of the Company to organise a regular flow of revenue and the less orderly rapacity of its servants, some of whom came out to India on a pay of a few pounds a year and went back with fortunes estimated in millions—had disastrous effects on the economy, at least in the short run. The large scale abandonment of cultivation, a direct response to unbearable revenue demand and the pressures to buy and sell at dictated prices—which contributed to the Famine of 1770, killing off something between a third and a fourth of the population according to the company's estimate—has no recorded precedent in Indian history. In Madras, the English creditors of the Nawab of Arcot held the revenue of several districts as ransom and acted more like usurious moneylenders than administrators. Oudh under the Subsidiary Alliance suffered a similar fate. These horror stories of the period of plunder are of some relevance to our enquiry. India was certainly not a stranger to war and rapine. But together with Aurangzeb's devastating wars in the Deccan in the last quarter of this 17th century and the intensive plunder undertaken by the Marathas in the 18th century, the Company's exercises in rapacity add up to a record of intensive economic dislocation affecting very large parts of the territory and spread over a period of some 150 years. Compared to these annals of desolation, earlier catastrophes appear to have been either brief or relatively superficial rendering a return to *status quo ante* a comparatively easy task.

No doubt the gradual establishment of



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a modern and orderly administration healed many of the wounds inflicted by the long period of disorder and direct plunder. But perhaps not all wounds were effectively healed. Two of the most prosperous regions of the Mughal days emerge as agricultural lame ducks of the modern era. Eastern UP, the erstwhile 'garden of India' according to the Company's observers, remains an impoverished area. In Bengal, during the period for which statistics are available, there was an absolute decline in the production of foodgrains. These were two territories which had suffered most from intensive though short-lived plunder. A causal connection between these two sets of facts is not improbable. A different consequence of the catastrophes is more germane to the present discussion. The rehabilitation of the most vulnerable elements in society after any economic dislocation was the most difficult and least likely part of post-war and post-famine situations. As will be argued later, the political economy of colonial India, even its most constructive elements, was heavily tilted against the have-nots. The flotsam and jetsam thrown up by the disintegration of one empire and the establishment of another are unlikely to have returned to any orderly economic existence. We know that the Famine of 1770 generated large groups of desperadoes in Greater Bengal. We also know that Pax Britannia eventually curbed them. It is unlikely however that the disarmed bandits became once more modestly prosperous agriculturists, rather than destitutes earning a precarious living. Those who shared a similar fate in other parts of the sub-continent were certainly numerous. A prolonged period of economic chaos had generated a numerous army of paupers. Circumstantial evidence suggests that the efforts at reconstruction must have reinforced their economic vulnerability.

## NEW INSTITUTIONAL FRAMEWORK OF AGRICULTURE

In many ways, the Indian economy continued along its familiar path until 1813; only its course was modified by the series of shocks spread over a long period which generated, *inter alia*, a hard core of extreme poverty. After 1813, with the abolition of the Company's monopoly, the region is drawn, under conditions of colonial control, into the international economic network created by industrial capitalism. The causal relationship of this fact with the articulation of the characteristic features of underdevelopment remains a subject of debate. For purposes of the present discussion it is not essential to get drawn into it. We can instead concentrate on the broad contours of the economic record which are fairly uncontroversial. The record, it seems, is one of modest quantitative expansion, mainly in traditional agriculture, in response to demand in the world market and some deepening of the domestic market through infrastructural investment and other factors. Since throughout the 19th century, the area under cultivation was extended at a rate higher than the rate of population growth, it is likely that the extension was achieved by taking up the slack in labour supply. Diversion of labour from manufacture, some lines of which could not cope with the competition of machine manufactures, may have contributed to the process. But since the evidence does not suggest conclusively any absolute or perhaps even relative decline in employment in the manufacturing sector in the long period, it is safe to assume that substantial extension of cultivation under conditions of modest population increase meant some increase in output per worker, modified by the taking up of less fertile land under cultivation. Judging by the statistical evidence of the later period, 1890s onwards, increase in the productivity of land was infinitesimal, though the benefits of movement to higher value crops and specialisation are likely to have increased the value of yield per acre. Taken with the growth of a modern sector and a very substantial expansion of trade (in absolute rather than per capita terms), there were modest increses in per capita income of about one per cent or less per annum between 1891 and 1911. Any estimates for earlier periods are highly undependable guesswork. It was believed until recently that when for the first time the population began to increase at a steady, though still very modest, rate of around 1.3 per cent after 1921, per capita income began to fall. While this view has been questioned, the picture that emerges is at best one of near stagnation. In the first half of the 20th century, agricultural output per capita declined and the decline in the production of foodgrain was substantial. Net imports did not adequately make up for this decline, so that the availability per capita also declined. This record of modest quantitative growth in traditional agriculture tapering off as the population began to increase at a steady rate, has to be placed in the context of structural stagnation. Even the most optimistic estimates do not suggest that the ratio of agriculture to other sectors as sources of income and employment underwent any mentionable change over the entire period. The most important sources of mass poverty are to be found in this overall pattern of stagnation in the structure of the economy and per capita income, seen against a background of slow but substantial population growth in the long period. But, as we have seen, positive movements in the economy since 1947 have left mass poverty untouched. Hence, for a sufficient explanation, we have to look beyond the facts of stagnation.

Such limited growth as the Indian economy experienced in the 19th and first half of the 20th century was heavily concentrated in the agricultural sector, the development of modern industry being insignificant in per capita terms. The benefits of growth in agriculture were not only unevenly distributed, but emerged within an institutional framework which was unfavourable to the majority dependent on agriculture for a livelihood. For the most vulnerable, it was positively ruinous. To facilitate collection of revenue, and to guarantee proprietary rights, considered the surest way of improving agriculture, the colonial government introduced tenurial systems which conferred legally guaranteed proprietary right in land on about four per cent of the population directly dependent on agriculture. This new proprietary class was by and large identical with the old 'superior rights' in land who did exercise even the right of alienation wherever a land market developed. But in the pre-colonial traditional order, the hereditary usufractory right of the other agricultural classes—e g, those in the position of hereditary 'tenants' paying customarily fixed amounts—was inviolable. Now, the right to use land had to be purchased with the market controlled by some four per cent of the population earning their livelihood from land and very little guarantee for any rights below that level. Even in a situation of plentiful supply of land and shortage of manpower, this arrangement gave the proprietary class an immense advantage in bargaining. As population began to increase, without any corresponding expansion of employment outside agriculture, that advantage was steadily augmented. Remedial legislation to protect the non-proprietary classes—but never the bottom strata who had no legally recognised rights—became necessary as early as the 1850s, long before pressure of population had become a problem. Given the expenses and the complexity of the new legal system, only the more affluent and sophisticated could take advantage of these legislations which often remained no more than dead letters. Under the older system of arbitration which the new laws had replaced, no party in a dispute was entirely ruined. Now it was everything or nothing. For the poor and weak, it was often nothing. In the early stages of British Indian revenue history, the situation was further complicated by excessively heavy revenue demand which meant either abandonment of cultivation as in the Madras Presidency or the burden being passed on as far as practicable to the rent-payer.

### EMERGENCE OF MASS POVERTY

Besides, the British with their superior efficiency of organisation, completed within a remarkably short time, a process which had been unfolding itself at a slow pace under the Mughals—the collection of revenue in cash. Every agricultural producer was now under pressure to sell a share of the produce at least equivalent to the revenue demanded. The marketing organisation and credit facilities did not expand at any correspondingly fast rate. The agricultural producer hence experienced conditions extremely unfavourable to him; a dependence on near-monopsonistic buyers of his produce and near-monopolistic suppliers of credit under usurious conditions, poor returns for one's harvest, high rents and insecurity of tenure became the usual experience of the mass of agricultural producers. The legal system with its awesome respect for the holiness of contracts, provided more power to the elbow of the canny and resourceful merchant-moneylenders. As an end result, the small-holders, both tenants and proprietors, were deprived of nearly all their surplus, if not actually reduced to landlessness. The army of the landless, already in existence, if on a relatively small scale, through the economic dislocation of earlier times, found new recruits among the bottom strata of the agrarian society, especially the agrestic slaves and serfs of the South who now had to earn their livelihood by selling their labour. The increasing pressure on land through increase in population meant that they had to sell it under highly unfavourable conditions, rendered all the more grim by the social hierarchy of rural India which rendered any resistance to the privileged virtually impossible. Rural poverty on a massive scale, affecting the marginal holder of land as well as the landless, was an established fact of Indian life already by the 1860s. The recurrent famines of that decade and the 1890s, which augmented through high prices the resources of traders and moneylenders reinforced this pattern of misery.

Disparities in wealth and income, partly linked to the traditional hierarchy of rights in land, were no doubt always a feature of India's agrarian society. Not only the new institutional arrangements, but even the positive developments in agriculture, augmented that disparity, often directly at the cost of the weaker sections. Development of a market for cash crops and investment in irrigation were the two main levers of growth in agriculture. The former implied a change in the ratio of non-food crops to food crops until, with increases in population, the output of foodgrains per head of population declined sharply. The decline was especially marked in rice and the inferior cereals like jowar and barja which constituted the chief diet of the poor. As already stated, not only output, but availability also declined. Even in normal times, the marginal holders of land ceased to produce enough to meet their subsistence requirements. And given the unfavourable conditions in the market for thier labour, they had no purchasing power to make up for that short fall. The landless were, almost certainly, even worse off. All available levers of social power were manipulated to fossilise this pattern of relationship which placed the affluent producer of or dealer in cash crops in a position of advantage through the abundant supply of cheap labour and the share-cropper's meek acceptance of harsh terms. Where irrigation provided the means for increasing productivity, those in control of large holdings, especially if they were proprietors, tried and increased their holdings, often at the cost of the poorer agriculturist who was in any case hesitant to forego the production of subsistence crops to take up the riskier venture of cultivating non-foodgrains. The foreclosure of grazing lands and extension of the arable into forest areas in response to the new incentives deprived the poorer agriculturist of crucially important resources. If this was the situation now in normal times, upheavals like the famines and the crisis of '29 displaced large groups from their marginal means of livelihood, depressing wages and creating a steady flow of slum dwellers into the urban areas. After the crisis of 1929, the number of slum dwellers in Madras, to give one example, increased to account for one-third of the city's population. The small and stagnant secondary and tertiary sectors provided no stable means of livelihood for this growing army. Rural poverty had spilled over into urban areas. The all too familiar phenomenon of today's mass poverty was an established fact of life by the time population began to increase at a steady pace. Given the pyramidal structure of rural society, there was a concentration of the increasing numbers in the lower rungs, until the very poor accounted for a half or more of the rural population.

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## IPCL Denies Shortage of LDPE

INDIAN Petrochemicals Corporation Limited (IPCL), a public sector company, has affirmed that there is no shortage of LDPE in the market. IPCL released 25 per cent more material in the first 11 months of 1984-85 over the corresponding period of the previous year. As against the total supply of 115,000 tonnes during 1983-84, it was expected that there would be a total supply of over 130,000 tonnes by the three producers during 1984-85. The most optimistic demand estimate for 1984-85 was of 139,000 tonnes which would leave only a small gap between demand and supply. During the quarter January/March 1985, there was to be a total supply of nearly 40,000 tonnes which was more than the average requirement of the market. Due care was taken by IPCL to ensure supplies of sufficient quantities of LDPE as per the monthly allocation during March and April this year.

All this has become possible since there was an opening inventory of over 12,000 tonnes and IPCL's production during 1984-85 was expected to be over 100 per cent of rated capacity. In order to supplement the local availability of LDPE and with a view to sustaining the growth in some key sectors, IPCL also imported 20,000 tonnes of LDPE. To further augment the supplies, IPCL has also applied for import licence for additional 10,000 tonnes. The full demand of priority sectors such as agriculture, milk/milk product packaging, fertiliser packaging, foodgrain storage, nursery sectors, etc, has been satisfied. The requirement of nearly 6,000 customers was met in 1984-85 by allocating the higher of the offtakes by the customers during 1982-83 and 1983-84. Even new customers were supplied small quantities of the product from time to time.

The price of IPCL polymer products is the same at all stock points throughout the country. This was done mainly to help small customers to draw their requirement conveniently at a uniform price throughout the country. Of the 6,000 processors, 72 per cent buy less than one tonne a month and another 23 per cent buy less than five tonnes a month. The market is thus predominantly in the small scale sector. IPCL's distribution policy is designed to serve the interests of this sector which is spread over all parts of the country.

# Superpower Co-operation and Transit Passage through Straits

**Shekhar Ghosh**

*When their interests converge, the United States and the Soviet Union have not hesitated to act in unison, even against the sentiments of their respective alliance partners, in order to devise instruments intended to protect their common interests.*

*One recent instance of superpower collaboration can be found in their common and forceful insistence, during the Third UN Conference on the Law of the Sea, on an overly liberal regime of passage through straits used for international navigation. They have substantially succeeded in incorporating in the United Nations Convention on the Law of the Sea provisions as to passage through straits which are regarded as being conducive to their security interests.*

## PATTERN OF CO-OPERATION

DESPITE their regular rhetoric and not so irregular mutual vituperations the two Superpowers—the United States and the Soviet Union—have shown considerable inclination to co-operate with each other on a number of issues. When their interests converge, they have not hesitated to act in unison, even as against the sentiments of their respective alliance partners, in order to devise instruments intended to protect their common interests. This does not, however, mean that the Superpowers have not been supported by some of their respective allies in respect to some of their diplomatic joint ventures. Anyway, one recent instance of Superpower collaboration can be found in their common and forceful insistence, during the Third UN Conference on the Law of the Sea (UNCLOS III),[1] on an overly liberal regime of passage—the so-called "Transit Passage"—through "straits used for international navigation". And they have succeeded considerably in incorporating, in the United Nations Convention on the Law of the Sea,[2] provisions as to passage through straits which are deemed to be conducive, inter alia, to their security interests.[3] (Here it can be indicated in parenthesis that a "strait" is a narrow passage connecting two open seas and "transit passage" is a system of unimpeded passage through and under straits or flights over striats for ships, submarines and aircraft of all descriptions for the purpose of continuous and expeditious transit).

The United Nations Convention on the Law of the Sea was opened for signature at Montegu Bay, Jamaica, on December 10, 1982. On the opening day 119 states[4] signed the Convention, but more than 40 states, including the USA, the UK, Japan,[5] Federal Republic of Germany, Italy, Belgium, Argentina, Israel, Turkey, Equador, Peru, Bolivia, Libya, Zaire etc have not signed it. At Montegu Bay, however, 23 states, including the USA, the UK, Italy, Israel, Republic of Korea, Jordan, Libya, Venezuela, Zaire have signed only the Final Act[6] of the Conference. For the present purpose it suffices to say that the USA has not signed the Convention for her dissatisfaction with the Convention provisions regarding exploration and exploitation of polymetallic nodules of the international sea-bed area beyond the limits of national jurisdiction because the legal-institutional constraints, as enunciated in the Convention, are not acceptable to her.[7] This, however, does not alter the fact of US-Soviet collaboration on the straits regime, nor does it mean that US refusal to be a party to the Convention would ultimately place her in any separate category as to the question of availability of facilities on the basis of the regime of transit passage through straits.[8] Agreement on the straits issue was reached long before the USA expressed her categorical reservation on the sea-bed question. Compromise on the straits issue was reached before 1977 (Ghosh, 1980, pp 234-5).

The contention of the present article is that such co-operation of the Superpowers is not accidental. Three instances of such co-operation, which seem to reveal a pattern, may be very briefly recalled here.

### (A) *Partial Test-ban Treaty, 1963*

In 1963 the USA, the USSR and the UK became party to this treaty by which only underground nuclear tests were allowed (Everyone's United Nations, 1979, p 42). The Superpowers had obvious interests in such a treaty. The USSR resented China's independent nuclear programme. And the USA had every reason to endorse this Russian resentment. Again, the USA could not reconcile with de Gaulle's plan of nuclear proliferation. Main justificaforce. The Soviet Union also had every reason to share this American concern. Thus, with this common axe to grind, the Superpowers, by this treaty, contrived to make China and France appear in the black. For, these two countries, beginners as they were in nuclear programmes, would find it immensely difficult to forego open air tests. After all, underground tests were technologically more difficult and economically more costly (Young, 1972, pp 85-6). The 1963 treaty did not, however, hamstrung the nuclear programmes of the Superpowers themselves.[9]

### (B) *Nuclear Non-Proliferation Treaty (NPT) 1968*

With global nuclear destruction becoming a possibility by mid-1960s, the Superpowers indicated their desire to do everything to contain the nuclear evil (Everyone's United Nations, 1979, p 29). President Johnson declared in 1966, "Our common task is this: to search for every possible area of co-operation . . . the Vietnam conflict does not have to stop us . . ." (Young, 1972, pp 95-6). One area of such co-operation was, at the time, prevention of nuclear proliferation. Main justification for this was the argument that, larger the number of nuclear powers, more the likelihood of nuclear war. Anyway, the Superpower co-operation in this area resulted in submission, before the Eighteen Nation Disarmament Committee (ENDC) in August, 1967, of separate yet identical draft proposals seeking to ban proliferation of nuclear weapons. These were subsequently revised in January and March, 1968. On the latter occasion there was a single joint draft. This ultimately led to the adoption, in July 1968, of the NPT. Under Article 1 of this treaty, nuclear powers party to it undertook not to help or assist, in any way whatsoever, a non-nuclear state to procure or have nuclear weapons. Under Article 2 non-nuclear powers signatories to this treaty undertook not to procure or have nuclear weapons in any way whatsoever. By seeking to disarm the unarmed, the NPT, in fact, aims at keeping the monopoly of the nuclear-haves intact.

### (C) *Sea-Bed Treaty, 1971*

Under the Sea-Bed Treaty parties have pledged not to emplant or emplace on the sea-bed, ocean floor or subsoil beyond 12 miles from their shore baselines[10] any nuclear weapons or any other types of weapons of mass destruction or any structures, launching installations or facilities for storing, testing, or using such weapons. Sensing devices for tracking submarines or surface ships have not, however, been ruled out by the treaty (Everyone's United Nations, 1979, pp 43-4). It has merely "narrowed down" (Barry, Jr, 1980, p 583) the area available for nuclear or other weapons of mass destruction. But more important than its stipulations is how this treaty was negotiated. On this point an American commentator says that it is a "prime example of what we might call ... Superpower symbiosis ..." (Barry, Jr, 1980, p 573). In fact, in the negotiation process the Superpowers had to put up a "united front" against other states including members from both the NATO and the Warsaw Pact (Barry, Jr, 1980, p 579). By early 1970s technology made huge self-propelled crawlers carrying large missiles and crawling along the ocean floor possible. But it is also true, as one scientist has calculated, that the cost of a complete underwater defence system would make the space programme budget "miniscule by comparison" (Barry, Jr, 1980, p 576). Then, Superpower interest dictated that they desist from an immensely costly programme. In addition to economic relief, this would earn them enormous propaganda value.[11] However, the Superpowers were also interested in keeping verification process confined to themselves, that is, they were against internationalising prospective verification process.[12] It was mainly on this issue that the Superpowers were accused of "collusion" (Barry, Jr, 1980, p 579). Consequently, a situation developed in which the "two giants", in order to defend the draft treaty, had to stand "almost alone against their many detractors" (Barry, Jr, 1980, p 579). Here it may be noted that the Superpower understanding on the Sea-Bed Treaty took place when the Vietnam war was at its zenith and that the ideological demarche did not prevent them, during this period and after, from strengthening their mutual co-operation in a host of other fields, especially economic.[13]

### REGIME OF STRAITS TILL UNCLOS-III

Now on to the issue of straits. Erik Bruel, an authority on the subject, defines a strait as a "contraction of the sea between two territories, being of a certain limited width and connecting two seas otherwise separated at least in that particular place by territories in question" (Bruel, 1947, p 19). While offering his definition, Bruel traces the origin of the term "strait" to "street" which conveys the ideas of "passage", "narrowness" and of "separation" (Bruel, 1947, pp 16-7). According to Bruel, the geographical elements of straits indicate their functions—those of connecting two seas and of providing passage from one sea to another and for this reason straits are crossroads of sea commerce (Bruel, 1947, pp 20 and 30). He also holds that straits, because of their strategic and political importance, have drawn, from "earliest historical times", "conquerors and politicians like a magnet" (Bruel, 1947, p 30). Importance of a strait depends, apart from its strategic location, upon the potential or actual traffic through it. Certain straits are "international" simply for the reason that interest attached to their use is worldwide. Such straits are limited in number and that extraordinary conservatism has been shown by shipping in maintaining them as routes (Bruel, 1947, p 43). Out of nearly 62 straits[14] used for international trade, the "straits of Bosphorus-Dardanelles, Dover, Florida, Gibralter, Hormuz, Lombok, Luzon, Malacca-Singapore, Mazambique, Skagerrak, Bud-el-Mandeb are considered to be the most important" (Rao, 1975, p 116). It is important to note that with the exception of Florida, all these straits are overlapped by 12-mile territorial seas.

As to the question of passage through straits a distinction used to be made, both in theory and practice, between merchant vessels and warships. As to the former, Bruel writes that "... ordinary rules about "passage inoffensif" in territorial waters, taken in widest sense of covering also that part thereof that falls in international straits, were sufficient to guarantee the right of passage for merchant vessels in such straits in time of peace ..." (Bruel, 1947, p 106). McDougal and Burke also hold that "there has been a clearly discernible trend for the past hundred years towards greater and greater freedom of access" (McDougal and Burke, 1962, pp 196-7). Briefly, after the First World War "the right of passage of merchant vessels in international straits was certain" (Baxter, 1964, pp 162-3). But the same was not true for the passage of warships. This was recognised with regard to the Turkish straits in the Conventions of 1841, 1856 and 1871 (Bruel, 1947, p 106) and conditional right was accorded only by the Treaty of Lausanne (1923) and finally by the Montreaux Convention of 1936 (Vali, 1972, pp 29-57). Likewise, no foreign warships could pass through the Danish straits without the King's permission "even in time of peace" and the 1857 treaty concerning them did not change the situation.[15] (The UN Convention on the Law of the Sea, by Article 35(c) of it, exempts, from its purview those straits—such as, the Turkish and the Danish ones —in which passage is regulated in whole or in part by long-standing international conventions ...) Distinction between merchant vessels and warships in respect to passage is made because the latter threaten.[16] However, in time of peace, concerned coastal states used to permit, without recognising any right proper, passage of foreign warships through their territorial seas of straits falling, wholly or partly, within them (Bruel, 1947, p 230).

With the failure of the 1930 Hague Conference to adopt any Convention on the territorial sea (Ghosh 1980, pp 221 and 232), the decision of the International Court of Justice (ICJ) in the Corfu Channel Case (1949) became the first authentic opinion on the law of passage through straits. Moreover, this decision assumed extraordinary importance because the International Law Commission (ILC), which was assigned the preparatory work for the First UN Conference on the Law of the Sea held in Geneva in 1958, practically copied this judgment while formulating relevant provisions for straits (Ghosh, 1980, p 232). In this case between the UK and Albania, the ICJ upheld the British contention to send warships through the Corfu Channel (a strait between the Greek island of Corfu and Albania). The Court held: "... states in time of peace have a right to send their warships through straits used for international navigation ... without previous authorisation of a coastal state, provided the passage is innocent. Unless otherwise prescribed in an international convention, there is no right for a coastal state to prohibit such passage through straits in time of peace" (ICJ Reports, 1949, p 28). Article 16(4) of the 1958 Convention on the Territorial Sea and the Contiguous Zone (UN Doc A/CONF 13/L 52) substantially endorsed the Corfu decision and provided for non-suspendable innocent passage through straits.

### SUPERPOWER INTERESTS IN STRAITS

Apart from the trading interests[17] which the Superpowers share with other states, they have obvious military interests in a comparatively unbridled regime of passage through, under and over straits. And they have not hesitated to state them in clearly military terms. As the issue of naval mobility through straits has been interpreted by the Superpowers unequivocally in national security terms, it has assumed, during UNCLOS-III, critical importance, at least in bargaining sense. The USA has an astonishingly large navy, symbolising incredibly enormous striking power. The Soviet navy is also as large, if not larger (Shulman, 1968, pp 138-61;

Mangone, 1981, p 71). US military security interests are interpreted, inter alia, in terms of her "ability to maintain an ade quate capacity to project American forces overseas in local wars"; to "protect US citizens, commerce and access to vital resources in peace time"; and to "protect the sea-lanes, project forces abroad, maintain combat capabilities and perform other naval functions in a more than local war" (Osgood, 1976, p 11). To the Americans the Korean War demonstrated that naval forces (enjoying requisite mobility, of course) were vital to the "maintenance of supply lines, the landing of infantry . . . positioning of air attacks" (Mangone, 1981, pp 69-70). O'Connell holds that for the US and the Soviet navies "maintenance of the law in a form that will not make operational deployment between the Indian Ocean and the Pacific Ocean unacceptably difficult is essential both to maintenance of equilibrium between themselves and in order to permit intervention locally . . ." (O'Connell, 1975, p 101). And in this equilibrium of forces, the role of missile-carrying nuclear submarines has been deemed to be critical. In a sense, these submarines are the most important component of the so-called deterrent forces of the Superpowers. Land-based missiles or bombers are easily detectable and hence vulnerable. But the nuclear submarines can lurke for long periods in the opaque depths of the oceans. Hence it is not easy to detect and destroy them. At the same time, they are ready to destroy, at a moment's notice, the major targets in the enemy country. Naturally, missile-carrying nuclear submarines are strategic weapons of "extraordinary worth" (Mangone, 1981, pp 70-2).

It is then obvious that the question of naval mobility—including submerged passage of nuclear submarines through straits—should rate very high in the thinking of the Superpowers. As far as the USA is concerned, this is reflected in the "special weight" which the Department of Defence enjoyed within the US delegation to UNCLOS-III (Darman, 1978, pp 375-6). In respect to naval mobility through straits the Soviet Union is perhaps at a comparative disadvantage. One analyst even argues that a restrictive regime for straits would harm the Soviets more than the USA (Darman, 1978, p 393). Thus, it is found that the USSR reacted very strongly when, in late 1971, Indonesia and Malayasia undertook a move to "deinternationalise" the Malacca Straits (Leifer and Nelson, 1973, pp 190-7). This reaction is explained by geography. Afterall, the Malacca-Singapore Straits are the normal routes for Soviet vessels from the port of Vladivostok to the Indian Ocean. Likewise, geographical reasons have determined Soviet (and earlier Czarist) attitude towards the Turkish straits for a long time (Vali, 1972, pp 3-57), for they constitute the only route from the Black Sea to the Mediterranean. The Baltic Approaches are also crucial for Soviet naval movements from the Baltic to the North Sea.

Against the backdrop of all this, let us recount the grounds of dissatisfaction with the 1958 Geneva Convention provisions, inter alia, on straits. First, coastal states had wide scope to determine, subjectively, "innocence" or otherwise of passage (Ghosh, 1980, p 225). Secondly, the controversy as to whether foreign warships had also the right to innocent passage (without prior authorisation of or notification to coastal states) through straits falling, wholly or partly, within territorial sea persisted as a part of the general controversy as to such right in the territorial sea (Ghosh, 1980, pp 226-7; O'Connell, 1975, pp 99-100). Last but not the least, Article 16(4) of the 1958 Convention did not permit submerged passage of submarines and overflight of aircraft.[18] After the failure of the Second UN Conference on the Law of the Sea convened in 1960 to determine, primarily, the width of the territorial sea, a very large number of states adopted, during 1960s, the 12-limit for the territorial sea (Ghosh, 1980, pp 220-2). As a result 120 or so straits were "affected" in the sense that they formed, wholly or partly, territorial seas of the bordering states. Of these, 16 straits are of crucial strategic significance to the Superpowers and they include Berring Strait (West), Western Chosen, Malacca, Sunda, Selat, Lombok, Ombai, Old Bahamas Channel, Hormuz, Bab-el-Mandeb, Gibralter, Dover, Dominica, Martinique, Sant Lucia Channel, etc (Rao, 1975, p 179; Osgood, 1976, pp 14-6). Naturally, the Superpowers could not remain calm (O'Cornell, 1973, p 418). In 1967 they showed considerable eagerness in a "mini" conference in which the question of the "freedom of transit across international waterways or straits" was to enjoy top priority and they began consultations "in the earnest" which led them to circulate, "each on its own", a draft treaty of three articles first to their "closest allies" and then to "most" of the UN members (de Soto, 1973, p 127; Charney, 1977, p 598). However, this initiative could not move far, because Malta's proposal of August 18, 1967 ultimately acted as the real catalyst for UNCLOS-III. Anyway, during UNCLOS-III the issue of straits figured rather prominently from the days of the Sea-Bed Committee and the Superpowers took keen interest in it right from the outset.

## Superpower Role during UNCLOS-III and Transit Passage

To offset the difficulties that might be created by the demand of a large number of states bordering straits (straits states) for a regime of innocent passage (suspendable or non-suspendable) for straits,[19] the USA submitted a proposal (UN Doc A/CONF 138/SC II/L 40) before Sub-Committee II of the Sea-Bed Committee on August 3, 1971. Article 2 of it dealt with the concept of so-called "Free Transit". It read: "In straits all ships and aircraft in transit shall enjoy the same freedom of navigation and overflight, for the purpose of transit through and over straits, as they have on the high seas . . ."

In 1972, President Nixon held: "Our security and that of our friends depends . . . on free movement through and over international straits. A significant portion of our strategic deterrent is sea borne" (Shyam, 1975, p 32). While speaking in favour of "free transit", Stevenson, the US delegate, stated that the USA could not afford to "subject her sea communication or defence preparedness to the consent or political goodwill of another state" (Shyam, 1975, p 28).

The Soviet Union also submitted a proposal,[20] toeing the US line, before Sub-Committee II of the Sea-Bed Committee on July 25, 1972. The Soviet delegate, Kolesnik, contended that the USSR also believed, like the USA, that "rules of free passage through straits" had become an "inherent attribute" of the freedom of the high seas, since it was obvious that without unhampered passage through straits, freedom of the high seas would be a "mere fiction". He further argued that the concept of innocent passage had never been and could never be applied to such straits as the Gibralter, Dover, Malacca, Bab-el-Mandeb, etc Finally, he, like Stevenson, refused to agree to a situation in which the principle of freedom of passage would be the object of subjective interpretation of coastal states and in which there would be "the domination of only 12 to 15 states over the passage of vessels . . ." (Anand, 1974, pp 183-4). For Kolosovsky, another Soviet delegate, "there could be no real freedom of international navigation . . . without free transit" (Third UNCLOS, Official Records, Vol 1, p 68).

However, the expression "free transit" was ultimately replaced by that of "transit passage" as it was enunciated in the British proposal[21] submitted during the Caracas session of UNCLOS-III in 1974. Article 1, Chapter III of it advocated "transit passage" for all ships and aircraft "solely" for the purpose of "continuous" and "expeditious" transit of straits. It should be noted in passing that India also supported the tenor of transit passage through straits (Third UNCLOS, Official Records, Vol 1, p 96). Japan, given her obvious trading interests, was also a strong supporter of freedom of navigation through straits (Leiffer and Nelson, 1973, p 193).

Ultimately the concept of "transit passage" found acceptance on the basis of a package deal (Ghosh, 1980, pp 233-4)—the 12 mile territorial sea plus the 200-mile Exclusive Economic Zone (dealt with in Part V of the Convention) on the one hand and the right of transit passage through straits on the other, being the main components of the so-called package. In fact, the USA[22] and the USSR[23] especially, made it a bargaining point that acceptance of 12-mile territorial sea and 200-mile Economic Zone depended upon acceptance of "transit passage" through straits. Anyway, the upshot is Part III (Articles 34-45) of the UN Convention on the Law of the Sea. Article 38(1) provides that in straits (defined in Article 37) "all ships and aircraft enjoy the right of transit passage, which shall not be impeded . . ." According to Article 38(2), "Transit passage means the exercise . . . of the freedom of navigation and overflight solely for the purpose of continuous and expeditious transit . . ." Article 39 lists the 'dos' and 'don'ts' for ships and aircraft "during transit passage" while Article 41 authorises states bordering straits to designate and prescribe "sea-lanes" and "traffic separation" schemes for safety of navigation. Article 42 empowers states bordering straits to make laws and regulations for safety of navigation, prevention of pollution, prevention of violation of their customs, fiscal, immigration and sanitary regulations, and so on. Article 44 provides that states bordering straits "shall not hamper transit passage" and that there "shall be no suspension of transit passage".

Commenting on "free transit" the predecessor of "transit passage" and the essentials of which are embodied in the successor, one analyst says that it is an "entirely new concept" which is "the first attempt to extend, rather than merely resist encroachment upon, the right of navigation" (Warbrick, 1973, pp 145-6). Vigorous corroboration of this comes from another commentator: "Free transit . . . is an entirely new concept. It would apparently permit complete freedom of passage of warships, including nuclear—armed submarines, on the surface or submerged, without notification or irrespective of mission. It would permit freedom of civilian and military flight through the superjacent airspace. Finally, it would deprive the Coastal State of the power to categorise certain passages . . . as non-innocent" (Brown, 1972, p 26).

## Notes

1 Following a proposal of Ambassador Pardo of Malta at the UN on August 18, 1967 before the UN General Assembly, the item concerning "the Peaceful Uses of the Sea-Bed Beyond the National Jurisdiction" was first included in the agenda of the Assembly in 1967. This led to Resolution 2340 (XXII) on December 18, 1967, establishing the Ad Hoc Committee to study "the peaceful uses of sea-bed and ocean floor beyond the limits of national jurisdiction". Consequent upon its Report, the General Assembly, by Resolution 2469 (XXIII) of December 21, 1968, established the Committee on the Peaceful Uses of the Sea-Bed and Ocean Floor beyond the Limits of National Jurisdiction (Sea-Bed Committee). On December 17, 1970, the General Assembly adopted Resolution 2750 (XXV), under Part C of which it decided to convene a new Conference on the Law of the Sea in 1973 and instructed the Sea-Bed Committee to undertake preparatory work. The Conference was to deal with the establishment of an equitable international regime for sea-bed area beyond the limits of national jurisdiction and a broad range of related issues such as the High Seas, Continental Self, Territorial Sea (including the question of its breadth and that of straits), Contiguous Zone, fishing and other resources, preservation of marine environment and hydrographical research. Under Resolution 3067 (XXVIII) of November 16, 1973 the General Assembly convened the first session in New York in December, 1973, to deal with organisational and other matters within the scope of paragraph 3 of the Resolution. As per this paragraph the Conference was to adopt a "convention dealing with all matters relating to the law of the sea . . . bearing in mind that the problems of ocean space are closely interrelated and need to be considered as a whole." Thus began a marathon conference which finally ended in 1982.

2 UN Document No A/CONF/62/122. The Draft Convention was adopted in New York on April 30, 1982 through a verbal vote. 130 States voted in favour, four against (the USA, Israel, Turkey and Venezuela) and 17 States (which included some Western European States) abstained from voting. Another 17 States were not represented (Jenisch, 1983, p 172).

3 However, one American commentator argues that provisions regarding navigation through straits are not adequate to safeguard US security interests (Reisman, 1980, pp 67-76).

4 117 States, the UN Council of Namibia and Cook Islands (Jagota, 1983, p 338).

5 Japan and Antigua and Barbuda signed in February, 1983.

6 Not legally binding, the Final Act is a summary of the 14-year history of the Convention-in-the-making.

7 See, for instance, the 'Statement by the President of the United States of America on the United Nations Law of the Sea Convention' (Reprinted in IJIL, Vol 23, 1983, at pp 143-4).

8 With the passage of time, transit passage is likely to enjoy the status of customary law. Alternatively, the USA, by adhering to 3-mile territorial sea, may argue that the major straits have high seas corridor where navigation rights are practically unbridled.

9 While commending the 1963 treaty to the US Senate, the Kennedy Administration indicated this clearly (Young, 1972, p 87).

10 12-mile limit is now the accepted breadth for the Territorial Sea over which coastal states have sovereignty subject to innocent passage by foreign ships (Ghosh, 1980, pp 216-8).

11 On July 16, 1968 the Soviet Premier submitted to the ENDC a 9-point disarmament proposal the last point of which related to banning of military installations on the seabed. On the same day the US President also spoke, before the ENDC, of the need for an agreement prohibiting the use of sea-bed for the "emplacement of weapons of mass destruction" (Everyone's United Nations, 1979, p 43).

12 Verification under UN auspices might lead to embarrassing disclosures. Moreover, the USA would have to foot the major share of the bill for UN verification (Barry Jr, 1980, p 580).

13 See, for a survey of the factors compelling such co-operation, Ghosh (1973, pp 3-7) and also Brown (1974, pp 67-78).

14 For a relevant description of the major straits of the world see Kennedy, Commander R H, 'A brief geographical and hydrographical study of straits which constitute routes for international traffic' (UN DOC A/CONF 13/6 and Add 1).

15 However, Danish practice changed in the early 20th century under German pressure and in 1913 Denmark granted to foreign warships the right, in time of peace only, to pass through the Danish straits without previous notice (Bruel, 1947, p 107).

16 Elihu Root's opinion in the North Atlantic Coast Fisheries Case (McDougal and Burke, 1962, p 206).

17 Role of the seas in international trade is enormous. In this, judicious use of the straits is a must. For, unnecessary detours, given the contemporary pattern of shipping, would be prohibitively costly. At the same

time, coastal states require to regulate movement of today's huge ships (tankers and bulk-carriers, many of which are nuclear-powered, or carry dangerous materials) along their coasts. As there have been several occasions of huge oil spills from tankers, coastal states' concern for safety is understandable (Ghosh, 1980, pp 217-8 and 229-30).

18 This reason was categorically stated by the US delegates for their refusal to accept any regime of innocent passage for straits (Stevenson and Oxman, 1974, p 10).

19 Cyprus, Greece, Malayasia, Morocco, Philippines and Spain submitted a proposal during UNCLOS-III favouring innocent passage through straits overlapped by 12-mile territorial sea. There were also other proposals to this effect submitted by these and other states. (Ghosh, 1980, p 232).

20 UN DOC A/CONF 138/SC II/L 7/Add 1. There were also other Soviet bloc proposals in the same vein, such as, that of Bulgaria *et al* (UN DOC A/CONF 138/SC II/L 11). Polish proposal (UN DOC A/CONF 138/SC II/L 49).

21 UN DOC A/CONF 62/C 2/L 3 Canada also submitted a proposal supporting freedom of navigation through straits (UN DOC A/CONF 62/C 2/L 83) as did Italy (UN DOC A/CONF 138/SC II/L 30 and Corr 1).

22 See Statement of Stevenson of the USA in Third UNCLOS, Official Records, Vol 1, p 160.

23 The USSR, a traditional supporter of 12-mile territorial sea, used 200-mile Exclusive Economic Zone as the bargaining lever (Anand, 1974, p 188)

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# Justification for Imperialist-Financed Activities

### Prakash Karat

HARSH SETHI in his injured response to the article on 'Action Groups/Voluntary Organisation' in the *The Marxist*, fails to counter the central issue posed by us. The article had highlighted the CPI(M) understanding of the strategic design of imperialism in sponsoring and encouraging many such groups. It documented the crore of rupees flowing in from official, semi-official and private agencies in the West to finance thousands of organisations in India. The Government of India permits this flow virtually unrestricted to these private bodies. Such funds are used by many organisations for *political* purposes with the full knowledge and encouragement of the sponsoring agencies; to put forward a political platform, organise different sections of the people for *political intervention*. The source of the foreign funding may be church or secular. For Harsh Sethi there is nothing wrong *per se* in utilising such funds if it is used for worthwhile purposes. According to him, "The source may be national or foreign, funds are required and since the source of all surplus is the labour of the working people, surely there is little wrong in laying claim to that surplus. So in a sense, the argument is not funding *per se*, but the terms of the funding."

One can only be amazed at the naivete and flippancy of such an argument which has dangerous implications. Since all surplus is created by the people, there is no harm in receiving money from a CIA front or from the monopolists. As long as one is subjectively satisfied that it is being put to good use, in a manner which may be even for political activity. Sethi obviously finds nothing wrong in using such money for political work. We wonder whether the more serious of the radical action groups would also put out such a defence. As for the CPI(M), we wish to emphatically refute the implication in Harsh Sethi's argument that, "Even in the best organised and long standing trade unions or Kisan Sabhas—what to speak of political parties—funds have to be generated from outside the class and this does create dependencies." This is definitely true of the action groups whose outlook Sethi defends. As far as the CPI(M) is concerned it has faced such charges from more motivated quarters and effectively rebutted them as anti-communist slander.

Sethi in his anxiety to defend the voluntary organisations takes the easy way out by implying that 'they are doing what you are doing'. The fundamental basis for building up mass organisations of the working people and the party stems from the unity and consciousness of the people concerned. The higher the level of organisation and consciousness the greater the financial resources mobilised from the working people. Sethi has only to go through the columns of last year's *People's Democracy* to understand how the party raises funds for its activities such as building its party headquarters. The only funding which any mass organisation led by the CPI(M) will receive from 'outside', and this would be only a small fraction of its regular funds, is from its fraternal class and mass organisations within the country. To give a recent instance, the Tamil Nadu State CITU raised from the workers through its affiliated unions, a sum of Rs 40,000 to assist the agricultural labour and peasant movement in the state. It is here precisely that we disagree and oppose Sethi's dangerous justification that funding from outside for oppressed classes is essential and therefore the inevitability of 'dependencies' being created.

The CPI(M) as a matter of principle would oppose any organisation resorting to *political* activity in the country financed by Western agencies. To justify this by quoting Oxfam aid to Kampuchean refugees, or humanitarian aid to countries in the thick of national liberation struggles which have suffered war damage is merely trying to divert from the gravity of the danger. Neither can Harsh Sethi hope to justify foreign funding to political organisations and erode the CPI(M) stand by referring to governmental (including the Left Front government) agreements with imperialist agencies or governments. Surely, Sethi should know the vital difference between an elected government entering into economic and diplomatic agreements for aid and collaboration within the framework of an overall economic policy subject to legislative sanction and public scrutiny and that of direct funding by imperialist agencies to private organisations in India with freedom to indulge in political activities. That is why the CPI(M) has demanded that the Foreign Contributions (Regulations) Act should be so amended that prior governmental permission would be required for such funding to action groups/voluntary organisations. Till the menace of imperialist penetration can be eliminated once and for all, it would be better that an elected government, whatever its class character, be enabled to check such funds under public scrutiny.

It looks like Harsh Sethi wants the CPI(M) to give up its basic task as a Marxist-Leninist party to combat all ideologies alien to it whether foreign inspired or indigenous. How else can one interpret the whole tenor of Sethi's rejoinder which laments our inability to conduct a debate without "high levels of acrimony and accusations on both sides". We would have thought this but natural in any ideological debate and Sethi seems to be confusing polemics with use of force and abuse. On our part, as already stated in *The Marxist* article with reference to the Christian radical groups, the CPI(M) is ready to respect and co-operate with any democratic force in the Christian fold, notwithstanding ideological differences, on common issues, provided the fight conducted by these forces is not sustained by imperialist/foreign funding. But to expect the CPI(M) to abjure from ideological criticism and exposure is to demand that the party abdicate its ideological moorings—something which despite all our efforts to understand Sethi's misguided yet sincere advice, we are unable to accede to.

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SCINDIA STEAM NAVIGATION COMPANY, after suffering a whopping loss in the year ended June 1984, is looking ahead to an improved performance in the current year, This expectation has been caused by some welcome increases in freight rates in various liner sectors coupled with some improvement in port conditions. As a result, the company's freight earnings during the first nine months have been higher at Rs 88 crore as against Rs 69 crore during the same period last year. This increase in freight earnings according to Sumati Morarjee, Chairman, is expected to enable the company to meet largely its direct and indirect expenses. She hopes that the results in the coming months will continue to show steady improvement. The company is keen to modernise the existing liner fleet and is also examining a diversification programme. To start with, the company intends to acquire two to four reasonably modern container-oriented and fuel-efficient liner ships of about 17,000 DWT to strengthen the container lifting capacity. These ships will be substituted for the old break-bulk ships, which were sold during the past. In addition, the company wishes to acquire two or three vegetable oil product carriers in the next six months,

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## INDUSTRIAL GROWTH: ISSUES AND POLICY OPTIONS

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# Completing the Package

AT the annual general meeting of the Employers' Federation of India in Bombay last week the president of the Federation spoke of the need to amend the country's labour laws which, according to him, provide "unjustified protection" to the organised industrial working class. Coming from the Employers' Federation this demand is nothing new. What makes it noteworthy is that it is likely to evoke sympathetic echoes in the government at the highest levels. Soon after assuming office after the general election, the Prime Minister himself had told a conference on engineering exports organised by the Association of Indian Engineering Industry in March that "there are some anomalies in our labour laws which must be looked into".

This feeling, which has been expressed by government spokesmen on other occasions as well, has to be seen in the context of the government's policies to step up the rate of industrial growth. Towards this end major fiscal concessions have been extended to business and industry, industrial licensing has been further liberalised, a large number of companies and business houses have been taken out of the ambit of the MRTP Act through a quadrupling of the minimum asset limit and the import policy which is to be in force for the next three years has been so framed as to encourage particularly the import of capital goods to speed up modernisation of industries, automation and computerisation. However, the feeling has been clearly discernible in the government that the above package of measures remains incomplete in one crucial respect—in the absence of complementary changes in the area of industrial relations.

Apart from the general concern for minimising the loss of industrial production resulting from industrial strife, there is apprehension that unless militant trade unionism is firmly curbed it will interfere with the achievement of at least two specific aspects of the government's industrial policies: first, the accent on modernisation and automation and, second, the resolve to allow unprofitable or 'sick' industrial units to be closed down. Opposition from workers and trade unions to the inevitable retrenchment and unemployment is apparently seen as the principal obstacle to the pursuit of these policies and so it is considered necessary to curb the scope for expression of such opposition. It is likely that there is also another consideration which is impelling the government to prepare itself in advance to put down industrial actions by workers: the certainty of a revival of inflation in the economy which will force large sections of the working class to resort to different forms of industrial action just to prevent their real earnings from being eroded. If the government is seen to be unable to curb such actions by workers then it will lose a good measure of the goodwill of business and industry which it has been basking in, especially since the presentation of the Budget and the subsequent announcement of the import policy. This prospect must undoubtedly worry the government.

It is not so material whether or not the government comes forward immediately with new legislation to regulate industrial relations. For, despite what the Prime Minister and the president of the Employers' Federation have said, the fact is that the government already has enough legal powers to crack down on industrial actions by workers. The Industrial Disputes Act, 1947, gives ample powers to the government to intervene in disputes, refer them to adjudication if they are not settled, declare strikes 'illegal' and to prosecute and punish those resorting to 'illegal' strikes. The government can act even more summarily in these respects under the draconian Maintenance of Essential Services legislation. The long and short of it is that as things stand the government already enjoys powers to, if it wishes, declare virtually any strike 'illegal' and to proceed against the concerned workers and trade unions. So it is not really necessary for it to come up with new legislation in order to achieve its objective of curbing strikes and other forms of industrial action by workers. What is material is how the government will exercise its powers. And here the indications are unambiguous.

The government, it has been made clear, regards the maintenance of industrial peace as a vital part of its package of policies to achieve economic growth and modernisation of industry. Workers and their organisations have thus had sufficient forewarning. They have no justification for being complacent, whether the laws governing industrial relations are further tightened or not.

## *Gujarat*

### Killing Continues

THE situation in Gujarat seems to be a peculiar mixture: a kind of stalemate interspersed with frenzied bursts of killing, arson and looting. The latest such burst in Ahmedabad, on the night of May 8, resulted in at least seven deaths.

Coincidentally, earlier on that very day Chief Minister Madhavsinh Solanki had informed Congress(I) MALs, at a meeting in the capital Gandhinagar, that the anti-reservation stir was fully under control, with the necessary precautions taken to prevent any further violence. It could be argued that the absence of any overt trouble during the preceding week or so had misled Solanki into making the statement. But surely as a Chief Minister he would have been aware of the tensions brewing in the period of surface calm.

The three-month old anti-reservation agitation has grown way beyond the leadership of the upper caste students, who initiated it, to acquire a momentum of its own. The original grievance of these students no longer exists. The state government's decision to increase the number of seats reserved for backward castes in educational institutions—which had provoked the upper castes' protest—was retracted weeks ago, yet the Navrachna Samiti, consisting of representatives of upper caste students and their guardians, has not withdrawn its stir. This may be largely because of the disorganised nature of the *ad hoc* Samiti, with factions pulling it in different directions. The Chief Minister has claimed that the opposition parties are out to create trouble, after having been trounced in the Lok Sabha and Assembly polls. The BJP, Janata and Lok Dal leaders of the state are on a hunger strike, demanding normalcy in the state and dismissal of Solanki's ministry.

The government employees belonging to the upper castes have also seized upon the present vulnerability of Solanki's ministry to grab better promotional prospects at the expense of the backward castes. These employees, who constitute a majority of the staff strength, withdrew their indefinite strike after four days on May 7, only after the state government virtually scrapped the caste based promotional system it had introduced in 1981 in government and semi-government services. The Panchayat employees, dissatisfied with being left out in the agreement, are still on strike. And so, for similar reasons, are the junior doctors in the major urban centres.

This then is the backdrop against which the killings in the poorer localities of Ahmedabad took place on May 8. So far well over a hundred persons have lost their lives. And the more violent and persistent of the clashes have reportedly taken place between Hindu upper castes and Muslims. Ahmedabad does have a history of communal clashes—more than 2,000 were killed in the 1969 riots there. The RSS is known to be active in the areas where the recent communal clashes have occurred. Also there are reports of criminal gangs sparking trouble for their own ends. Yet the specific factors which have turned the caste based agitation into communal violence need further exploration.

## *Quran and Courts*

### Right Stand, Wrong Reasons

AT a time when the country is being rocked by serious sectarian violence in Gujarat and Punjab, Justice Padma Khastagir of the Calcutta High Court has in her judicial wisdom created a situation which has been causing grave consternation in government circles in both Calcutta and New Delhi. Though the precise legal implications of Justice Khastagir's action is said to be the subject of dispute between herself and the chief justice of the Calcutta High Court on the one hand and the state's advocate-general and some other lawyers on the other, the fact remains that a petition filed before Justice Khastagir by two non-descript persons demanding the banning of the Quran has not been dismissed outright by her. Although the highly explosive potential of the issue cannot be unclear to anyone, Justice Khastagir is reported to have justified her action in an interview with a newspaper reporter with the plea that "she should not turn down a petition". The newspaper concerned, however, reminds its readers that "a large number of petitions are turned down every year on grounds of irrelevance".

The Calcutta High Court has, of course, a distinctive tradition of not only entertaining all sorts of petitions but also of issuing *ex parte* injunctions based on pleas in writ petitions—a tradition which was recently the subject of a severe stricture by a Supreme Court bench. Moreover, the judicial punctilio claimed by Justice Khastagir has not always served the cause of the aggrieved: quite a few suits filed in the Calcutta High Court by private citizens as well as civil liberty organisations against police officers for alleged murders and tortures of Leftist militants and even innocent people during the period from the late Sixties to the Emergency in the mid-Seventies, were all invariably dismissed by the Calcutta High Court, no doubt in its wisdom.

Chief Minister Jyoti Basu in a statement in the recently concluded session of the state assembly called this particular petition a "totally unprecedented" and a "despicable act". The state government has made a strong plea for its dismissal and the Union government has also decided to join the plea, while the issue is already having predictable national and international repercussions. In Calcutta itself, though the tensions are still happily subdued, it is somewhat unfortunate that the majority of the enlightened members of the High Court Bar Association refused to pass a resolution moved by 70 of its members deploring the fact that the original petition was at all "entertained".

While the West Bengal government's prompt intervention in the case is laudable, the main argument, reportedly prepared by it in support of its prayer for the dismissal of the original petition is not. The Left Front government, of which the CPI(M) is the principal constituent, is reported to have taken the stand that

> the Holy Quran is a divine book and no earthly power can sit upon judgment on it and no court of law has jurisdiction to adjudicate it . . . holy books like the Quran, the Bible, the Gita and the Granth Sahib or their translations cannot be subject matters of adjudication in a court of law . . . all holy scriptures are immune from judicial scrutiny.

The ascription of divine origin to scriptures and placing them unconditionally above law, that is, enlightened public opinion, is not only alien to Marxism and even bourgeois rationalism, but also something which a political leader like Gandhi with his deep religiosity would not countenance. "My belief in Hindu scriptures", he has said, "does not require me to accept every word and every verse as divinely inspired . . . *I decline to be bound by any interpretation, however learned it may be, if it is repugnant to reason or moral sense"* (emphasis added).

If the Left Front government today concedes absolute supremacy of scriptures based on the theory of their divine origin, what would it do tomorrow when the Ananda Margis would approach the court with the demand of staging *tandava* dance on the streets with human skulls and spears claiming justification from some obscure Hindu scriputre of supposedly divine origin?

There are surely enough legal and political arguments to quash the mischievous petition.

## *Bonn Summit*

### Reagan Draws a Blank

RONALD REAGAN went to the Bonn summit with two or three clear objectives. Politically, he sought an endorsement on his stand in regard to the Strategic Defence Initiative or 'Star War' and also his aggressive stance on Nicaragua. On the economic front, he wanted an early date in 1986 for the start of the next round of trade negotiations. He failed on both the fronts and returned home empty-handed, whatever his trumpeteers might say about his European jaunt.

On Nicaragua, not only did he not get an endorsement for his policy stance but also he was roundly criticised by his colleagues at the summit for his premature actions, including the most recent imposition of a trade embargo. Even Margaret Thatcher was not sufficiently supportive.

On Star Wars, the stance taken by the Europeans and Japan was vague. The Europeans are particularly worried on several scores. Firstly, it bothers them that the strong US stance in this regard might make it impossible to reach any accommodation with the Soviet Union on the existing weapons systems. Secondly, they are concerned that should the USA develop a space base or defence system, it might tend to rely less on land-based defences and this might make Europeans more vulnerable. Thirdly, there is the fear that they might be left out of the technological spin-off from the development of the new system of defence. Of course, on this last point the US was willing to share with its partners some, though unspecified, part of the work involved. Was it this offer that muted much of the criticism? Or was it for some other reasons? The fact still remains that Reagan's other colleagues did not consider it politic to be overtly critical, though he failed to secure a ringing endorsement.

It was, however, on the issue of trade negotiations that Reagan fared the worst. Francois Mitterand of France was simply unbending on this subject. No date could be set for trade negotiations unless it was agreed to start deliberations on monetary reform. The US offer to host a conference of developed countries on monetary reform was rejected by him. He clearly saw it as a ruse for doing nothing in the matter. Instead, Mitterand asked for a monetary conference in 1986 with the Third World participating. Of course, Mitterand is also worried that the US pressure for trade negotiations was directed at the agricultural price support policy of the Common Market and therefore demanded an assurance that trade talks would not cover the Common Market's agricultural policy. Although, in the final stages Mitterand was deserted by the other European summiteers, he did not give in to the pressures. This is being widely explained, particularly in the US press, in terms of Mitterand's political problems at home, forgetting that the domestic wicket on which Ronald Reagan has currently been batting is not particularly strong. He is under attack in his own Congress on both Nicaragua and the budget deficit. But to explain the summit's results in these terms is to evade the issue, *viz*, that world monetary reform is most urgently called for to replace the present system of utter dependence on the US dollar.

## *South Africa*

### New Wave of Militancy

THE popular protests which began last year when the white racist regime introduced constitutional changes to provide limited political rights for 'coloureds' and 'Asians' but not the blacks have shown no signs of dying down, despite the most severe repression. In Cape province alone, where some of the bloodiest confrontations have taken place between the regime and black youth, more than 150 persons have been killed in the past four months. In almost every case the police opened fire on unarmed people, but the militancy of the people's struggles has not been dampened. At the recent funeral of 15 blacks killed near Port Elizabeth (such funerals have become a rallying point for protests) no less than 50,000 persons had gathered.

While the confrontations between black youth and the police and the protests directed against those collaborating with the regime have been notable for their intensity, black trade unions have been combining wage struggles at workplaces with political demands. In the Witwatersrand area, a simmering labour dispute involving black workers in the gold mines turned into a major retreat for the owners of the mines. On April 22 the world's biggest gold mine of Val Reefs owned by Anglo-American dismissed 92 black workers for their role in earlier protests at the mines demanding higher wages and an end to racially discriminatory job placements. In the neighbouring Hartebeesfontein mine owned by Anglo Vaals four foremen were similarly dismissed. In protest, 18,000 black workers in these two mines struck work. The companies dismissed 14,400 at Val Reefs and 2,200 at Hartebeesfontein. The National Union of Miners (NUM) which represents 300,000 black miners in 43 gold mines retaliated and for the first time succeeded in thwarting the attempt of the companies to send back the dismissed workers to the black homelands, which has hitherto been used to put down agitations by workers.

The companies had evidently calculated that they could weaken NUM, what with unemployment among the blacks running at 30 per cent and given the relatively high wages in the mines (though black workers get only one-fourth of the wages of the whites and skilled jobs are all reserved for the whites). The calculation misfired and eventually all the dismissed workers had to be taken back. Similar was the experience of the state-owned oil refinery SASOL which decided to teach a lesson to black workers for having struck work to protest against the killing of black youth. All the 6,000 dismissed workers had to be re-employed. In the face of these demonstrations of the collective strength of the black workers, the regime has announced the withdrawal of plants to move 700,000 blacks to new areas.

The strength of the protest actions in South Africa also mark a defeat for the racist regime's strategy of army actions directed against the frontline African states to stop the governments of these countries from extending help to the struggle of the South African blacks. The morale of the South African blacks has not been affected by these efforts to prevent outside help from reaching them.

It is in no small measure due to the strength of the black people's struggle against the racist regime that there are some signs of change in even the US, the bastion of international support to South Africa. The US House of Representatives' Foreign Relations Committee recently

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agreed to recommend legislation banning new investments and export of computers and computer technology to South Africa and import of Krugerrand gold coins from there. Already 24 towns across US have removed $ 2.5 billion from companies and banks doing business in South Africa. Six states have likewise adopted laws banning investment of pension funds and other public money in South Africa and 27 others are considering similar legislation. Black trade unions in South Africa want international solidarity actions to be directed not at imposing economic sanctions which in any case do not work but at compelling multinationals operating in South Africa to stop racial discrimination.

## BUSINESS

# Poor Bear Brunt of Protectionism

IMMEDIATE action is required on a simultaneous basis to deal not only with the problem of protectionism but also that of structural adjustment, in particular if there is to be any significant progress in expanding the share of the developing countries in world production and trade. This is the main conclusion of the UNCTAD secretariat's study of 'Protectionism and Structural Adjustment' published recently.

The study draws attention to the far-reaching extent and intensification in recent years of protective actions in international trade. The share of developing countries' imports subject to non-tariff restrictions is far greater than that of imports from developed market economy countries. This is in part a result of the discriminatory application of such measures, which are clearly evident for textiles, wearing apparel and footwear. For example, in the European Economic Community over 80 per cent on average of existing non-tariff measures in these sectors apply solely (or differentially) to developing countries. However, although these measures are directed primarily against the developing countries, the ratios of imports from these nations to domestic consumption are almost always lower than the ratios of other suppliers. In the EEC, for example, developing countries supplied only about 11 per cent on average of domestic consumption requirements of textiles in 1980 and 12 per cent of footwear requirements. In both cases, this was less than half the import penetration ratio for other suppliers.

The increase in non-tariff measures is also a result of the fact that exports of developing countries fall into sectors experiencing structural adjustment problems, in which little progress was achieved in past liberalisation efforts and there has been an increase in the use of protectionist measures. Moreover, recent developments in terms of both actions of a protectionist nature and the introduction of new legislation in certain import markets reflect a movement not towards the reversal of such protectionism but rather towards an intensification of the past trend. Other UNCTAD studies have for example documented the fact that very high and fluctuating levels of protection in agricultural sectors of some developed market economy countries prevent many developing countries from realising their full potential in this area of production. Then again nominal and effective rates of protection in industrial markets have been shown to escalate in general with the degree of product processing. This is a major constraint on the expansion of processing activity in developing countries; other institutional barriers pertaining to shipping, restrictive business practices, marketing and distribution also combine to limit processing activity in developing countries. Also there is evidence of a growing use of industrial policies with trade interventionist and trade divertionary effects by developed countries. In this way any multilateral liberalisation efforts aimed at diluting tariffs and non-tariff restrictions are effectively negated. It is clear, the study therefore adds, that in tackling the problem of protectionism, a key aspect is transparency concerning policies and practices.

Trade liberalisation efforts focused on the key products of export interest to developing countries would result, whether on a most favoured nation or preferential basis, in a substantial increase in exports from these countries and make a significant contribution towards alleviating their debt problems. Such a liberalisation of trade would seem likely to have only a minor impact on the major importing countries in terms of their economies as a whole.

## *Coal*

### Scarcity amidst Plenty

COAL INDIA (CIL) is in a piquant situation with the mounting stocks of coal even as the consuming industries in several pockets in the country have been complaining about inadequate supplies.

According to the annual report of the Department of Coal laid on the table of the Lok Sabha on April 11, pithead stocks of coal have touched an all-time high of 30.42 mn tonnes at the end of March 1985 compared to 22.69 mn tonnes a year ago. The value of coal stocks at the end of 1984-85 is estimated at Rs 700 crore. Naturally this is putting a severe strain on the finances of CIL which has managed to earn a modest profit of Rs 20 crore in 1984-85 after incurring heavy losses in the past several years.

Total production of coal in 1984-85 was 147.45 mn tonnes against 138.22 mn tonnes in 1983-84, thus registering a growth of 6.7 per cent. Of this, production by Coal India was 130.85 mn tonnes against 121.41 mn tonnes in the previous year. While total production of coal in 1984-85 registered an increase of 9.23 mn tonnes, pithead stocks rose by 7.73 mn tonnes. In other words, apparent consumption of coal in the economy in a year of all round growth was no more than 1.5 mn tonnes.

CIL has blamed shortage of wagons for the mounting pithead stocks of coal while the railways have maintained that they had made available an adequate number of wagons for coal movement. The fact, however, remains that many user industries, particularly in the south, have been affected because of inadequate coal supplies. Tamil Nadu government, which was allowed to import one lakh tonnes of coal for its Tuticorin thermal power plant, has sought to import another consignment of equal quantity from Australia. Textile mills, power houses and major industries in Gujarat too have been facing acute shortage of coal on account of poor allotment and highly irregular loading.

Against this background, it is paradoxical that CIL has decided to regulate its production till September this year with a view to producing 3 mn tonnes less than it could have produced. This decision is aimed at reducing pithead stocks.

There is no denying that the railways have been most unwilling to carry coal and the quantity of coal carried by them was much less than the targeted level in 1984-85. As a matter of fact, alarmed by the dwindling supplies of wagons from the railways, the Departments of Steel and Coal have even offered to divert some of their funds for the manufacture of new wagons on condition that these wagons would be owned by SAIL and CIL and would be used exclusively for carrying goods for these two organisations. An inter-ministerial committee is apparently being set up to consider this proposal. The railways, on their own, plan to add only 5,000 wagons to their fleet during this fiscal year which will not even take care of the overaged wagons that may have to be scrapped.

According to the working group on coal and lignite for the Seventh Plan, total production will have to increase from 147.45 mn tonnes in 1984-85 to 240 mn tonnes in 1989-90 at the rate of an average annual growth of 9.6 per cent. Will the railways be in a position to carry this quantity even if the demand materialises?

In this context it may be noted that the Planning Commission had originally set a target of 165 mn tonnes of coal production by the terminal year of the Sixth Plan (1984-85). Demand for coal in 1984-85 as estimated at that time was 168 mn tonnes. After the mid-term review of the Plan, the production target was lowered to 152 mn tonnes. However, actual production was nearly 5 mn tonnes less than the lowered target and even this lower production created a critical situation for CIL because of huge pithead stocks.

Clearly, a more realistic approach to coal planning and better inter-ministerial co-ordination are called for in the Seventh Plan.

## *Rubber*

### Growers versus Users

THE see-saw tussle between natural rubber growers and users appears to have recently tilted back in favour of the former. Over the past few weeks the ex-plantation price of rubber has jumped up by Rs 3,000 to reach Rs 18,000 per tonne. The rise in the case of graded rubber is even higher.

The All-India Rubber Industries Association (AIRIA) has held inadequate production and slim stocks to be responsible for the price rise. Production of essential rubber goods and also those of daily use by consumers is said to have been affected, especially by small scale units. The Association has responded to the changed situation demanding that the Union government at least fulfil its earlier commitment on natural rubber imports. Reportedly, in October 1984 the government had decided to import about 49,000 tonnes of natural rubber to meet the estimated demand-supply gap during the lean season from February to September 1985; the demand in 1985-86 is estimated at 2.5 lakh tonnes. Thereafter, apparently on account of this decision to import as well as due to the incoming produce, rubber prices began to slide down.

This led to considerable discontent among the growers in Kerala, which accounts for much of the country's output. The growers' lobby plays a crucial role in the state's politics. On the eve of the parliamentary poll the Kerala government announced that a buffer stock of 10,000 tonnes of rubber would be created to protect the interests of the planters. Also, it is said that pressure was exerted on the Union government to reduce natural rubber imports.

The AIRIA claims that the Union government has given in to the planters' pressures. The actual quantum of imports so far, the Association states, has been only 12,000 tonnes, and further imports have been suspended. There has been no official statement about a reduction in rubber imports or for that matter of even about the total quantum of imports decided upon earlier. Contradictory information provided by the lobbies of users and growers is all that is available.

There is though one fairly evident explanation for the spurt in rubber prices, namely the rise in demand for tyres, particularly those of automobiles and two-wheelers. This is bound to be so due to the marketing of sizeable numbers of new brands of automobiles and two-wheelers in the recent past.

As yet no concrete moves have been taken towards establishing a buffer stock. The growers' lobby too does not seem to be pressing for it at the moment. This is possibly partly because there is no fresh produce coming into the market. Also the purpose of preventing prices from slipping down, which the buffer stock was to achieve, is not currently relevant in the buoyant market.

## LETTERS TO EDITOR

### Bhopal Tragedy and Sodium Thiosulphate Controversy

PADMA PRAKASH *(EPW* April 6) raises the relevant issue of proper treatment and relief to the victims of methyl isocyanate (MIC) poisoning and correctly points out the harm which indiscriminate use of corticosteroids and tetracycline might cause, especially in pregnant women. However, in demanding a generous use of sodium thiosulphate (NTS), she inadvertently helps in shifting the debate from the real issue of systematic rehabilitation of these victims to one of finding some miracle treatment.

The alleged benefits of NTS therapy seem to have been invoked by some double-blind study conducted by the Indian Council of Medical Research. It is hard to understand why ICMR chose to subject the victims to NTS in the first place, and then kept the details of this study a closely guarded secret.

NTS is a well-established antidote against *acute* cyanide poisoning (e g, hydrogen cyanide, potassium cyanide, sodium cyanide, etc). However, in order for NTS to serve any purpose, it must be administered immediately after the poisoning. That is why in occupations likely to cause accidental cyanide poisoning, ampules of NTS, and sodium or amyl nitrite, another anitdote, are part of the emergency kit.

NTS increases the metabolism of cyanide to the relatively non-toxic sodium thiocyanate. However, NTS cannot exert any effect once the acute phase of poisoning is over, and by no means 4-5 months later. If the victim survives the first few hours, cyanide will be metabolised whether or not thiosulphate is given to the patient. When cyanide is present in the body in trace amounts, no antidote is required. Enzymes normally present in the body can easily metabolise fair amounts of cyanide.

Indeed both cyanide and thiosulphate are present in the human body in small amounts because we consume foods which contain these substances and cyanide is also present in cigarettes. One cigarette may contain as mcuh as 0.1 mg cyanide. So even if any cyanide or cyanates are paresent, attempts to 'detoxify' them by drugs are not rational.

The victims of the Bhopal gas tragedy were exposed to methyl isocyanate and not to cyanide. MIC is not known to be converted to cyanide. Despite the similarity in terminology MIC and cyanides are biologically very different. Hydrogen cyanide can be inhaled and it is the most toxic cyanides. MIC is even more toxic than hydrogen cyanide.

It is possible that NTS may detoxify methyl isocyanate (MIC) into a less toxic molecule isothiocyanate, although this has not been established. However, even if NTS increases the metabolism of cyanate like it does in the case of cyanide, it is very unlikely that MIC will still be present in the body 4-5 months after the tragedy, unless the victims continue to be exposed to this poison.

My reason for writing this letter is not to discuss the medical effects of NTS but rather to emphasise the relevant issue of proper relief and rehabilitation of the victims. Most of the victims who survived the calamity are suffering from the after-effects of damage that has already been caused or was initiated by MIC on December 3, 1984. Some of them are suffering from lung damage and others may be suffering from damage to the liver, kidney, heart and the nervous system. Some of the damage is permanent and some requires appropriate symptomatic treatment. Where possible, the treatment should be directed towards specific complaints. This requires individualised care and there cannot be any universal treatment at this stage. There is no justification for subjecting these patients to useless drugs which can only do harm and offer little benefit. For example, if a patient develops infection, which will occur more frequently in the gas victims, appropriate antibiotics should be given. Routine administration of sodium thiosulphate, glucocorticoids, antibiotics, etc, is of no proven value and is potentially harmful.

All those seriously concerned with the unfortunate victims of MIC poisoning should first and foremost demand a proper home, adequate nutrition and assured income to all victims. The victims should be given jobs which do not demand excessive physical exertion. This is what they need and not mass scale drug therapy. They have already paid a heavy price for the crimes of UCIL and the callousness of the Indian authorities. They should not be made guinea-pigs for the random trial of drugs nor should they be exploited as a market by the pharmaceutical companies.

D R VARMA

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## Politics of Propertied Classes in Gujarat

I AM writing this with reference to the ghastly violence of April 22 and 23 in Bapunagar and Naroda industrial areas of Ahmedabad. I am referring to these incidents without going into the anti-reservation agitation (about which I have many reservations) and other events in Ahmedabad, since even by themselves these incidents reveal the nature of forces engaged in the orgy of violence. In the land of Gandhi—in direct anti-thesis to the much talked about Gandhian values of secularism, upliftment of harijans and non-violence—we witnessed communalism and casteism directed mainly against harijans and macabre violence.

On April 22, in Ambedkarnagar, a harijan colony in Naroda, two hundred and fifty houses were looted and burnt and a harijan woman was killed. Every resident I talked to gave the same names for the main leaders of the attacking mob. One name is that of a notorious gangster in whose name an illegal settlement stands across the railway track from Ambedkarnagar and other is that of his son who is a ruling party corporator. Both are commonly known to have the ex-home minister of Gujarat as their mentor.

On the late night of April 22 and early morning of April 23, Muslims residing in Indira Garib Nagar, in Bapunagar, were attacked by the residents of the surrounding colonies. About a thousand houses of Muslims were looted, burnt and had their belongings demolished and at least twenty-five persons were killed and injured, mainly fleeing Muslims in mob attack and police firing. According to the Muslim residents, the police was present all the time since a police chawki is right near the spot of the incident. However, the police did not stop the mob attack on Muslims. On the contrary, the police encouraged the mob to attack the Muslims. The entire attack, including looting and burning, lasted at least eight hours in the vicinity of a police chawki. The mob was incited, managed and led by the gangsters and 'pahelwans' whose men were instrumental in first creating tension, then mob frenzy and finally violence. Some of the gangsters named by affected Muslims are even office-bearers of political parties and most of them are well connected with political parties, both ruling and opposition.

These gangsters are not unknown to anyone familiar with those areas. I have participated in workers' struggles against these gangsters since one of their tasks is to break strikes and terrorise workers. The gangster involved in the attack on harijans in Ambedkarnagar was the most notorious of the strike-breakers, until his image was hurt in 1982 when his men were beaten up by agitation workers in the Rakhial area. Mentored by politicians, pampered by industrialists, and befriended by police these gangsters are involved in making hooch to running gambling dens to grabbing and selling public land illegally. In June 1982 I had made a representation to the police commissioner about the illegal harassment and terrorisation of workers by this gang and hundreds of workers participated in a week-long demonstration and agitation in front of the police commissioner's office, albeit without getting any positive help from the police.

The same gangsters have today turned out to be the leaders in perpetrating casteist and communal violence in Bapunagar and Naroda. Industrialists need them to suppress the workers. Election candidates need their support and network to grab votes. Shamefully, the MPs and MLAs from these areas cannot boast of any work among the workers in the area and have to rely on these gangsters for votes.

In Gujarat, the ruling party, opposition and industrialists keep the facade of Gandhism, they talk of secularism and non-violence, maintain Gandhian forms such as wearing khadi and white cap and organising ashrams through public funds—but their political base and support is increasingly rooted in gangsters and not in the masses. The propertied classes and their representatives cannot practice such principles, Gandhian or any other, which can divert them from accumulating more property by the quickest and easiest means. They need gangsters to corrupt and suppress the working people and when necessary to divide them by using even the most naked forms of organised criminal vandalism. In the politics of propertied classes, who are in a rush to grab, loot and beat one another to be among the first to 'enter the twenty-first century', the large section of common people including the middle classes are left with a meagre number of jobs or few seats in higher education (with or without reservation) over which they can continue to fight and kill each other. Politicians can keep them in that game and criminals can lead them in organised mutual killings—so that the rich can continue uninterruptedly to loot the wealth created by the labour of these same common people.

Engaged in their vulgar politics, the ruling propertied classes in the country have obviously found no need to instil genuine secular consciousness in the people. Thus the sentiments of casteism and communalism are definitely there in the masses and, incited and guided by criminals, they do participate in communal and casteist violence. The incidents in Bapunagar and Naroda are acts of criminal vandalism organised by inciting communal and casteist frenzy. Though the situation is dismal and the schism between the working people has widened, the guilty are also isolated and stand exposed. They can be defeated and they must be defeated. Progressive and secular people must work among common people to defeat the vulgar politics surviving on criminals' support.

P R SHUKLA

Ahmedabad

# Waiting for a National Consultation

**Romesh Thapar**

I HOPE the message is going home to those who exercise political power in these troubled times. A little bit of flexibility and responsiveness has earned dividends in Punjab. The way is being cleared for more give-and-take, despite the crazy elements. If the correction is handled with understanding, and without undue importance being attached to the terrorist attempts to throw us into confusion again, there is every possibility of major breakthroughs.

It would be naive to expect an instant dissolution of all tensions. Too many distortions have taken place, and the Hindu-Sikh divide is nourished on a whole lot of historical concoctions which need open and fearless debate and rebuttal on the electronic media. What's more, the terrorists will continue to prowl. They must not be confused with the Sikh community at large, and every effort must be made to narrow their support-base.

The optimism that is beginning to surface after two grim years is reflected in the general reaction to the call by a section of Sikhs that the re-built Akal Takht should be pulled down and built again, presumably in purity. "Well, it's their business. Let them do as they will." If anyone is entitled to interfere, it is Sikh opinion itself—that is, if it can mobilise against adventurer Akalis and opportunist Jathedars.

It is for the Sikh community, better organised than it is at the moment, to put its own house in order. There are many layers of trauma that engulf its members. 'Identity' was demanded, and the end result is minority status. It will take a long time to adjust to this condition, particularly where the more affluent Sikh sections with India-wide interests are concerned. Then, again, a variety of angers might persuade some to honour the assassins and their families, or to turn a hysterical preacher like Bhindranwale into a guru. There will be others in the community to question these desecrations of a faith and a tradition. Clearly, these matters are best left to the community.

The dominant Hindu has to learn to be enlightened, to turn on himself to see what his own contribution has been to the enactment of the Punjab turbulence and its terrible aftermath. If such an exercise is encouraged, particularly by the practitioners of Congress power who don't quite know when they lost their secular and democratic moorings, we might well emerge from this crisis in a healthier frame of mind.

I sincerely hope so, for already the Gujarat events are casting long shadows over this sub-continent. The political balance of his rather prosperous state will never be the same again. The caste wars, conducted with a brutality and criminality never witnessed before (no, not even in communal confrontations!), and involving the supposedly impartial constabulary (and, now, even striking government servants), will require a fundamental revision of our reservation and promotion policies for the whole sub-continent. This cannot any more be done without a national consultation, remembering that we would be stupid to turn our back on backwardness.

A few basic inputs need to be injected into our political assessment. All the religious mumbo-jumbo in Punjab is a cover for the Sikh desire to rule politically in "their" part of India even as the reservation and anti-reservation collision represents a battle to establish that quotas in government education and in government jobs must reflect the numerical percentages of the castes (lower, middle and upper, for simplification) irrespective of merit. In other words, much of the turbulence in India is around populist political power and patronage, and the fact that we no longer have *netas* whose rationality is respected.

Is this understood in democratic depth? I don't think so. The impression is widespread in the changed India of today that a very marked presence in the bureaucracy and in the professions is the key to the future, that this key can no longer be the preserve of the traditional ruling 'minorities', the Brahmins, the Rajputs, and, to some extent, the Banias. What happened many years ago in South India is now seeing a dramatic enactment elsewhere on the sub-continent. Gujarat today. Madhya Pradesh tomorrow. And so on.

Statistics show that despite the emotion expended, the quotas are not filled. The reasons are many. What is of interest is the desire of the new rising castes, particularly those in the middle (describing themselves as 'backward'), to somehow get into the bureaucratic machine where the real power resides. This is the new consciousness.

How do we deal with the problem of growing incompetence in a bureaucracy manned increasingly through a reservationist system of selection? Do we carefully reduce the power of the bureaucracy through meaingful autonomous structures? What is the future of governance as we have known it? Has the over-grown linguistic state to be replaced by smaller, more integral units? The questioning should cut new ground, and help expose our bogus 'principles' of governance.

The drift in our affairs, stretching over several years of manipulated, criminalised and communalised politics, has to be halted by a national consultation wide enough to pack the influence to condition thinking over the sub-continent through a rational and just consensus. There is no escape from this urgent task whatever the quality of leadership available at this moment.

There is an amalgam of hope and hopelessness which has to be catalysed before the alienated, unemployed lumpen mobs, often linked to the underworld, set fire to the achievements of 38 years of freedom and deliver us to the care of armoured carriers with sten-gunners. Military control, let us remember, invariably brings relief, but only temporarily.

All over India, the disintegration of the norms, disciplines and accountabilities of a democratic, federal state is visible. We only focus on the explosive collisions, but there are so many districts in the sub-continent which are already the very private preserve of local police and local politician. No government writ really runs in these areas, and all the surface signs suggest that these aberrations are acceptable, that we are asked to live with them.

No party attempts a sustained effort to break the power of this modern *thugee*. If the ruling Congress is for ever lampooning the Opposition, even describing it as something dependent on foreign props and inspirations, the Opposition waits for a chance to swing the vote and to do unto the Congress what has been done unto it. These are amoral games of profit. No alternatives are involved.

Unless these alternatives are fashioned by every possible means available to us to involve the people in the organisation of their life and its management, the confusion and chaos will continue to spread. We keeping hoping for a change, even vote for change, but the hopelessness returns to us because actually nothing really changes. The lobbyists for the corrupt *status quo*, or for a more irresponsible money-making spree, are too active, too entrenched. We are in a tunnel, and there is no light at the end. Yes, one needs a cliche to describe a cliche situation.

*May 3.*

# STATISTICS

| **Index Numbers of Wholesale Prices** (1970-71 ≐ 100) | Weights | Latest Week (13-4-85) | Variation (Per Cent) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85++ | In 83-84 | In 82-83 | In 81-82 |
| All ommodities | 1000 | 347.9 | 2.3 | 7.5 | 0.9 | 7.2 | 9.2 | 2.6 | 9.3 |
| Primary Articles | 417 | 324.9 | 1.1 | 5.1 | 0.4 | 5.1 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 299.8 | 0.9 | 6.5 | 0.2 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 315.7 | 2.2 | 4.0 | 1.0 | 3.7 | 15.7 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 555.6 | 6.6 | 9.5 | 1.9 | 7.3 | 6.7 | 7.5 | 20.7 |
| Manufactured Products | 499 | 331.8 | 2.1 | 9.0 | 1.1 | 8.9 | 8.3 | 0.6 | 5.2 |

| **Cost of Living Index** | Base | Latest Month | Variation (Per Cent) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Over Last Month | Over Last Year | Over March 1984 | In 83-84 | In 82-83 | In 81-82 | In 80-81 |
| For Industrial Workers | 1960 = 100 | $585^2$ | −0.5 | 4.3 | 4.8 | 12.6 | 7.8 | 12.5 | 11.4 |
| For Urban Non-Manual Employees | 1960 = 100 | $538^1$ | 0.2 | 6.8 | 6.5 | 10.3 | 8.0 | 11.9 | 11.8 |
| For Agricultural Labourers | July 60 to June 61 = 100 | $523^1$ | 0.2 | — | 1.8 | 11.4 | 5.2 | 12.4 | 9.7 |

| **Money and Banking** | Unit | Latest Week (12-4-85) | Variation Rs Crore (Per Cent in Brackets) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85++ | In 83-84++ | In 82-83 | In 81-82 |
| Money Supply ($M_3$) | Rs Crore | 1,02,136 | 1,405<br>(1.4) | 15,237<br>(17.5) | 7,815<br>(8.3) | 14,651<br>(17.1) | 13,031<br>(17.9) | 10,442<br>(16.7) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 50,685 | 699 | 8,589 | 4,455 | 6,509 | 5,757 | 4,734 | 4;965 |
| Bank Credit to Commercial Sector | Rs Crore | 69,506 | 516 | 9,230 | 4,791 | 9,320 | 8,830 | 8,797 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 2,991 | 516 | 1,431 | 809 | 1,419 | −140 | −895 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 71,996 | 919<br>(1.3) | 11,536<br>(19.1) | 810<br>(1.1) | 10,590<br>(17.5) | 9,451<br>(17.8) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets** | Rs Crore | 6,953 | 500 | 1,475 | 8 | 1,463<br>(26.7) | 1,233<br>(28.9) | 911<br>(27.2) | −1,468<br>(−30.4) |

| **Index Numbers of Industrial Production** (1970 = 100) | Weights | Latest Month | Average of Months* | | Variation (Per Cent) | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | 1984 | 1983 | In 1984++ | In 1983++ | In 1982 | In 1981 | In 1980 |
| General Index | 100.00 | $206.6^{12}$ | 191.6 | 179.7 | 6.6 | 4.8 | 4.2 | 9.3 | 0.8 |
| Basic Industries | 32.28 | $239.6^{10}$ | 237.5 | 210.7 | 12.7 | 5.5 | 7.9 | 14.6 | −1.0 |
| Capital Goods Industries | 15.25 | $197.1^{10}$ | 206.7 | 183.3 | 12.8 | 3.3 | −1.2 | 7.6 | 4.6 |
| Intermediate Goods Industries | 20.95 | $163.4^{10}$ | 161.8 | 158.5 | 2.1 | 7.7 | 2.2 | 3.7 | 0.8 |
| Consumer Goods Industries | 31.52 | $146.5^{10}$ | 156.4 | 156.6 | −0.1 | 0.5 | 5.6 | 8.2 | 0.4 |
| Durable Goods | 3.41 | $191.8^{10}$ | 189.0 | 167.1 | 13.1 | 0.1 | 3.6 | −0.1 | 3.5 |
| Non-Durable Goods | 28.11 | $147.5^{10}$ | 153.2 | 155.4 | −1.4 | −0.1 | 6.5 | 9.3 | — |

| **Foreign Trade** | Unit | Latest Month (Jan 85) | Cumulative for* | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | 1984-85+ | 1983-84+ | 1983-84 | 1982-83 | 1981-82 | 1980-81 | 1979-80 |
| Exports | Rs Crore | 994 | 9,258 | 8,131 | 9,866<br>(11.7) | 8,834<br>(13.2) | 7,803<br>(16.3) | 6,711<br>(3.9) | 6,459<br>(12.8) |
| Imports | Rs Crore | 1,977 | 13,122 | 12,625 | 15,763<br>( 9.8) | 14,360<br>(5.0) | 13,671<br>(9.2) | 12,524<br>(40.6) | 8,908<br>(30.7) |
| Balances of Trade | Rs Crore | −983 | −3,864 | −4,494 | −5,897 | −5,526 | −5,868 | −5,813 | −2,449 |

| **Employment Exchange Statistics** | Unit | Latest Month (Nov 84) | Cumulative for* | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | 1984 | 1983 | 1983 | 1982 | 1981 | 1980 | 1979 |
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,649 | 23,649 | 21,707 | 21,953<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) | 14,334<br>(13.1) |
| Number of Registrations | Thousand | 447 | 5,991 | 6,019 | 6,555<br>(11.8) | 5,862<br>(−6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) | 6,132<br>(15.1) |
| Number of Vacancies Notified | Thousand | 51 | 686 | 784 | 828<br>(1.0) | 820<br>(−8.4) | 895<br>(6.6) | 840<br>(−4.1) | 876<br>(5.8) |
| Number of Placements | Thousand | 30 | 376 | 456 | 486<br>(2.5) | 474<br>(−6.1) | 505<br>(5.2) | 480<br>(2.6) | 468<br>(2.6) |

* For current year upto latest month for which data are available and for corresponding period of last year.
** Excluding gold and SDRs
+ Variation in current year upto latest month for which data are available over corresponding period of last year.
+ + Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript[1] indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

# When Soviet Union Attacks France . . .!

**GPD**

WE had no idea that we might have to return to the subject of films so soon after we wrote about the Radha-Krishna affair in Bangladesh. Now, however, the gem of film-making under discussion comes from Paris. It seems one Yves Montand has produced a two-hour 'semi-documentary' film for the television entitled "Confronted by War" in which a Russian army of the future is shown invading France. Those who are interested in 'form' and things like that might see many possibilities in the futuristic documentary that this film claims to be. Why the *Times* of London described the film as a semi-documentary, we do not know.

The Russians, of course, got very angry. The embassy said that despite an early protest to the French Foreign Ministry while the programme was being prepared, "this filthy lie against the Soviet people was nevertheless shown on French public service television . . . The inaction of the French authorities in this affair amounts to tacit approval of the propaganda of sentiments of animosity and distrust towards the Soviet people."

The embassy further noted the timing of the film. The fortieth anniversary of the victory over fascism is being celebrated. Right at that hour comes Montand's filmic achievement. The timing made it worse all right; but the Russians' sense of anger would not have been any the less sharp had the film been made last year or the next year.

These games are not new. In 1960 came out a novel by a chap called Constantin Fitz Gibbon entitled "When the Kissing Had to Stop". Fitz Gibbon obviously was of the impression that, like the censors of Indian films, the socialitsts from Moscow do not like to kiss. At any rate his novel is about the Soviet takeover of Britain. The result of course is that the kissing had to stop. But the Fitz Gibbon story ended with the words "it was a wet autumn and cold winter in England". For us Indians, this seems to be always the case. For Fitz Gibbon, however, this was the result of the Soviet takeover, through their cronies. As a political thriller the novel was bad, a shade boring, one cannot read two hundred and fifty pages to discover that it was a wet autumn and cold winter in England. More painful and also more dastardly was the "wet autumn and cold winter" introduced by the Americans in Indochina. In Indochina the living, let alone the kissing, had to stop. Fitz Gibbon was not worried about that. So as the Americans were busy taking over Vietnam, Fitz Gibbon was producing political thrillers about the Soviet takeover of little England.

Montand has done something similar, except that he has done so on the Idiot Box. Giving extraordinary importance to films, its excessive glamorisation result in the extraordinary sensitivity with which people react to whatever appears on the screen. The Russian reaction was, therefore, understandable. That the French television should have shown this film when the Socialist Mitterand is in power must have been particularly galling. The French Communist Party was understandably very angry and *L'Humanite* described the film as "a gross operation of bellicose propaganda telecommanded by the Elysee". One can be reasonably certain that the controversy must have died a natural death by this time. A little celluloid storm contributing, no doubt, to Montand's popularity and attaching a certain curiosity value to his film.

The interesting part of the whole story, however, is that Montand had been a long-standing Communist activist himself. It is very strange indeed that after every other worthy in the world had declared the Soviet Union as anything over but a socialist state and the 'party' as the worst plague that can take over those who wish well of humanity, so much of propaganda talent is wasted on them. With the arrival of Eurocommunism there is little to choose between the communists and social democrats in West Europe. It will require the sense of fine classification and distinction of Sanskrit grammarians to see the difference anyway. Why are the Montands of the world concentrating their fire on the not-so-socialist Soviet Union is a mystery. Perhaps Deng Xiaoping might know. In the meanwhile one thing seems to be certain. Whatever might have happened to the socialists in Moscow or in Beijing for that matter, anti-communists have not changed much. This is the reason why the turncoats or anybody else who is available is being used in the new cold war introduced by Carter and actively promoted by Reagan.

The curiosity value of the Montand film is not limited to this alone. The French government confirmed the receipt of the Soviet note of protest. The explanation that it gave was, however, interesting. The French foreign office said that it rejected the protest note because of its "extreme tone" and because the French government respected the principle of freedom of information. A film about a "future" attack on France by the Soviets constitutes "information" in that country. It might be interesting for some Asian state or a Latin American state to make a film about a "future" attack on that state by France. It would be nice to find out what Mitterand and his friends think about it.

**THE MARXIST**

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# Legislation on Phone-Tapping

**A G Noorani**

THE Interception of Communications Bill introduced in the British House of Commons recently deserves careful study in India. As the White Paper on the subject published in February 1985 (Cmnd 9438) recalled, "The European Court of Human Rights gave judgment in August 1984 in the Malone Case, which concerned telephone interception on behalf of the police. The Court acknowledged that detailed procedures existed governing the interception of communications and interception under these procedures was lawful under English law. It concluded, however, that the law did not indicate with reasonable clarity the scope and manner of exercise of the discretion conferred on the public authorities. In an earlier case in 1978 (involving the Federal Republic of Germany) the Court had recognised the necessity of legislative powers to intercept communications in strictly defined and limited circumstances. The relevant Articles of the European Convention on Human Rights are set out in Annex I with references to the two cased cited." The cases are Klass and Others decided on July 4, 1978, and the Malone case decided on August 2, 1984. The relevant provision is Article 8 of the European Convention for the Protection of Human Rights and Fundamental Freedoms. It embodies the right to respect for a man's "private and family life, his home and his correspondence".

Now this is precisely the guarantee embodied in Article 21 of our Constitution. 'Personal liberty' which it guarantees includes all those categories listed in Article 8. Curbs on 'personal liberty' can only be made under the authority of a law which, in turn, must not be violative of other fundamental rights such as those embodied in Article 19—free speech, etc.

Britain is enacting legislation in order to conform to the Court's ruling. Hence the safeguards provided for in the legislation. The point is that without the safeguards—especially that of an independent Tribunal—the Indian law is violative of Articles 19 and 21 and is therefore unconstitutional.

Clause 2 empowers the Secretary of State himself—not a civil servant or Police Commissioner—to issue a warrant for phone-tapping in three cases only: "in the interests of national security", "for the purpose of preventing or detecting serious crime", and "for the purpose of safeguarding the economic well-being of the United Kingdom". In the last of these three cases, the information sought must relate to the acts of persons outside the country.

The Bill proceeds to lay down detailed requirements of a valid warrant. It must be signed by the Home Secretary himself save "in an urgent case" when it can be signed by a civil servant expressly authorised by him.

The Home Secretary is enjoined by clause 6 of the Bill to ensure that certain safeguards are observed in order to minimise the invasion of privacy—the extent of disclosure of the material intercepted, the number of persons to whom it is disclosed, extent to which the material is copied, the number of copies, etc.

A Tribunal will be set up. "Any person who believes that communications sent to or by him have been intercepted in the course of their transmission by post or by means of a public telecommunication system may apply to the Tribunal for an investigation under this system." Thus the Tribunal will consider complaints of phone-tapping as well as postal interception. Indeed the entire discussion above is fully applicable to postal interception.

The Tribunal will investigate whether there is a relevant warrant and a relevant certificate containing the details. If there has been such a contravention, the Tribunal will "report" accordingly to the Prime Minister herself giving its "findings" and give a "notice" to the applicant "stating the conclusion". Note the differences between the two intimations.

The Tribunal is empowered also to make an order quashing the warrant or the certificate, direct destruction of the copies of the intercepted material, and direct the Home Secretary to pay compensation to the applicant. No appeal lies against the decision of the Tribunal nor can it be questioned in any Court.

The Prime Minister is directed to appoint as Commissioner a former High Court Judge or a person who has held high judicial office to keep under review the warrants issued by the Secretary of State and to assist the Tribunal. The Commissioner reports directly to the Prime Minister any cases of contravention which he detects. He also submits an annual report which is placed before Parliament—subject to deletion of material prejudicial to national security or the prevention or detection of crime or the economic well-being of the realm.

It is made an offence intentionally to intercept a communication except in accordance with the provisions of the new law. But proceedings can be launched only by the Director of Public Prosecutions.

The Tribunal will consist of as many as five persons each of whom shall be lawyers of at least ten years' standing. They are appointed each for a five-year term. There will be a President and a Vice-President of the Tribunal. In short, it will be a high-powered body. The Tribunal will determine its own procedure.

These are the barest minimum safeguards. Without them the Indian law—Section 5(2) of the Indian Telegraph Act, 1885 and Section 26 of the Indian Post Office Act, 1889, which respectively enable phone-tapping and mail interception—are violative of fundamental rights and therefore unconstitutional.

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# Getting Ready for Competition

**Hansavivek**

*MAHINDRA AND MAHINDRA* has shown good results for 1983-84 with higher production, sales and profits. Turnover amounted to Rs 368.33 crore against Rs 314.01 crore in the previous year and gross profit increased fom Rs 22.63 crore to Rs 26.91 crore, reflecting a modest improvement in margins. These results have been obtained despite pressure on costs. Net profit is Rs 14.59 crore (Rs 13.52 crore). Dividend is lowered by two points to 18 per cent, but is payable on the capital enlarged by the bonus issue. The increased quantum of distribution is still covered 4.23 times as against 5.85 times previously.

The company produced 32,788 vehicles against 32,077 in the previous year and sold 32,607 against 32,201, even though exports to Iran dropped from 2,976 to 1,829. Sales of spare parts inclusive of petrol and diesel engines rose to Rs 16.30 crore from Rs 13.78 crore. The Igatpuri plant produced Peugeot diesel engine model XDP 4.90 with progressively higher deletions. The International Tractor division fared very well with record production and sales of tractors. The number of tractors produced increased from 11,901 to 15,900 and the number sold from 12,507 to 15,754. The company increased its market share from 17.3 per cent to 19.7 per cent. Sales of spare parts, kits, attachments and implements were Rs 9.64 crore against Rs 8.14 crore. Total foreign exchange earnings from export of vehicles fully built-up and completely knocked down, tractors, spare parts, merchant and deemed exports amounted to Rs 20.84 crore. The instrumentation division's sales of instruments and spares amounted to Rs 1.46 crore against Rs 1.44 crore. The division executed an order for 15 sets of hydraulic regulators, manufactured under the new collaboration agreement with Comp-Air Industrial, UK. The division has concluded selling agency agreements for a range of new instrumentation products manufactured by Pyrosystems, Madras, and Controls and Automation (India), Hyderabad.

The steel division had to contend with depressed conditions in the international steel market. USA imposed restrictions on steel imports in order to protect its domestic steel industry. Most of the steel exporting countries were keen on obtaining a share of India's steel import business and there was severe competition in this sphere of activity. The market for special steel in India improved which brought about overall improvement in the performance of the division. In line with the previous year's performance, the machine tools division secured orders worth Rs 6.07 crore, of which orders worth Rs 4.45 crore were executed. It has a healthy order carry forward of Rs 5.70 crore in spite of recessionary trends prevailing with user industries. This performance has been possible because of the steps taken to broaden the division's base of activity by acquiring new franchises for high technology machine tools from Japan and USA. The new franchises have a good market potential. Efforts are continuing to further widen the base of the division's activity.

**The Week's Companies** *(Rs Lakh)*

| | | Mahindra & Mahindra | | Pressure Cookers | | Excel Industries | |
|---|---|---|---|---|---|---|---|
| | | Latest Year 31-10-84 | Last Year 31-10-83 | Latest Year 30-9-84 | Last Year 30-9-83 | Latest Year 30-9-84 | Last Year 30-9-83 |
| Paid-up Capital | | 2082 | 1319 | 131 | 131 | 462 | 257 |
| Reserves | | 8051 | 4433 | 164 | 142 | 559 | 724 |
| Borrowings | | 11774 | 9318 | 144 | 185 | 1748 | 1157 |
| *of which* Term borrowings | | 4722 | 4212 | — | — | 159 | 164 |
| Gross fixed assets | | 16057 | 9876 | 267 | 259 | 1916 | 1841 |
| Net fixed assets | | 12635 | 7298 | 137 | 124 | 1119 | 1006 |
| Investments | | 533 | 471 | 4 | 4 | 50 | 40 |
| Current liabilities | | 5727 | 4891 | 417 | 292 | 598 | 543 |
| Current assets | | 14278 | 12003 | 715 | 622 | 2199 | 1635 |
| Stocks | | 8732 | 7269 | 292 | 253 | 1335 | 1149 |
| Book debts | | 3370 | 3103 | 239 | 237 | 598 | 288 |
| Net sales | | 36833 | 31401 | 1871 | 1437 | 4059 | 3790 |
| Other income | | 773 | 571 | 11 | 11 | 142 | 110 |
| Raw material costs | | 24194 | 21014 | 868 | 684 | 2144 | 2137 |
| Wages | | 5194 | 4212 | 214 | 188 | 486 | 421 |
| Interest | | 1688 | 1337 | 27 | 43 | 268 | 154 |
| Gross profit (+)/loss (–) | | 2691 | 2263 | 156 | 90 | 291 | 458 |
| Depreciation provision | | 1057 | 741 | 18 | 18 | 169 | 141 |
| Tax provision | | 175 | 170 | 86 | 46 | 14 | 35 |
| Net profit (+)/loss (–) | | 1459 | 1352 | 52 | 26 | 108 | 282 |
| Investment allowance reserve | | 500 | 450 | 1 | — | 31 | 86 |
| Transfer to reserves | | 597 | 656 | 21 | 5 | 8 | 132 |
| Dividend | | | | | | | |
| Amount | P | 19 | 18 | — | — | — | — |
| | E | 343 | 228 | 30 | 21 | 69 | 64 |
| Rate (per cent) | P | 9.80 | 9.80 | — | — | — | — |
| | E | 18 | 20 | 19 | 16 | 15 | 25 |
| Cover (times) | | 4.23 | 5.85 | 1.73 | 1.24 | 1.56 | 4.41 |
| *Ratios* (per cent) | | | | | | | |
| Gross profit/sales | | 7.31 | 7.21 | 8.33 | 6.26 | 7.17 | 12.01 |
| Net profit/capital employed | | 21.49 | 23.55 | 17.63 | 9.52 | 15.78 | 28.74 |
| Inventories/sales | | 23.21 | 23.15 | 15.61 | 17.63 | 32.89 | 30.32 |
| Wages/sales | | 14.10 | 13.41 | 11.44 | 13.08 | 11.97 | 11.11 |

The proposal to amalgamate Mahindra Spicer with the company with effect from April 3, 1984 was approved by shareholders of both the companies. The company is awaiting the necessary approval of the Central government, under the MRTP Act, and the final sanction of Bombay High Court. Commenting on the current year's prospects, the directors say that in the first quarter the company produced 8,024 vehicles as against 6,572 in the corresponding period last year and sold 6,485 against 5,222. In the case of tractors, production and sales have been 3,606 and 3,286 as against 3,452 and 3,520 respectively. In regard to the vehicles, the directors point out that with the liberalisation of the government's policy and with the entry into the market of new manufacturing units, the market situation will be much more competitive. Efforts are being made to meet this situation, they add.

*PRESSURE COOKERS AND APPLIANCES*, after intensive R and D for some years, has introduced a new model pressure cooker 'Hawkins Futura' with outstanding beauty and extra safety and convenience features. It has been well received in Australia and is being launched in India. Meanwhile, the company has received from the government re-endorsement of its registered capacity from seven lakh numbers pressure cookers to 9.93 lakh numbers per annum. In its silver jubilee year ended September 1984, the company has shown good results with higher production, sales and profits. On sales of Rs 18.71 crore against Rs 14.37 crore in the previous year, gross profit has risen from Rs 90 lakh to Rs 156 lakh. These figures reflect enhanced profit margins. This is particularly significant, since the company had to contend with active competition in the market from over 40 brands of pressure cookers and the 20 per cent disallowance on advertising and sales promotion expenditure for the computation of tax. The directors point out that this disallowance has resulted in reducing the company's profit after tax by about Rs 11 lakh. Net profit doubled to Rs 52 lakh. Dividend has been stepped up three points to 19 per cent which is still covered 1.73 times by earnings as against 1.24 times previously.

*EXCEL INDUSTRIES* has suffered a setback in its working during 1983-84 with gross profit declining from the previous year's Rs 4.58 crore to Rs 2.91 crore despite increase in sales from Rs 37.90 crore to Rs 40.59 crore. These figures show a significant deterioration of margins. The management attributes this outcome to an increase in competition with the introduction of synthetic pyrethroids coupled with increased cost of inputs and substantial rise in interest on borrowings. The increase in cost could not be passed on to the customers due to the prevailing market conditions. Net profit is only Rs 108 lakh compared to the previous year's Rs 282 lakh. The directors have recommended a dividend of 15 per cent on the enlarged capital, which is covered 1.56 times by earnings as against 4.41 times previously when the company had paid 25 per cent on the old capital. The company has fared well on the export front with exports of Rs 4.24 crore against Rs 3.76 crore previously. It incurred capital expenditure of Rs 190 lakh to expand and modernise the existing plants and for the installation of new plants.

The company is implementing at Bhavnagar its programme to manufacture butene diol, which is one of the basic raw materials for manufacture of endosulfan. The first phase of the project is expected to be over this year and the second phase by the middle of the next year. This will reduce the cost of manufacture of endosulfan. In respect of its plant for manufacture of ceramics, the company has signed an agreement with Agrob Anlagenbau, West Germany, for the import of plant and machinery. The plant is expected to commence production during 1985-86. In keeping with its policy as a corporate citizen, the company is shifting its manufacturing operations away from the cities as far as possible. Accordingly, in addition to the Roha site, it has taken a plot of land at Lote Parshuram, near Chiplun in Maharashtra. The company's major activities will be coming up at Roha and Lote Parshuram. A plant for manufacture of glyphosate, a world renowned weedicide, is being installed at Roha. This will be ready for commissioning this year. The plant to manufacture sodium penta chloro phenol is in offing at Lote Parshuram.

*SWARAJ MAZDA* is coming to the market with an issue of 47,24,930 equity shares of Rs 10 each at par to raise a part of the finance required for its Rs 48 crore project for manufacture of 10,000 light commercial vehicles per annum. Out of this issue, 10 lakh shares have been reserved for preferential allotment to non-resident Indians and persons of Indian origin settled abroad. The subscription list for NRIs is opening on May 6 and for the Indian public on May 24. The company has been promoted by Punjab Tractors in technical and financial collaboration with Mazda Motor Corporation and Sumitomo Corporation, both of Japan. Punjab Tractors has contributed 29 per cent of the equity capital of Rs 10.50 crore and the two Japanese firms 26 per cent. Punjab Tractors is engaged in the manufacture of tractors, self-propelled harvester combines and automotive castings. It has a good track record of growth and the book value of its ten rupee equity share exceeds Rs 60. Mazda is a world leader in automotive innovation. It is Japan's third and world's ninth largest automobile manufacturer. Sumitomo is one of Japan's largest trading houses with diversified business interests extending to automobiles, iron and steel, chemicals, textiles, etc. The project has been set up at village Arson in Punjab, 45 km from Chandigarh. Trial production has already commenced and commercial production will start from July 1985. The project is being implemented in three phases. The first two phases, estimated to cost Rs 32 crore, have been implemented. The last phase, which will involve a capital outlay of about Rs 16 crore, will be taken up later and would be financed largely by borrowings and internal cash accruals. According to Chandra Mohan, Vice Chairman and Managing Director, the company's product is Mazda's latest T-3500 diesel truck with a load carrying capacity of 3.5 tonnes. Introduced in Japan in 1984, this model has become a market leader. Highly fuel-efficient, this LCV is ideal for Indian road conditions. The demand for LCVs has been steadily growing and is expected to be in the region of 81,000 to 1,00,000 numbers by 1990. Investors in the issue will be entitled to 80 CC and Wealth Tax benefits. The public issue is managed by DSP Financial Consultants and the Merchant Banking Division of Indian Overseas Bank. Citibank is a co-manager to the issue.

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# Cheers for Congress Socialism

**BM**

CHEERS have gone up from self-styled leftists and socialists of many hues inside the ruling party and others associated with it in various ways for the strength of what is called 'Congress culture' which is supposed to have been on glittering display at the first session of the All-India Committee of the Congress(I) under the presidentship of Rajiv Gandhi and at the centenary celebrations of the Indian National Congress. The word socialism had been conspicuously missing at Congress(I) talking shops in recent months. This had made the leftists and socialists referred to above nervous, more markedly after the presentation of the first Budget of Rajiv Gandhi's government. But apparently socialism is back in fashion in the ruling party and everything is now all right, in spite of the budget, the import-export policy, and much else. The leftists and socialists regard this as a triumph of their faith in the Congress culture. What they call the Indian brand of socialism is now safe in the hands of Rajiv Gandhi.

Before the Congress(I) session, which dutifully elected Rajiv Gandhi president of the Congress(I) and thus confirmed his position as the supreme leader of the ruling party, these leftists and socialists had begun laborious exercises to re-interpret socialism of the Congress(I) variety. This was prompted by the praise and support which spokesmen of big business interests, Indian and foreign, were extending to what were euphemistically called the pragmatic economic policies of the new government. This had greatly embarrassed the leftists. But their faith in the ruling family and its progressive credentials being unshakable, they took it upon themselves to indulge in some ideological gymnastics to justify the government's policies.

Fine distinctions began to be made between socialist pattern and socialism and between the Indian brand of socialism and classical socialism. The more clever went so far as to suggest that the Nehru precept of socialist pattern should not be vulgarised by loose talk of full-fledged socialism. Difficulties in arriving at a proper perception of what was happening under the leadership of Nehru's grandson had arisen, according to them, because of such vulgarisation, presumably under the somewhat impetuous leadership of Indira Gandhi. The socialist pattern did not bar the growth of private enterprise. There was need, in fact, for encouraging investment in the private sector. Hence the budget of the new government of Rajiv Gandhi fully conformed to the socialist pattern as originally conceived. It, therefore, deserved to be supported rather than criticised by leftists and socialists.

But, in spite of such ingenious explanations, misgivings still persisted among the so-called leftists and socialists, inside and outside the ruling party. These misgivings apparently found articulation at various levels within the party, including in the Congress(I) Working Committee, as well as among supporters formally outside the party. There was no doubt, of course, about their loyalty to the leader. But the Congress(I) leadership and Rajiv Gandhi seem to have been persuaded to respond more warmly than would have been the case in the past to the sentiments of the rank and file. The AICC resolution on economic policy had been originally framed in a stridently modern idiom such as has been used in recent months by Rajiv Gandhi and his close friends and admirers. But the resolution was suitably amended to accommodate the more archaic sentiments of socialism and leftism in the party.

The setbacks in the assembly elections and the bye-elections must have influenced the adoption of a more accommodating response to populist sentiment. But the amendments to the resolution on economic policy have been duly hailed by interested quarters as a return to socialism of the Congress(I) variety. The distinctive quality of Congress culture is claimed to be its ability to respond to the sentiments of all classes—feudal and capitalist as well as peasant and proletariat—and to 'democratically' reconcile their clashing interests. With the use of the magic word of socialism in the AICC resolution and speeches all doubts on this score are claimed to have been resolved for the leftist and socialist admirers of the Congress(I) and its leader.

As for those who had earlier hailed and still hail the government's pragmatic policy changes, they are shrewed enough not to be upset by more words. They understand that one feature of the Congress culture is the hiatus between words and deeds and so long as the government's deeds suit their interests, the party leadership should feel free to indulge in socialist rhetoric. The most striking aspect of the AICC session, therefore, has been the ability and willingness of the Prime Minister to learn the ropes and adapt himsef to the demands of the so-called Congress culture.

It was as part of the rhetoric that the Prime Minister affirmed that there would be no cut in the size of the Seventh Plan or in the outlay on public sector industrial and commerical enterprises and on mass welfare programmes. How exactly he proposed to restore the cuts already made by the Budget of his government for 1985-86 was, of course, not considered. In this context it is relevant to point out that the Prime Minister has quite casually twice postponed meetings of the full Planning Commission proposed for finalising the size of the Seventh Plan, taking into account the allocations made in the Budget for the first year of the Plan and the overall resources position during the Plan period in the light of the fiscal policies and investment priorities of the government as outlined in the Budget.

The question of giving final shape to the Plan, including its overall size, is indeed being side-lined in a cavalier fashion. The Planning Commission's meetings with the state governments on their annual and Five-Year Plans are admittedly aimed only at arriving at 'working arrangements'. Such exercises in make-believe planning in Yojana Bhawan cannot hide the fact that serious and effective planning is at a discount under the present political dispensation. The position actually appears to be worse than it was in the era of what is called the Plan holiday in the sixties. Then annual plans were at least attempted to be drawn up with more application and dedication.

It is also not fortuitous in this context that what is called the 'trickle down' theory has been abruptly raised by interested quarters as a subject of serious discussion. This has received a big impetus from a study of the National Council of Applied Economic Research which claims that there has been a steady improvement between 1970-71 and 1981-82 in the consumption standards of the poorest segments of rural households and, what is more, a fall in the consumption standards of the upper income brackets. On this basis it is implied that there is no need for any special poverty alleviation programme and growth by itself should be the prime concern. It is also implied that the benefits of growth achieved by relying on market forces, without attempting to force the pace of savings among the upper income brackets to find resources for the public sector development plan, would in due course trickle down and thereby resolve the problems of growth as well as poverty.

The Deputy Chairman of the Planning Commission must have felt quite awkward when he was called upon to preside over the release of the NCAER study. He tried his best to sound a note of caution against wild conclusions being drawn from the supposed findings of the study. While Manmohan Singh noted that lower income levels in rural areas had benefited from growth and that the argument that growth did not trickle down at all may not be wholly valid, he urged that an integrated national planning effort was nevertheless needed to effectively tackle the problem of poverty in the country. He also sharply questioned the assumption that the country had reached the "end of the road" in resource mobilisation for public sector investment and strongly urged that the problem of additional resource mobilisation be tackled "here and now" Within the limitations of the office he holds, Manmohan Singh went as far he could to publicly plead for effective development planning—a responsibility which is being evaded or avoided by the political authority. It is not clear whether the planners can feel a little more reassured about their role after the latest demonstrative left-ward lurch by the ruling party. There is no evidence that deeds will follow words in the critical area of resource mobilisation for planned investment according to a socially meaningful order of priorities, let alone advance towards a socialist order. As matters stand, and going by deeds rather than words, the official scheme of things will, as Manmohan Singh so well put it, open out ways for 100 million Indians to enter the 21st century while 700 million remain in the 19th century.

# Black Laws in Punjab

## Report of an Enquiry

IN October 1983 Punjab was put under President's rule. This was followed by a spate of laws: Punjab Disturbed Areas Act, 1983, the Chandigarh Disturbed Areas Act, 1983, the National Security (Amendment) Acts, 1984, the Armed Forces (Punjab and Chandigarh) Special Powers Act, 1983, the Code of Criminal Procedure (Punjab Amendment) Act, 1983, and finally the Terrorist Affected Areas (Special Courts) Act, 1984.

These laws give extraordinary powers to the army, police and the judiciary and have the effect of bypassing all safeguards incorporated in the ordinary criminal law to ensure a fair trial and legal justice. This question has been pushed to the background by a succession of events: the army action in June 1984, the assassination of the Prime Minister in October 1984 followed by widespread massacre of Sikhs. The events preceding President's rule and those following thereafter have traumatised Punjab and the entire country and left in their wake a grave communal situation. In this context, the continuance of the above laws in Punjab acquires a new and troubling significance.

The government rationale for these laws is that they are necessary to deal with extremist violence. It is not our contention that no danger exists from communally-motivated terrorist violence. But nor can it be the contention of any sane person that the entire Sikh community is guilty of 'extremism'. And yet by the imposition of these laws the entire people of Punjab are being deprived of the rights guaranteed in the Constitution and thousands of ordinary citizens being made to bear the brunt of their operation.

This was the finding of a fact-finding team sent by the People's Union for Democratic Rights, Delhi, in March 1985. The task of the team was to investigate the impact of these laws on ordinary people and whether the laws were effective in terms of their stated objectives. The investigation revealed that not only were the laws ineffective with regard to their stated purpose, but worse, are helping to further communal alienation and create a climate favourable for communal terrorism. This is a consequence of the anti-democratic nature of the laws and the wide scope they provide for arbitrary and indiscriminate application.

The evidence documented in the PUDR report relates in the main to what followed after the army entry in the Golden Temple in June 1984. Combing operations were undertaken in the rural areas, and those arrested from both the Golden Temple and the villages were placed in army camps. These included women and small children. At Amritsar there were four such camps. After the army was removed, the police has been continuing its search for terrorists and making indiscriminate arrests. The number of arrests remain disputed and unverifiable (at present, the government figures for those in custody are around 850). While some of those arrested were released, the rest were transferred to different jails and placed under the jurisdiction of various Special Courts, the most important being the Jodhpur Special Court.

The information collected points to widespread use of torture, fabrication of evidence, severe harassment of families of which male members are missing/absconding, mindless and arbitrary use of laws often either to settle personal scores or to teach a lesson to anyone who dares to voice any protest against anti-democratic laws and procedures. Specific attention was given in our investigation to the functioning of the Special Courts to which a substantial portion of the report is devoted.

### I

The Terrorist-Affected Areas (Special Courts) Ordinance was promulgated on July 14, 1984—10 days before Parliament was to sit. The Act was passed to "provide for speedy trials of certain offences of terrorist-affected areas and for matters connected therewith". The Sate of Punjab and Union Territory of Chandigarh were declared "terrorist-affected" in August 1984. Three judicial zones were created each with a Special Court. The Special Courts were established at Patiala, Jullandhar and Ferozepur. Subsequently seven Additional Special Courts were set up: two at Amritsar and one each at Hoshiarpur, Ludhiana, Patiala, Bhatinda and Chandigarh.

Anyone who has committed almost any crime can be tried in a Special Court. The definition of terrorist is itself wide enough to include just about anyone.

Section 3(h) defines a terrorist: "a person who indulges in wanton killing of persons or in violence or in the disruption of services or means of communications essential to the community or in damaging property with a view to:

(i) putting the public or any section of the public in fear; or

(ii) affecting adversely the harmony between different religious, racial, language or regional groups or castes or communities; or

(iii) covering or overthrowing the government established by law; or

(iv) endangering the sovereignty and integrity of India."

Thus any person committing any offence listed in the schedule can be tried in a Special Court. In fact section 7(1) (b) of the Act states that all other cases involving scheduled offences committed in such area pending before any court shall be transferred to the Special Court. The schedule in the Act has been expanded to include offences ranging from offences against the state to criminal intimidation. Even a person wholly unconnected with terrorist activity can be tried under the Special Court. For instance, at Amritsar in the Additional Special Court of Additional Special Courts Judge G L Chopra a case is pending involving a murder committed in a village. The incident occurred on the night of January 7/8, 1985 at village Thada, Kathu Nangal P S, district Amritsar. FIR No 9/85 records that Mahendra Kaur, her husband Dayal Singh and their elder son had gone to their tubewell to irrigate their fields. The elder son was away; the husband and wife were sleeping in the tubewell room ('bambi') with the door open when one Kewal Singh and another man are alleged to have entered and hacked Dayal Singh with a 'datar' (sickle).

Another case, FIR No 97/84 also pending before the Additional Special Court at Amritsar, involves a dispute between brothers of village Jethuwal. One of them, Karnail Singh, is alleged to have given kirpan blows to his brothers, his niece and sister-in-law. This case came up at the Jallandhar Special Court and was later transferred to the Additional Special Court of G L Chopra at Amritsar. Again case FIR No 250/84 of August 29, 1984 relates to a dispute over the sharing of land within the family at village Sidhar, P S Beas, district Amritsar, leading to murder. The son and daughter-in-law along with two grandsons of the deceased have been arrested. Their case came up before the Jullandhar Special Court and from there it has been transferred to the Additional Special Court at Hoshiarpur 200 km from Amritsar.

Each case first comes up before the Special Court at the zone level and then it is transferred to any of the seven additional Special Courts. Now all criminal cases involving offences in the schedule are tried by these Special Courts. The police can present the challan within a period upto one year. This means the person can be held as undertrial upto one year without the possibility of bail or recording his confession. This has opened avenues for the police to make money by accepting bribes in order to present the challan. A person finds himself in jail without conviction for a year in offences where if found guilty he would be given a few months' imprisonment.

The bulk of the cases in the Special Courts relate to offences under the Arms Act. The way out for those who are alleged to have committed an offence under this Act is to confess and be released. At Amritsar of the 27 cases disposed of in the Court of H S Sahni 26 were confessions and one was transferred.

Worse, the work that was being done by 18 sessions and addl sessions Judges plus about 25 magistrates is now being done by three Special Courts and seven Additional Special Courts. This itself defeats the purpose of the Act.

As a result of this the dates of hearing fixed are with gaps of 6-8 months, sometimes longer. This is not taking into account the delay in filing charges after detaining the accused. Some examples are given below:

(1) State *vs* Ajit Singh: The accused was chargesheeted on 19.10.84 and the next date of hearing is fixed for 28.8.85. This case has been transferred from Jullandhar to Amritsar. After transfer the date is likely to be extended.

(2) State *vs* Buta and others: A case under Sec 302 from village Jalalpura. Accused chargesheeted on January 21, 1985. Next date of hearing is November 1, 1985.

(3) State *vs* Jagtar Singh, etc: Case under Sec 302 from village Sudhar. Accused chargesheeted on March 15, 1985. Next date of hearing is December 9, 1985.

(4) State *vs* Vishwanath and others: A case under Sec 307 IPC. Accused chargesheeted on November 15, 1984. Next date of hearing is November 15, 1985.

(5) State *vs* Gurdip Ram: Case of Karunpur village in Jullandhar district under Sec 302. Accused chargesheeted on 20.10.84. Next date of hearing fixed for 9.9.85.

(6) State *vs* Lal Singh, R/o Lamma Pind, district Jullandhar: A case under Sec 307. Charges framed on November 2, 1984. Next date of hearing September 27, 1985.

(7) State *vs* Bakhtamar Singh, R/o Jandiala, district Jullandhar: Charged under IPC 302. Arrested on July 24, 1984. Chargesheeted on January 1, 1985. Trial to begin on October 1, 1985.

(8) State *vs* Daljit Singh, R/o Harpura village, district Gurdaspur under Sec IPC 302: date of arrest January 30, 1984. Procedure for framing charges began on June 18, 1984 and chargesheeted on November 12, 1984. Trial fixed for November 22, 1985.

Both Hindu and Sikh advocates told us that it was virtually impossible to get bail in Special Courts even in ordinary criminal cases, which are bailable, since the police are not obliged to produce challans for a year. Under the Act no one can get anticipatory bail and there are severe limitations on granting of bail.

In Manohar Singh *vs* State of Punjab (SLP) (609 of 1985) the Supreme Court released the appellants (the accused) on bail after the Jullandhar Special Court had refused. This was a case in which the appellants were accused under S 153 A, IPC of stopping a rickshaw carrying two Sikhs wearing black turbans and exhorting them: "get united and we shall drive out Hindus from the State". This was an incident which was supposed to have taken place on June 28, 1984 but no challan was presented at the Court till February 22, 1985. The first informant (on whose basis the FIR is supposed to have been filed) made a statement before the Deputy Commissioner, Gurdaspur, denying that he had ever made such a complaint. A copy of the affidavit of the first informant disavowing all knowledge of the incident was presented before the Judicial Magistrate, Batala. Amar Chand, the rickshaw-puller also filed an affidavit before the Special Court stating that he was not a witness to any such incident. Despite this the Special Court at Jullandhar rejected the bail application on 11.11.84. The accused were released on bail by the Supreme Court by the order of Justices A P Sen and D P Madan.

According to Minister of State for Home Affairs (March 28) there were, as on March 22, 1985, 3,264 cases pending in Special Courts. While 1,785 trials were completed out of 1,976 trials being conducted, in 744 cases there were confessions. We were told that most of these were charges under Arms Act (1983) where even a pen-knife (with a 5 cm blade) is considered illegal. Though the punishment is usually a few days' imprisonment or fine, in most cases the accused have spent months in police custody.

On the day the PUDR team visited Amritsar, there were 724 cases pending before the two additional Special Courts, the majority are offences under the Arms Act. The undertrials who have been languishing in jail have moved the High Court and the Inspecting Judges of the High Court that the Special Courts were giving very long dates. The former has directed them to give shorter dates.

The Special Courts violate Articles 14 (right to equality) and 21 (personal liberty).

(1) Ordinary criminals in other parts are not tried by Special Courts.

(2) Keeping accused in jail over such long periods amounts to violation of the first principle of criminal law—accused is presumed to be innocent until found guilty.

(3) The Special Courts do not distinguish between classes of offenders, i e, between people accused of being terrorists and people accused of offences arising out of family disputes, rent, etc.

(4) The ordinary class of alleged offenders are being denied: (a) anticipatory bail, (b) bail in bailable or non-bailable cases as under ordinary criminal law, (c) the witnesses can remain anonymous and thus cross-examination is defeated, (d) the trial is in camera, so protection of open trial is denied, (d) the trial does not take place in the place where the offence is supposed to have been committed (where cause of action arose) but at far away places making it difficult for lawyers; witnesses and the defence, and (f) right to appeal is to Supreme Court and within 30 days, instead of having the opportunity of moving the High Court and the Supreme Court. Besides the appeal time is 90 days normally.

### JODHPUR SPECIAL COURT

Under Sec 4 of the Act the state government can request the Central government to set up a Special Court at any place outside the state. It is under this provision that a Special Court has been made in Jodhpur inside the jail with elaborate safety measures. The trial of 379 alleged terrorists is to be held there.

The chargesheet has been submitted. The 379 persons have been chargesheeted under S 121 of the Indian Penal Code read with S 25 and 27 of the Arms Act. S 121 is the offence of waging war against the state. If a person is accused of an offence under S 121 then under the Act he will be presumed to be guilty unless he can prove his innocence. S 20 states that if a person "had been at a place in such area at a time when fire-arms or explosives were used at/from that place to attack or resist the members of any armed forces or the forces charged with the maintenance of public order acting in the discharge of their duties, it shall be presumed, unless the contrary is shown, that such person had committed such offence".

All the 379 have been given the same chargesheet. All were arrested from the Golden Temple. The advocates preparing the defence of these 379 people are up against a wall. They have not been given a list of witnesses. This makes it virtually impossible to prepare a defence. If a person was at the Golden Temple but had nothing to do with the terrorists, how is he going to prove his innocence? If the "identity and address of the witness" can be kept "secret" under S 13 (2) once again no defence can be conducted to question the authenticity of witness's statement.

Take the case of Inderjeet Kaur, she is a woman of about 35 years, a housewife and mother of four children. Inderjeet Kaur and her family live at Atta Mandi, near the Golden Temple. Inderjit and her friend Paramjeet visited the Golden Temple every morning. Just before Operation Bluestar, the BSF had set up a camp in their building. Both Inderjeet's family and Paramjeet's family gave water, sherbet and food to the BSF and as a result were threatened by extremists. On June 4, 1984 the two women got up early and as usual they started off for the Golden Temple. The BSF had become friendly and allowed them to go. Paramjeet never returned. Her husband has had no official intimation. Inderjeet sustained bullet injuries and was in hospital. Then she was at a military camp. All the time her husband was assured that she would be released. But she was transferred to Nabha jail under NSA. The grounds for arrest are cyclostyled and is identical for each person. She said the Advisory Board has not confirmed her detention but she was transferred to Jodhpur.

Meanwhile her husband has received a letter (No Teh/RR/1250-1400, December 12, 1984) from the Deputy Commissioner asking her to put in her claim for relief. This particular aspect also highlights the contradictions of official action. The fact that the government is providing Amarjeet Kaur compensation for injuries sustained at Golden Temple, for which a verification is supposed to be done by the CID, indicates that she had nothing to do with terrorists. Yet she is being tried at Jodhpur. There are other similar instances of persons who have received claims for compensation while simultaneously facing trial at Jodhpur Special Court.

What makes the official proceedings even more dubious are the 'confessions' of persons like Inderjeet Kaur, barring the change in name and other particulars, all the detenus picked up from Golden Temple were detained under NSA and served with cyclostyled grounds of arrest and confessions supposedly made by them. A copy of one such cyclostyled statement is given below:

> Stated that I am a resident of Atta Mandi, Amritsar and I am a member of All-India Sikh Students Federation and Dal Khalsa. Bhai Amrik Singh was President of these organisations. These organisations were associated with Sant Bhindranwale and we all acted according to the dictates of Sant Jarnail Singh Bhindranwale. In order to maintain the independent entity of Sikhs, our aim was to establish a separate state (Khalistan) with a separate Constitution. In order to fulfil this mission we gathered lots of arms, ammunitions, bombs and explosives from the foreign countries. So that for the achievement of the Sikh state Khalistan we should be able to strike the government. To fulfil this object six thousand persons were collected to whom arms training was imparted by retired Maj Gen Shubheg Singh. We kept our objective secret from the visitors to Darbar Sahib Amritsar and also the government. On 5-6-84 the security forces deployed around Darbar Sahib gave us warning to come out of Darbar Sahib. About 120 persons came out of Darbar Sahib on their warning. We were in groups. Due to this firing by the security forces continued upto 10-8-84. Following were the active members of our organisation.
>
> I and these persons participated vigorously. At last the security forces arrested us after entering into Darbar Sahib. Many of our workers were killed during the encounter with the army. The army seized lots of arms or ammunitions from the vicinity of Darbar Sahib. Apart from this many Pakistan army officers conspired with us and fought against the government. The government with the help of army has destroyed Durbar Sahib by firing on it and killing the Sikhs. We will vindicate this by killing four for each Sikh killed. Even if we are released, we will again collect arms and with our supporters fight for making Khalistan a separate state.

## II

On October 15, 1983, the Armed Forces (Punjab and Chandigarh) Special Powers Ordinance was promulgated. Later, in December it became an Act. Like the previous laws passed by the government to curb terrorism, this too has become a permanent part of the statute book. It is under this law that the armed forces get extraordinary powers and their acts get legal sanction.

This Act is almost a replication of the Armed Forces (Assam and Manipur) Special Powers Act, 1958. It is significant that when the earlier Act was being discussed in Parliament many members, including those belonging to the ruling party, expressed their misgivings. The then Chairman of the Rajya Sabha pointed out that once an area is declared disturbed and authority is transferred to the military to deal with the situation, "the civil authority will have no control over the situation".

Under Sections of the Act even junior officers have vast powers to search, seize and arrest people at any time of the day or night, without any warrant. Even a non-commissioned officer has power to shoot someone on mere suspicion that he may disturb public order. There is no check at all on the actions of the army and the ordinary citizen who becomes a victim of the army's arbitrary powers is left without any channel for the redressal of his or her grievances. A person whose relative is picked up by the army in the dead of the night has no way of knowing where to search for the missing person; a person whose property is looted by the army cannot recover it; a person tortured by the army has no way of getting relief through the law courts. For Section 7 of the Act lays down: "No prosecution, suit or other legal proceeding shall be instituted, except with the previous sanction of the Central government, against any person in respect of anything done or purported to be done in exercise of the powers conferred by this Act."

During the army action at the Golden Temple there were many cases of indiscriminate killing of ordinary people including unarmed women and children. The post-mortem reports state that some killed had their hands tied behind their backs. These killings include 16 sewadars of Baba Kharak Singh from gurudwara Dera Baba Sham Singh, located 50 yards from the Golden Temple. Baba Kharak Singh is an old, revered sant and a pacifist. On June 7, sixteen of his men, including 70 year-old Joginder Singh and 18 year-old Harde Singh were pulled out from the Dera, their hands tied behind the back, made to walk through the streets of Aita Mandi Bazar, and were shot dead opposite the DCM shop by BSF personnel. Soldiers belonging to the Bihar regiment and the BSF also looted the store of the Dera and decamped with things worth Rs 70,000 and half a kg of gold. This was reported to us by the granthi of the Gurudwara. The report of the looting and killing was confirmed by an eye-witness.

The sweeping powers given to the army and the scope provided therein for their misuse is indicated in the four cases given below. The first is given in some detail as it encapsulates the experience of others who have been similarly victimised.

(1) RS is a respectable citizen who following a quarrel with some of his colleagues was denounced to the authorities as a supporter of Bhindranwale. One night his house was surrounded by the army, he and his family brusquely woken up, and the house searched for weapons. When none was found, a pistol was ordered by the officers in charge to be placed under some garbage and the police accompanying the army told to recover it. Then some of the male members of the family and RS were taken away by the army. While the other family members were released the next day, RS was detained, for interrogation.

RS was blindfolded and taken to some place which he could not recognise. He was pressurised to confess that he was a follower of Bhindranwale which he refused to do, stating that he had publicly been opposed to him. The commanding officer hit him severe blows in the chest and abdomen. All day he had not been given any food to eat. When he wanted to go to toilet they bound his hands and took him out with a sten gun placed on his neck. He urinated and vomitted blood. Next day he was blindfolded and taken to an unknown place and from there to an army camp at Amritsar. For the first few days he was kept in a cell 12′ × 15′ with 28 others and then shifted to a cell of 6′ × 8′ in a barrack which had 6 people in each cell. He was kept here for 35 days. During the initial period of detention he was physically tortured every day. The normal torture entailed being hit with fists and rifle butts. Occasionally they gave him electric shocks on his soles. Every kind of humiliation was heaped on him. One day soldiers asked him to clean a room full of bidi and cigarette butts and when he refused saying as a Sikh he could not touch them he was hit in the back with a rifle butt. He fell unconscious. He also spoke about a sadistic practice at the army camp. Officers used to enter the camp at night, drunk, and threaten to cut the prisoners to pieces and choose one person from among the detenus for their night-time pleasure. The unlucky prisoner had his skin all raw at the end of the 'game' as he was flayed with a wet cane. "It was like being thrown in hell." The food was rotten and detenus ate it only because it was a question of survival. One havaldar was described as being like Amjad Khan in Sholay. He used to talk in that smooth threatening tone saying he would win more stars for what he was doing to them. RS said they saw the people arrested from the premises of the Golden Temple, but was afraid to talk to them in case they too were branded terrorists. There was a boy of eight years arrested from the Golden Temple who used to cry and was roughly treated by armymen. "I don't mind admitting that we also cried seeing him".

There was a chargesheet against RS which was withdrawn. Since no viable case could be made out against him they later charged him under Section 107 for shouting slogans against Santa Singh. The case too was quashed and he was released. He was left at night on a street in Amritsar, with broken ribs and in such a bad physical condition that he could barely stand.

RS was not given any copy of FIR and his whereabouts were not known to any relative.

(2) Parduman Singh a journalist from Hoshiarpur was detained by police and handed over to the army for eight days (FIR No 143, P S Sadar, Hoshiarpur) for publishing a report about some persons in military uniform who had looted a bus during the first phase of army operations. A young woman, Kamlesh Kumari, who had informed the journalist, and had herself lost her ear-rings, etc, too was detained under the same FIR 143 and handed over to army authorities. The woman and journalist were charged with conspiring "to overthrow the Central government by force and wanting to form Khalistan". All this was said to be on the basis of "reliable information". The advocate defending the journalist, Jaswinder Singh Parmar of Hoshiarpur, was then detained on July 16 and interrogated by the army for defending the journalist. Another advocate Kehar Singh Gill too was arrested and interrogated about matters considered confidential between advocates and clients. The army authorities obviously not only did not like anybody writing what they consider as portraying the army in an unfavourable light, but also disliked any lawyer defending persons they had chargesheeted.

(3) Gurbux Singh, s/o Teja Singh from village Khajala (district Amritsar) was picked up from Khajala on June 6, 1984. His licensed .38 revolver along with 3 cartridges of 9 mm bore were taken away. On June 18, 1984 FIR No 160/84 was registered against him at Chowk Mehta Police Station under the Arms Act, 1983. Thereafter he was sent to Amritsar army cantonment. Having been detained for two months he was handed over to police who promptly rearrested him under NSA mentioning that Gurbux Singh was arrested by the armed forces from Golden Temple while fighting against armed forces during first week of June 1984. The NSA advisory board quashed the order and he was released.

(4) In another instance, charges of sedition were filed by army for criticising army action and the accused declared absconders even when they were present in the city. Maj Gen Narinder Singh (retd), Brig Joginder Singh Dhillon (retd) and Navrang Singh were charged with sedition. In the FIR No 460/84 dated July 15, 1984 registered at PS East Chandigarh the accused were said to have made provocative speeches. The Executive Magistrate, Chandigarh, issued a proclamation on December 17, 1984 that "Joginder Singh Dhillon has absconded or is concealing himself" and demanding presence by January 30, 1985 in his court of the accused. Similar proclamations were issued against the other two co-accused. This despite the fact that all the three were present in Chandigarh at thier residences.

### TORTURE AND HARASSMENT

The most notorious case of torture and harassment is that of 92 detenus who were taken from Nabha Central Jail to Ladha Kothi between 30-8-84 and 11-1-85 and subjected to third degree methods. This sordid affair was exposed when Justice S S Sodhi, vigilence judge, sessions division at Patiala visited the Central Jail at Patiala and Nabha. During his visit the people picked up from the Golden Temple and detained under NSA complained of the tortures. Justice Sodhi directed an enquiry and the report was submitted to the Court. According to the enquiry report, between August 30, 1984 to January 11, 1985, 92 detenus were taken from Nabha jail (district Patiala) to Ladha Kothi (district Sangrur) in batches of 3-8 persons. The report says:

> Their statements reveal two common modes of torture—one is use of extra thick pestle, like mini-log which is placed on the thighs of the detenus with one or two persons standing on it. The detenu is made to lie on the floor prostrate or supine. The pestle which load thereon is then rotated over the thighs. If the position is prostrate, then the lower leg is bent over the pestle and pressed against it. Surface of the pestle being smooth and wrapped in a cloth does not cause any outward injury on the thigh.
>
> The second mode of torture which is described to be more painful consists of stretching the legs apart to an unbearable extent. The detenu is made to sit on a plain surface with one person supporting his back with his knees and pulling his long hair backwards. The legs are held at the ankle level by different persons and pulled apart. The legs on reaching a particular angle cause acute pain which on persistance result into swooning.
>
> The detenus at Ladha Kothi are not accorded the treatment due to them. They are locked up in individual cells and are kept in solitary confinement all the 24 hours except for the period when they are subjected to interrogation and torture. They are served food in the very cells and are also required to make water and ease themselves within the four corners of their cells.
>
> After going round the premises of Ladha Kothi, I got the impression that it was just an interrogation centre and it possessed least trappings of a Central Jail. There seems no jusitification for shifting small batches of detenus from Nabha jail to Ladha Kothi. The detenus stated that their shiftings from Nabha jail to Ladha Kothi were only a camouflage for taking them out from Nabha jail and to bye-pass the requirement of law to produce them before a Judicial Magistrate for being remanded to police custody for their interrogation in some new case.

In the second phase, the army was withdrawn from the villages. Hence the more recent cases of victimisation in rural areas are by the police. The police has been spreading a reign of terror by nightly visits, illegal detention and illegal attachment of property of families of wanted persons. Below we give four sample cases of families being terrorised because some male member is absconding/missing:

(1) The police have lodged FIR No 11J/84 at P S Jandiala on the basis of secret information that one Kuldip Singh is a terrorist. The man is missing but the police have arrested his father, Bachan Singh aged 70, his mother aged 60, his brother, his married sister and her two children aged 8 and 2½ years. All have been in jail since 24-2-1985. The case was to come up at Jallundhar Special Court for bail on 15-4-1985.

(2) HS is a resident of village close to Taran Taran in Amritsar district. He has three sons. His youngest son BS aged 23 years had been active in Akali agitation and led jathas. Early last year there was a case of explosion at a temple near his village. Significantly, the FIR did not mention his name. On June 23, 1984 army posted in this area came to interrogate him. Not being able to locate him they took into custody the father and his taxis were taken to the police thana. Then began a series of long periods of arrests. HS was released on June 30, rearrested with two other sons on July 25, released on August 26, taken into custody once again on September 25, to be released on September 30, rearrested on October 15 and once again released on November 3. Thereafter his sons and two nephews were

detained to be released only in mid-March 1985. BS is till absconding. All this, even though the priest in the local temple and other persons all deny any involvement of BS. The detention of these persons and the taxis and closure of their shop has ment severe economic loss for the family.

(3) CS is son of JS in district Amritsar. He is accused of being involved in a case of murder on June 4. The accused was earlier a member of the then banned AISSF. CS went into hiding. Then began a reign of terror for the family. His mother was kept in police custody for five months. She was released but the brother-in-law of the accused and a cousin were picked up and detained for 2½ months. Apart from detention the house was sealed, the goats, cows, etc, were taken away. Rice which was being harvested was taken away and auctioned ostensibly to pay for the upkeep of the animals. Yet the police demanded Rs 5,000 from the family for fodder. The 80 year-old grandmother of the boy was asked to leave the village and persons even remotely associated were threatened. The land remains uncultivated since last June and the family has left the village to escape being harassed.

(4) NS, son of BS, in village T near Amritsar. On October 5, 1984, he was arrested in connection with an incident of firing nearby. Four days later, the family members who had gone to visit the accused were told that the boy was with the DSP Bua Singh. However, the same night the police raided the house claiming that the accused had escaped. Thirteen members of the family were taken into custody, including the women. Next morning eight persons were released. But four young women of the family were kept for eight days and one of the brothers for 23 days. He was rearrested and kept for a month and another brother was also taken into detention. Since mid-March they have been free, but as a result of the more than five months' harassment, they could not sow the winter crop. It is noteworthy that not once any of the persons detained were produced before any magistrate. No warrant was ever shown. And with all this, the prisoners were even made to pay for their food.

It is such daily occurrences that upset people the most. The blatant injustice of persecuting family members of missing perons—including as it does illegal detention, torture, humiliation of women, jailing even of minors and old people, and economic hardship—cannot but alienate the people. It should be noted that according to the villagers interviewed, many young men absconded because of the occurrences of 'encounter' deaths in the districts of Amritsar and Gurdaspur. Rather than surrender and face certain death, they have fled. Others have fled because of the terror created by the police.

### CONCLUSION

The enquiry points to serious and widespread violation of the fundamental rights of the people through both the use and the misuse of the black laws enacted in Punjab. The extraordinary powers bestowed on the army, the police and courts have resulted in alienating the people, breeding resentment, and creating discontent. As the principal targets in the implementation of these laws are members of the Sikh community, this has very harmful implications given the communal situation.

Cases are piling up in the Special Courts, hundreds of people are under threat of conviction on the evidence of anonymous witnesses and corroborative evidence, and memories of humiliation and torture are being kept alive by fresh incidents.

Both urban and rural areas have felt the harsh impact of these laws. The government has in the name of stamping out terrorism passed laws which have become a permanent part of the law of the land and are applicable all over the country.

The laws have not only failed in their stated objective, but have created an atmosphere of terror among ordinary citizens. What is more, by blocking all channels of legitimate protest and dissent, they are throttling those very forces of democratic and secular opinion which can best combat communalism and help restore normalcy.

# Sri Lanka's Ethnic Conflict and Muslims

### Qadri Ismail

"ALL this time people thought that Muslims were worried only about their businesses or their estates or their paddy fields. They never thought they'll erupt. From now on, they'll have to consider us", said Halim Ishak, the sole Muslim Member of Parliament in the Opposition. He was speaking after the recent spate of violence in the east of Sri Lanka between Muslim and Tamil civilians, aided by 'external' forces, which left scores dead, more than twenty thousand homeless and damaged millions of rupees worth of property. Ishak is right on one point: hitherto, ethnic conflict in Sri Lanka has seriously flared up only between the Sinhala and Tamil communities; attempts to bring about racial harmony in the island have hitherto only looked at the problems of the Tamils (and the largely imagined grievances of the Sinhalese). But if anyone doubted that in a country increasingly cracking up along ethnic lines the other minorities would not be drawn into the fray, it has now happened. After this, Muslim thinking will have to be accommodated for the success of any solution to the national question (which some refer to as the Tamil problem). However, the equation is not as yet complete; the Indian Tamils, controlled by Thondaman, have thus far maintained as low a profile as possible—mainly because Thondaman is a member of the cabinet. Given that youth everywhere tend to get infected by radicalism, it cannot be long before the Indian Tamils, easily the most oppressed group among the Sri Lankan people, get militant too.

The Muslims of Sri Lanka, till recently referred to as the Moors, like to think of themselves as being Arab in origin. There is some truth to this belief. Islam was introduced to Sri Lanka by itinerant Arab traders; some of whom, no doubt in the stormy months that precluded voyages, married into the local community. Over the centuries, migration by Indian Muslim traders also added to Muslim presence here. Thus, the racial stock of the Muslim community in Sri Lanka is quite a mixed one. (It has also received some input from the tiny—around 43,000—Malay population here; but the Malays have proudly asserted their distinctiveness from the other Muslims. And when I use the word 'Muslim' in the rest of the article, I intend it to be synonymous with the 'Moor' of yore. That is, it does not include the Malays who have their own character and problems.)

In this connection, it is interesting to note the relevant linguistic usage. When I was in school, in the middle seventies, the community was commonly referred to as 'Moors'. The word in current parlance is 'Muslim'. Denying, that is, the community a distinctive 'racial' or ethnic identity—and giving it a purely religious one. That this is the more accurate of the two terms cannot be the reason for its employment; the Sri Lanka—or, I dare say, any other tricontinental—public is not the habit of getting its facts right in such cases. Rather, it reflects public attitudes: at a time when both the Sinhalese and the Tamils in Sri Lanka are proudly asserting their racial heritate, *pure* Aryan or Dravidian as the one may be, the drop out of use of 'Moor' indicates that, in the public eye, the Muslims in Sri Lanka form only a religious homogeniety. May I, by the way, reinforce this point anecdotally: at this year's left-opposition May Day rally, the ageing leader of the LSSP, Colvin R de Silva, used the term 'Marakkala' (the Sinhala equivalent of Moor) to describe them; while the young leader of the SLMP, Vijaya Kumaratunga, used 'Muslim'.

Geographically, as Table 1 shows, the Muslims are distributed all over the country (mainly resulting from the trading communities established by enterprising Muslims). It is commonly held myth that the Muslims are almost entirely a trading or a business community. See Table 2 for relevant statistics. While the number of Muslims engaged in trade are vastly above the national average, it can be

TABLE 1

| | Total Population | Muslim Population | Per Cent of Muslims |
|---|---|---|---|
| Sri Lanka | 14,850,001 | 1,134,556 | 7.64 |
| Western Province | 3,915,001 | 279,587 | 7.14 |
| Colombo district | 1,698,322 | 168,956 | 9.95 |
| Kalutara district | 827,189 | 62,781 | 7.59 |
| Gampaha district | 1,389,490 | 47,850 | 3.44 |
| Southern Province | 1,882,912 | 52,545 | 2.79 |
| Galle district | 814,579 | 26,359 | 3.23 |
| Matara district | 644,231 | 16,853 | 2.61 |
| Hambantota district | 424,102 | 9,333 | 2.20 |
| Central Province | 2,005,956 | 168,040 | 8.37 |
| Kandy district | 1,126,296 | 125,646 | 11.15 |
| Matale district | 357,441 | 26,603 | 7.44 |
| Nuwara Eliya district | 522,219 | 15,791 | 3.02 |
| North-Central Province | 2,556,674 | 175,881 | 6.88 |
| Kurunegala district | 1,212,755 | 64,213 | 5.29 |
| Puttalam district | 493,344 | 50,246 | 10.18 |
| Anurathapura district | 587,822 | 43,801 | 7.45 |
| Polonnaruwa district | 262,753 | 17,621 | 6.71 |
| Northern Province | 1,111,468 | 54,828 | 4.93 |
| Jaffna district | 831,112 | 14,169 | 1.70 |
| Mannar district | 106,940 | 30,079 | 28.17 |
| Vavuniya district | 95,904 | 6,764 | 7.05 |
| Mullaitivu district | 77,512 | 3,816 | 4.92 |
| Eastern Province | 976,475 | 317,177 | 32.48 |
| Batticaloa district | 330,889 | 79,662 | 24.07 |
| Ampara district | 388,786 | 161,754 | 41.60 |
| Trincomalee district | 256,790 | 75,761 | 5.29 |
| Uva Province | 922,636 | 34,509 | 3.74 |
| Badulla district | 642,893 | 28,759 | 4.47 |
| Moneragale district | 279,743 | 5,750 | 2.06 |
| Sabaragamuva Province | 1,487,879 | 51,989 | 3.12 |
| Ratnapura district | 796,468 | 15,441 | 1.94 |
| Kegalle district | 682,411 | 36,548 | 5.35 |

*Source:* Department of Census and Statistics, Census 1981. It should be noted that the Jaffna district was subsequently subdivided into the districts of Jaffna and Kilinochchi—done at a time when the government was optimistic that the TULF would settle for the district at the basic unit of devolution of power; this was possibly motivated by the desire to dilute the power of the Jaffna District Development Council. Also, after the killings of perhaps thousands of Tamil civilians by the Sri Lankan security forces and given the mass emigration of people from the north, the population figures for the districts of Jaffna and Mannar cannot be accurate today.

seen that the vast majority of Muslims themselves are engaged in agriculture. It is also interesting that the percentage of Muslims described as 'general farmer' is not very much below the national average. These statistics pose two interesting questions: the first, as to whether a trading community, even one with a significantly higher birth rate than the national average, could have spawned such a large agricultural community too. Whether that is, the agricultural Muslims, predominantly to be found in the east, are the result of relatively recent migrations from India—perhaps during Dutch or British rule. This may also explain why Muslims in the east are looked down upon by those in the rest of the country as being of 'lower caste'. (There does not, by the way, appear to be any reports of large-scale conversion into Islam in those parts.)

The second question relates to the community's perceptions of itself. It has always seen itself, as have the other communities, as one predominated by traders. Since Sri Lankan national perceptions have always been determined by the middle class (i e, urban) in general and the Sinhalese in particular, one reason for the continunance of this view must be that the most visible Muslim within the Sri Lankan community has always been the Muslim trader. (Popular songs have been composed with this archetype; not to mention, more recently, less complimentary strip cartoons in the Sinhala press.) But it must also be asked why the Muslims themselves haven't challenged this view.

The answer lies, I would think, in the fact that the 'leaders' of the Muslim community—that is to say, those who have achieved political power, either through the UNP or the SLFP—have tended to come, both from the west of the country and from this trading class. They have, in the main, also been uneducated; as has been the community at large.

Now one of the reasons why the Muslims as a community have not, largely, been educated—the balance was redressed only recently—has to do with the fact that education under British colonial rule, in Christian schools run generally by Christian priests, was equated by them with proselytisation. They feared that they would be converted; and in any case there was an established tradition of religious education in mosque-affiliated institutions. It was only very late in the 19th century, and then too under the inspiration of an Egyptian exile, that Muslim schools were begun. But they didn't really begin to participate in the education system until statisation of schools after independence;

TABLE 2

| | All Communities | Muslim |
|---|---|---|
| Services | 19.79 | 41.70 |
| Proprietors/ traders | (3.59) | (18.16) |
| Salesman, etc | (1.92) | (10.02) |
| Agriculture | 55.65 | 35.44 |
| General farmer | (24.33) | (21.44) |
| Manufacturing, etc | 24.56 | 22.86 |
| Total | 100.00 | 100.00 |

*Source:* Central Bank of Ceylon, "Consumer Finance Survey, 1973".

TABLE 3

*(Per cent)*

| | Education Level | |
|---|---|---|
| | Muslims | All Communities |
| No schooling | | |
| 1953 | 49.8 | 41.6 |
| 1978/79 | 27.1 | 24.3 |
| Primary | | |
| 1953 | 43.1 | 46.8 |
| 1978/79 | 43.1 | 38.9* |
| Secondary | | |
| 1953 | 5.5 | 9.8 |
| 1978/79 | 22.7 | 26.4 |
| Passed O' level | | |
| 1953 | 0.3 | 0.9 |
| 1978/79 | 6.3 | 8.8 |
| Above A' level | | |
| 1953 | 1.3 | 0.9 |
| 1978/79 | 0.6 | 1.4 |

* This could be a typist's mistake.

and even then, not fully. For instance, the percentage of Muslims gaining entrance to university was just 3.8 per cent in 1977—much lower than their proportion in the population (See Table 3).

Table 4 will indicate how 'deprived' the Muslims are as a community.

Upper class Muslim hegemony over the rest of their 'bretheren' can be clearly inferred from these statistics. It also explains why they kept their bretheren generally downtrodden and uneducated. Being businessmen (and politicians—in a small community, a big businessman usually has access to important politicians and Muslims have taken care to contribute substantially to both parties that have ruled the country) making big money depended to a large extent on their access to political power. An educated younger generation would have taken away both their position and—through it—their wealth. Thus it was in their own class interest to keep their people uneducated; and, therefore, to promote the myth of their's being a business community. It is also significant that nearly half the Muslim professionals are lawyers—necessary, of course, to look after the property of the businessmen.

TABLE 4

*(Per Cent)*

| Indicator | All Communities | Muslims |
|---|---|---|
| Crude activity rate (1978/79) | 38.02 | 26.98 |
| Illiteracy (1973) | 28.95 | 34.60 |
| Unemployment (1978/79) | 14.73 | 13.81 |
| Professionals | | |
| Attorneys | — | 9.0 of total |
| Doctors | — | 1.9 of total |
| Engineers | — | 1.8 of total |
| Accountants | — | 5.0 of total |
| Sl administrative service | — | 1.0 of total |
| Per capita income (1973) | Rs 326 | Rs 405 |

*Source:* Samarasinghe and Davood, "The Muslim Minority of Sri Lanka: A Business Community in Transition", ICES/Naleemiah Institute, 1984. Incidentally, with reference to the last statistic, it must be noted that the distribution of income among the Muslims is more unequal than the national average. The top 20 per cent of income receivers get 67.48 per cent of the total in the Muslim community, as opposed to the national average of 50.12 per cent. As for the bottom 40 per cent, the proportions are: for Muslims just 6.2 per cent; and all communities 16.2 per cent.

It is with these facts in mind that one has to come back to the trouble in the east. It began in the town of Karaitivu—a Tamil town, surrounded by Muslim villages—which was razed to the ground by Muslim youth on April 11 to 13, with the aid of the Special Task Force of the Sri Lankan police (popularly known as the 'Police Commandos'). An independent investigation into the events was carried out by Frank Jayasinghe, a Sinhalese and the former Principal of Kodaikanal School in Tamil Nadu. He reported that "there is *prima facie* evidence of some personnel of the STF being implicated in the incident of violence in Karaitivu". Otherwise, it would be difficult to explain how the Muslims, most of whose arms were taken away under emergency regulations, could have caused the havoc they did; especially since it is also alleged—and noted by Jayasinghe—that there was firing from the air (helicopters) and landings from the sea. It is inexplicable how the Muslims in that area (whom we have already seen to be very poor) could have suddenly acquired automatic weapons, government boats—and even helicopters!

The government has strenuously denied the possibility of the STF being involved in this—despite the fact that the Tamil Minister of Home Affairs, Devanayagam, made the same allegations. He has since been asked to keep quiet; and even Muslim MPs refuse to say the STF were involved. All this, especially in the context of other allegations another Minister, the Indian Tamil, Thondaman, refused to withdraw—about having seen five lorry-loads and two jeep-loads of (presumably Muslim) thugs being transported to the east—make the whole affair there mysteriouser and mysteriouser.

The mysteriouserness takes on a darker edge in the wake of denials by Ishak—and in private, mind you, to an opposition MP—that Muslim thugs not only from Colombo, but as it is also alleged, from the central and southern regions of the country, were transported east to continue the damage begun at Karaitivu. While it is true that in many areas of the east, members of certain militant groups, aided, ironically enough by (*albiet* Tamil) policemen, took their 'revenge' on Muslim villages, and killed those whom they identified as leaders of the Muslim attack groups, it is nevertheless also true that the majority of those now occupying refugee camps are Tamil.

The question arises as to why the government did not bring the rioting under control. "The government does not want to quell the violence", former Prime Minister and leader of the SLFP, Sirimavo Bandaranaike, told me. "They thrive on it. In the name of terrorism, they are doing a lot of things." Does this mean, then, that the whole affiar in the east was a plot hatched by the government as part of their war against the Tamils? Or was it a move by the STF to ransack certain areas they thought were militant hide-outs; and to use the Muslims to do so, given that Muslims in some parts of the east were coveting Tamil farmland and so would have been willing vassals? The Muslims, throughout the riots, relied on the forces for security cover; this they didn't always get. Several foreign journalists who visited the east reported that the, admittedly small contingents of, STF would go back to base just half an hour the curfew began—thus leaving the Muslims they were supposed to protect to the mercy of the militants, or sometimes simply Tamil civilian groups led by non-commando policemen.

There is also the theory of Israeli involvement. I spoke to Badiudin Mahmud, Minister of Education under Bandaranaike and possibly the only Muslim politician to bring tangible benefits to his community. He told me many things off the record; but one of the things he did say I could mention was this. "We have our suspicions of Mossad. They are mischief-makers and enemies of Islam. We don't know whether they are involved, but many people feel so." The suspicion is based on the fact that the STF has been trained by Israelis (presumably not from Mossad, however). The Sri Lankan Muslims are still smarting at the way they were treated when the Israeli interests section was established at the United States Embassy here. The President was then reported to have told the Treasurer of the UNP, a very senior Muslim politician, that if he—or any other Muslim—could not stomach the Israelis, they could 'get out' from the party. This led to widespread protests by Muslims in the east and in certain parts of the central province. Police dispersed one such demonstration with force, seriously injuring three Muslims, including a little boy.

But all this should not lead anyone to the conclusion that the events in the east were a sudden eruption. There have always been clearly different identities between the Muslims and the Tamils there, even if they face certain common problems due to speaking the same language, Tamil, which is not an official language of the state. For instance, there has been a history of border disputes and, more recently, a lot of extortion of both money and paddy from the Muslims—by either militants or agent provocateurs or both.

There was also the report of a killing, allegedly inside a mosque, of three Muslims in Mannar. Nobody quite knows whether this actually happened, or whether the bodies were found outside (since no militant group so far as disclaimed responsibility for this, one assumes the three were informers) and dumped in the mosque. But the government went on a huge propaganda rampage trying to show the Muslims how beastly the militants were towards them. Bandaranaike questioned this too. "Do you think the terrorists have anything to gain from shooting Muslims in mosques? If they achieve Eelam, which I hope and pray they don't, they will have to live with the Muslims. From a realistic point of view that killing does not make sense." On the other hand, the Jayasinghe report did register a fear among Muslims that in the event of a Tamil separate state coming into being, they would not have an equal share of power.

All this probably contributed to a three-day Muslim hartal in a few towns in the east, directed against the militants. In the course of this, there are reports that Muslims who had to pass through Karaitivu had their distinctive caps, which they wear all the time, pulled off their heads by Tamils and in some cases even urinated upon. And it would now appear that the STF watched all these events very carefully.

What, then, are the long-term consequences of all this for the country in general and the Muslims in particular? Currently, there is said to be a leadership vacuum in the east. And it has not helped that senior Muslim Ministers—Hameed, the Foreign Minister and Mohamed, the Minister in charge of Muslim Affairs—haven't visisted it. Indeed, Mohamed was out of the country during the entire period. Hameed, however, managed to achieve one thing: the transfer from the area of three Tamil police officers alleged to have abetted Tamil groups in their attacks against the Muslims—and so in some way placated Muslim opinion. But not enough to get the complete stoppage of a hartal call in Colombo by Muslim traders; they did heed his request to have the hartal confined to the very few areas in the business district of Colombo totally dominated by Muslims. There is reason to believe that this hartal was spearheaded by SLFP Muslim groups.

Even if the UNP Muslims are keeping a very low profile on the matter, will the SLFP ones in Colombo, coming from the same social class, spearhead Muslim agitation? A Tamil politico once told me that the Muslims not having a political organisation of their own, but 'electing' as 'leaders' those who came into power from either political party, may have good short-term consequences for the community (they would benefit, especially economically, whichever party was in power) but would be deterimental in the long run since if ever the community was threatened, there would be no group that undoubtedly represented them that could look after their interests.

But in the current circumstances, I cannot see one coming into being. What could happen is that the eastern province Muslims might unite. There is pressing need for this; and quite apart from the fact that Muslims are known to be part of militant groups, Tamil youth radicalism must infect the Muslim youth too. If this happens in the east it will, despite the current rancour against the Tamils, both civilian and militant, probably co-exist in uneasy alliance with the Tamil militant groups; especially since eastern Tamils and Muslims share common grievances. And it should be mentioned here that in the deliberations at the All Party Conference, which sought to 'solve' the national problem, the EP-dominated Council of Muslims proposed that the basic unit of devolution be the province—whereas the government, and this included the Muslim 'leaders', weren't willing to go beyond districts. This is realistic in the sense that it takes into account Tamil grievances, while not forgetting the fact that the eastern province, being more underprivileged than the north, would be in a better position to look after itself, especially given the large proportion of Muslims there.

One other thing that characterises the Muslims in the east—and distinguishes them from those in the west—is their close contact with the mosque; and therefore being quite under the influence of the priests. Given the international resurgence of Islam today, these priests now have the psychological backing of an international ideology. There is anyway a nascent fundamentalist movement, influenced by Iran, in the west; it has strong links with the east, and may even have supplied some of the Muslims there with arms.

Since the fundamentalists would be instinctively antagonistic to the upper class Muslim 'leaders', this tendency is something to be watched in the future. Once the (poor) eastern Muslims realise that their so-called leaders have in fact only led (or let) them down, we might see the birth of a militant Muslim movement in Sri Lanka. This would, inevitably, lead them to agitate for equal rights for all Sri Lankans. Today, Sinhala Buddhists are more equal than other Lankans. With the emergence of the Muslim into the political arena (and after them, the Indian Tamil can't be far behind) this could possibly change.

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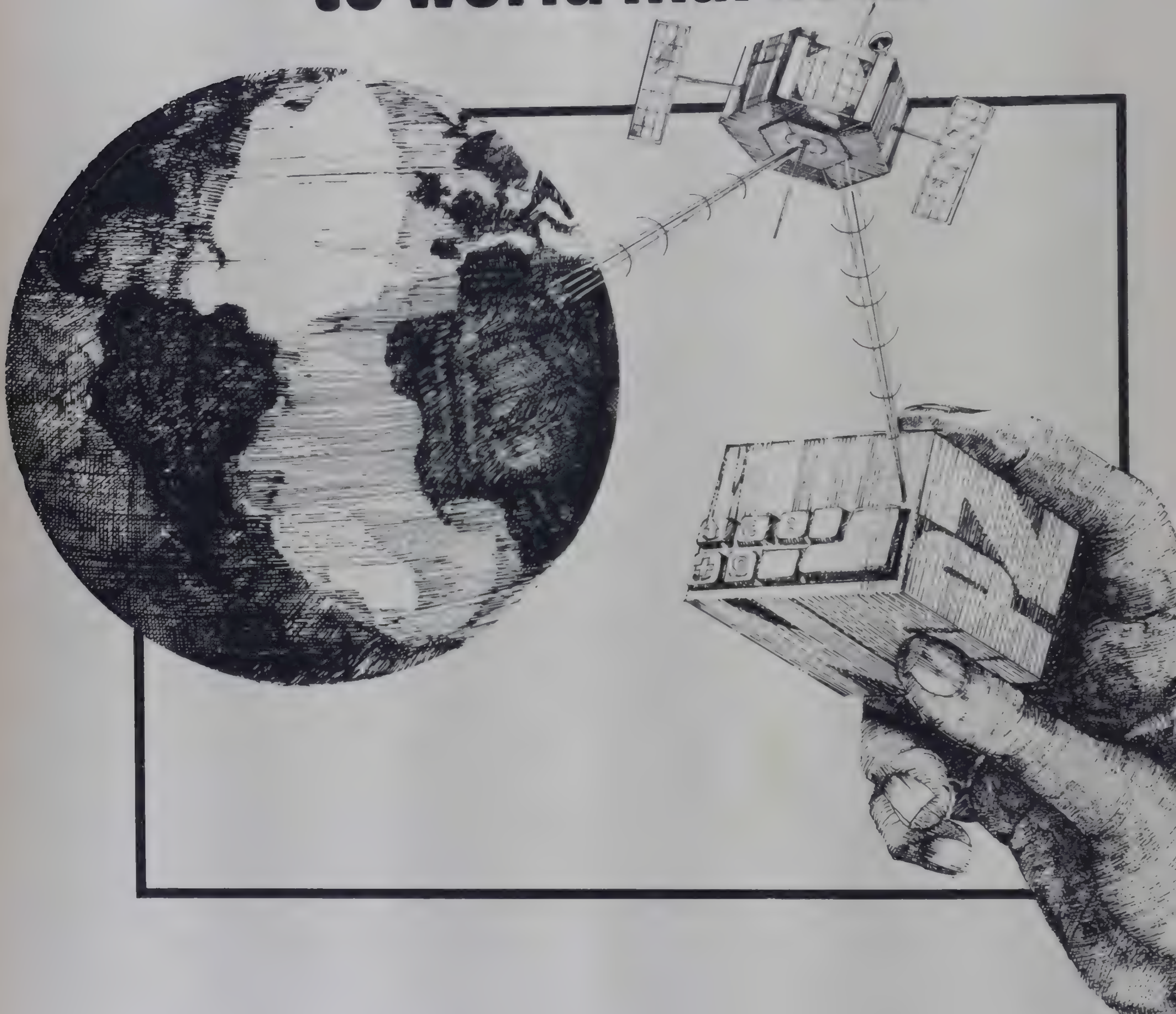

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# Irrigation Improvement

## From Construction towards Crop Production

**Robert Wade**

**Productivity and Equity in Irrigation Systems** edited by Niranjan Pant; Ashish Publishing House, New Delhi, 1984; pp 276 + xxviii, Rs 150.

WHAT is striking about the science of irrigation is its concentration on the extreme ends of the irrigation process. A large body of literature exists on hydraulics; and another on crop-water response. The vast area in-between is, by comparison, blank. And if we look beyond the irrigation process, to crop production and income enhancement, we find that economists have written voluminously about the 'impact' of irrigation, but have been very casual about defining either the quality of that irrigation or the extent to which it has been well or poorly co-ordinated with the supply of other inputs which must also have contributed to the overall impact.

These matters are now beginning to receive much more attention, as the hard truth bears in on policy-makers and irrigation engineers that the scope for constructing big new projects is rapidly shrinking, all over Asia. Policy-makers want the existing systems to work better; and engineers want to protect their budgets, by substituting enhanced maintenance for declining construction. A dramatic re-orientation of priorities in the irrigation field is under way, from construction towards crop production, *via* maintenance and operation.

The book under review is one of the fruits of this new movement. It consists of papers presented at a conference held in 1982, at Lucknow, financed by the Ford Foundation—one of the agencies which has most vigorously promoted the new orientation. There are 13 papers in all, plus a summary by the editor.[1] All but one are about Indian systems; the exception is about Sri Lanka. Three are conceptual. Seven are case studies of individual systems (four large-scale, three small-scale farmer-operated). The final three look at the question of improving canal performance from an administrative point of view.

This is a book that irrigation-wallahs will want to read. The quality of the papers is uneven; but several are very important. Perhaps the jewel of the collection is the one on Sri Lanka, by a team from Sri Lanka's Agrarian Research and Training Institute and Cornell University. The team encompassed the skills of irrigation engineering, geography, agronomy, economics and political science, and there is no better demonstration, to my knowledge, of the ability of a multi-disciplined team of this kind, when directed at the study of a single set of problems in one particular area, to push back the frontiers of irrigation -knowledge-in-general. The team was able to make very detailed measurements of water distribution over the whole area of the Gal Oya Left Bank project—so unlike most studies, they had good data on what exactly they were trying to explain. With this baseline, they were able to correlate water supply with distance from water source, with soil type, with yields, with farmers' perception of water supply, with farmers' social response to degrees of water scarcity, and so on. For those who, like myself, have tried to do the same on their own, the work of this ARTI-Cornell team looks wonderfully sophisticated. And the research as reported in this paper is still under way. The subsequent results will be worth watching.

Another important paper is the one on 'performance monitoring' in the context of the *warabandi* system. This concentrates on the question of the actual distribution of water in one part of the Bhakra system. It is of interest both for the method used to measure water quantity supplied to different parts of the area, and for its conclusions about the pattern of distribution. Given that *warabandi* is often held up as an effective method for ensuring equity of water supply (equal amount of water per unit area, independently of location in relation to water source), the *inequality* of distribution reported in this paper is striking. It appears that if *warabandi* equalises anything, it is the *uncertainty* of water supply.

However, we remain after this and other papers in the volume no nearer to sensible criteria of what water distribution at outlet or tertiary distributory level *should* be. 'Equal water per unit of land' is not necessarily a criterion which is good for either output or equity. If, for example, 'squatters' move into an irrigation project (a phenomenon which is becoming more common as population pressure grows), it is not necessarily bad for equity or output if the existing head-enders take more water than their entitlement and channel it to squatters who are outside of the existing (perhaps partly arbitrary) boundaries. And within existing boundaries, total output may be higher if head-enders receive more water per unit of land (perhaps to grow more water-intensive crops) and tail-enders receive less, so as to save on water transmission losses. This applies whether the analysis includes or excludes risk and uncertainty. However, with risk and uncertainty, head-end farmers may attempt to take still more water than would be warranted by the above considerations, because of fear of non-arrival of future supplies (also because, they say, extra water saves on weeding labour—how effectively does water drown weeds?). If their extra water means that tail-enders get almost none, then this inequality is clearly not justified in terms of an output maximisation criterion (provided the criterion is defined as applying to a period of several years, as it must be). I may be wrong, but my impression is that economists have not got far in analysing these very important issues.

Several papers give brief accounts of farmers' water organisation, both under large-scale government canals and under small-scale systems. Only one paper is fully devoted to this subject (Patil and Kulkarni's about a system in Maharashtra), but the bits and pieces do suggest that there is much more autonomous farmer-organisation for irrigation, even under government canals, than is generally thought; but that it often varies in form, and in conditions of presence or absence, in ways not easy to understand. None of the contributors takes up the question of whether farmer-organisation might help to offset the head-tail inequality that many of the papers are concerned to describe. Nor do they address the question of whether the land market moves in such a way that head-enders tend to be bigger landowners than tail-enders. It must depend partly on the unit within which head and tail are defined. But if one is considering water distribution over a large area, involving many villages, then the prospects for redistribution towards the tail must depend not only on farmer-organisation, but also on whether the tail-enders contain big farmers who can mobilise powerful interest group pressures. How much interest group pressure does it take to offset locational advantage? The politics of water distribution is one of those in-between areas that remain, after this volume, fairly blank.

My own feeling is that the current explosion of research into the economic and social aspects of irrigation is in danger of getting stuck with too narrow a conception of the problem, which leads to a focus on water supply to the occlusion of crop production. Strategic thinking about how to improve the performance of canal agriculture needs to begin, I think, by imagining a situation in which, for each canal, the relevant governmental agencies and farmer representatives sit together and ask: what should be the objective for average yield per hectare over the whole project of the coming season? For any one target figure, it is possible to work backwards into the various tasks that *each* of the parties (e g, irrigation, agriculture, revenue, credit) must carry out, by certain times, for that target to be realisable. The final choice of target depends on what each department feels able to agree to. Regular monitoring meetings can be held throughout the season, to check performance of tasks against targets. In this kind of arrangement, the terms of reference for each department are defined in terms of *crop production*. At present, by contrast, the terms of reference of the Irrigation Department are defined only as water supply. (The papers by Hashim Ali and Turabal Hassan are interesting in this connection.) If one asks an O and M engineer about irrigated crop production he is likely to say: "Don't ask me, that's agriculture's business" This is not *necessarily* a bad thing. If a canal is designed so that there are 'break-point' reservoirs at low levels in the system, within the ken of farmers, the Irrigation Department can concentrate on delivering plugs of water to each break-point reservoir on a regular schedule, while the use of the water from the reservoir is decided by an authority of the farmers themselves and/or by another branch of government specialising in irrigation as distinct from water conveyance. But such is not the case in India. *Given* the absence of break-point reservoirs, it is then important that the irrigation engineers themselves see crop production as part of their *own* responsibility. The next question is how to translate specific agricultural requirements into water delivery targets that the engineers can feasibly aim at. I believe that economists and other social scientists could make a contribution to this question, as also to be related, and exceedingly important, question of the conditions in which break-point reservoirs make sense. The institutional and design implications are far-reaching.

### Note

1 The papers and authors are as follows: 'Introduction' (N Pant); 'Productivity and Equity in Irrigation Systems in India: Analytical and Empirical Issues' (P Rao); 'Irrigation Management: Ends, Means and Opportunities' (R Chambers); 'A Note on Monitoring Productivity and Equity in Irrigation Systems' (R Lenton); 'Performance Monitoring in the Warabandi System of Irrigation Management' (S Malhotra, S Raheja, D Seckler); 'Productivity and Equity in Gal Oya Left Bank: A Sri Lankan Irrigation System' (H Murray-Rust, N St Julien, M Svendsen, N Uphoff, M Wickramasinghe, C Wijayaratne); 'Differential Income Impact of Public Canal Irrigation in Maharashtra' (B Dhawan); 'A Study on Equity and Productivity in Periyar Vaigai Irrigation System' (V Rajagopalan, R Sivanappan); 'Productivity and Equity in Minor Irrigation Tanks' (A Sundar, P Rao); 'Performance Appraisal of Tank Irrigation System: A Micro Level Study' (C Shanmugham, R Sakthivadivel, S Savadamuthu); 'Ensuring Equity in Irrigation Systems: A Case Study of a Farmer Group Managed System' (R Patil, D Kulkarni); 'Planning and implementation of Measures to Ensure Productivity and Equity under Irrigation Systems' (Hashim Ali); 'Importance of Operation, Maintenance and Flexibility in Large Irrigation Systems' (Turabul Hassan); 'Equity in Irrigation Systems—Certain Steps in This Direction—Ukkai-Kakrapar Command Area, Gujerat' (V Sinha).

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# Development Banking

**Nasser Munjee**

**Public Financial Institutions in India** by J S Uppal; Macmillan India, 1984; pp 111 + index, Rs 60.

THE story of development banking has yet to be told. India, after independence, began shaping its developmental strategy which came to depend on a breed of institutions which have, over the years, come to be known as development banks. They were designed to supplement the activities of the commercial banks in many crucial aspects. What was their *raison d'etre*? How have they developed? Should this model be replicated or disbanded?

These are some of the interesting questions to which the answer will not unfortunately be found in JS Uppal's book. As he says in the preface "the literature on financial institutions has been confined to industrial finance and industrial economics, with emphasis on accounting and financial aspects. The role of financial institutions in promoting various socio-economic objectives has not received proper attention". It is this gap that he pruports to fulfil.

The book, however, is a rather conventional discussion of the type and nature of public financial institutions as they currently exist in India together with an overall assessment of how they have met 'socio economic' objectives, especially with respect to setting up capital goods industries, achieving balanced regional growth, and helping the small-scale sector and small industries. An inordinate effort has been put into analysing the role of public financial institutions in controlling the concentration of economic power through their lending policies. Most of the data analysed has been collected from published information, especially from annual reports of all the relevant institutions. The book will appeal to all those who require a quick description of the functioning and performance of financial institutions in India. The conclusions do not produce any startling discoveries:

> *Concentration of economic power* : "Taking all the four financial institutions, we found continuation of clear preference to large and larger homes . . . the fact remains that in general, all-India financial institutions have not been able to conform to the objective of reducing concentration of economic power and discouraging monopolies."
>
> *Regional Development*: "The goals of developing backward areas and achieving a balanced regional development were not followed by public financial institutions while giving assistance during 1970-82."

The strongest feature of the book lies in its bringing together the activities and the performances of the major institutions, each treated independently without looking at the importance of the *nature* of these institutions. The loose wording and imprecise classifications can be misleading; LIC and UTI are classified as 'development banks' on page 11. We read of how Japan and West Germany, after the war achieved miracles due to the establishment of financial institutions with no mention of the Marshall Plan and Lend-lease which were perhaps the crucial primary factors in reviving activity. The book, though published in 1984, is already outdated on various issues. We read that "another disturbing feature of the capital market has been a reluctance on the part of financers to invest in debentures—an important source of capital in Western countries". This would be difficult to sustain as a description of the current activities of the capital market (share and debenture issues of Rs 605 crore in 1982 increased to Rs 1,315 crore in 1984).

Finally, the entire book is written firmly in the 'socialistic' world view. The first chapter, the weakest of the book, attempts to define the context within which public institutions will be assessed: have public institutions built a 'socialistic pattern of society'? The goals of a 'socialistic society' have been defined as follows:

> Public sector and other public policies will seek to reduce inequalities of income and

achieve a more equitable distribution through land reforms, ceiling on urban property, an appropriate tax structure and fiscal policy, channelisation of profits to the government, which will spend them for the welfare of the weaker sections, regulation of incomes of top executives in pubic enterprises and discriminatory price policies for mass consumption goods

It could well be argued that each of these goals have been the root cause of most of our problems. The Urban Land Ceiling Act has been one of the most ill-conceived pieces of legislation which has done untold harm to housing development; government expenditure policies have created waste on an appalling scale (charity with other people's money is not the best conceived system of welfare payments); regulating salaries is one certain way to keep the best talent out of the country and the administered price system has played havoc with the entire cost structure of industry.

Uppal maintains in the opening lines of his book that "Any economic system that a country adopts to achieve a socio-economic optimum is governed by such objectives as allocative efficiency, distributive equity and growth pattern". What a 'socio-economic optimum' precisely is remains a mystery. It will forever remain a dream in some planner's utopic vision.

One of the chief strategic and economic rationales for setting up a tradition of development banking is to create a set of institutions which

(1) create an area of specialisation;
(2) train and develop human resources to serve that area;
(3) raise resources and disseminate them efficiently, i e, they become efficient 'intermediaries'; and
(4) develop, guide and even instruct their clients in better ways to manage their enterprises and thereby promote efficient industrial and entrepreneurial entities.

It could be argued that while (1) and (2) have been achieved to a great extent much more work needs to be done in (3) and (4). Development banks rely heavily on one set of instruments to raise resources but have been creative to some extent in lending resources. Intermediation costs have remained high. The high and growing list of 'sick units' stresses the need to develop (4) much more strongly.

But the crucial *raison d'etre* of development banks is the creation of a specialisation. By the very virtue of their specialisation development banks build up considerable expertise and information which is of value to potential clients. Clients receive a second diagnostic opinion from an impartial critical review of projects which the client can rarely match. Further, by studying a specialised field of activity, development banks acquire an intimate knowledge of the market place—information that is of great service to governments in designing effective policies based on the realities of business.

This tradition is well developed and in my view is the strongest argument for a 'new' institution. India has learnt from its experience. The 1970s and early eighties has seen the establishment of new development banks which have extended their areas of specialisation away from industrial financing with a measure of success hard to believe. Two such banks are the EXIM bank established in 1981 and HDFC (Housing Development Finance Corporation) in 1978. Agricultural financing was also recently rationalised under NABARD. This is the success story of development banking. Uppal's conclusions would not have been so pessimistic if he had set himself a terms of reference much broader than one of subserving government's economic objectives in the narrow sense. Financial deepening will only take place with greater specialisation, many more financial institutions and instruments and a freer market. This is where success is measured and development banking has an important role to play.

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# Industrial Development: Issues and Policy Options

**N S Siddharthan**

*One set of economists attribute the low growth rates of South Asia, and India in particular, to the strategy of import substitution that these economies followed in contrast to what these economists call the export-led growth strategy that the East Asian countries have followed. Thus countries like Japan and South Korea are supposed to have followed export-led growth while India followed an import substitution policy; while the former regimes liberalised externally, the Indian regime was very restrictive in the domestic as well as in the foreign sectors.*

*Facts do not , however, support these assumptions about Japan and South Korea. To start with, both these countries followed import substitution policies till recently, which enabled these countries to develop a strong industrial base and which later on enabled them to expand their exports. The rapid growth of their exports was the result of their development and not the other way round.*

*In recent months there have been signs of change in the economic policy of the Government of India. It is important, however, that the contemplated change should not aim at taking the economy even closer to the neoclassical ideal of free trade, liberalisation, free operation of market mechanism and price variables. Development consists in the production of new goods, introduction of new methods in production, creation of new markets and materials, all of which depend on non-price and non-free market variables like technological change, R and D and innovations.*

## I

## General Economic Indicators

IN the last 25 years India has made tremendous progress in mobilising the savings of its population, increasing the gross domestic investment rate of the economy and in diversifying the industrial production structure. The Indian gross domestic saving rate which was only 14 per cent in 1960 increased to 20 per cent in 1981 and is about 22 per cent at present. This rate compares very favourably with the rate enjoyed by the advanced industrialised countries. In fact with the exception of China, no other country in the world with a per capita income comparable to that of India has succeeded in achieving this rate. The Indian gross domestic investment as a percentage of national income increased from 17 per cent in 1960 to 23 per cent in 1981 and is likely to touch 25 per cent this year. The Indian mobilisation of tax revenue has also been very impressive. What is more, the high investment rate was mainly a domestic effort. Thus during 1981, the gross domestic savings excluding the net current transfers from abroad as a percentage of gross domestic investment was as high as 93.2, and including net current transfers from abroad was 99.0. Despite this impressive mobilisation effort, the share of the manufacturing sector in GDP increased from 14 per cent in 1960 to only 18 per cent in 1981. Despite 30 years of effort, around 70 per cent of the Indian labour force still remains in agriculture. Therefore, in terms of increasing the share of the manufacturing sector in the GDP the Indian performance has not been impressive. In this context, it would be worth examining the Indian performance in relation to the performance of other major Asian countries in similar fields.

Basic socio-economic indicators of eleven major Asian countries are given in the Table. These eleven countries are grouped under three heads: South Asia, East Asia and China. As seen from the Table, in addition to the geographical distance many socio-economic indicators also separate the South Asian countries from the East Asian. The Chinese performance by and large is somewhere in between these two groups. The major South Asian countries like Bangladesh, Burma, India, Sri Lanka and Pakistan are by and large much poorer than the East Asian ones like Thailand, Philippines, South Korea, Malaysia and Japan, if one goes by per capita income. The East Asian per capita income is more than double the South Asian per capita income. In addition, the annual average growth rate of the per capita income of the South Asians has been very poor compared to that of the major East Asian countries during the last 20 years. The growth rate of per capita GDP of the South Asians in general, and Indians in particular, has been less than half that of the major East Asian countries and China. The growth rates for Korea and Japan have been more than three times that of the South Asian countries and almost five times that of India. If the past trend continues, then the gap between India and its South Asian neighbours on the one hand and the East Asians and the Chinese on the other is likely to widen, and widen substantially, in the years to come. Already the differences in per capita income between India and the East Asian countries like South Korea, Malaysia and Japan is more than six times.

It is at times rightly argued that per capita GDP between countries is not strictly comparable for various valid reasons and hence it is desirable to look into certain other indicators before drawing conclusions. Cols 9 and 10 of the Table deal with adult literacy rates and life expectancy at birth, the two non-economic indicators that ought to be taken into account in inter-country comparisons. Life expectancy in particular could reflect the general well being of the population much better than a variable per capita income, as in addition to income it could also reflect certain other indicators like access to health services, water supply, nutrition and government welfare measures. Even in terms of these indicators, the East Asians appear to be definitely better off than the South Asians, with the exception of Sri Lanka. An average East Asian lives at least a decade more than a South Asian. Indian life expectancy is low even when compared to Burma, let alone Sri Lanka. An average Burmese despite being much poorer than an average Indian enjoys a higher life expectancy. An average Sri Lankan lives 17 years more than an Indian. When it comes to the literacy rate, most of the South Asians are illiterate unlike the East Asians, the exceptions being Burma and Sri Lanka. The Indian literacy rate of 36 per cent does compare very unfavourably with those of Burma (66 per cent), Sri Lanka (85 per cent), Thailand (86 per cent), Philippines (75 per cent), and South Korea (93 per cent), not to speak of Japan (99 per cent). Thus except in the case of Sri Lanka, differences in per capita income do seem to reflect fairly well the differences in the levels of development.[1]

## II

## Manufacturing Sector

During 1960, the share of manufacturing in GDP in East Asian countries was more or less similar to that in India. It was 14 per cent for India, 13 per cent for Thailand, 14 per cent for South Korea and 9 per cent for Malaysia. However, in a span of 20 years, the East Asians were able to double this ratio: Thailand to 20 per cent, South Korea to 28 per cent and Malaysia to 18 per cent, while India could increase it by only 4 percentage points, namely, to 18 per cent.

This is reflected much more sharply in the average annual growth rate of manufacturing in the last two decades. While the Indian growth rate has been around five per cent, Thailand and Malaysia experienced double the Indian rate, while South Korea enjoyed more than three times the Indian rate. When it comes to growth rate of agriculture, the Indian performance is poor compared to both South Asian and East Asian countries. For the last two decades, the average annual growth rate of agricultural output was less than 2 per cent for India, while it was more than 4 per cent for Burma, 3 per cent for Sri Lanka, around 5 per cent for Thailand and more than double that of India for Philippines and South Korea. It is worth noting that most of these countries that experienced more than double the Indian growth rate in agriculture, are rice growing countries where technological change was low. The East Asian countries also experienced certain other interesting developments which the aggregate figures given in the Table do not fully reflect. For instance, South Korea experienced no increase in inequality in income during the period of rapid growth.[2] Further, during the period 1965-75, the real wages in manufacturing and agriculture increased at annual average rates of 7.75 per cent and 4.8 per cent respectively in South Korea. Thus in the last two decades, South Asia in general and India in particular have not done well compared to East Asia. The poor Indian performance is puzzling as India has done very well in the field of resource mobilisation as seen from its high saving and investment rates.

## III

## Import Substitution Strategy

One set of economists attribute the low growth rates of South Asia and, in particular, India, to the strategy of import substitution that these economies followed in contrast to what these economists call the export-led growth strategy that the East Asian countries followed. This set includes prominent names like Anne O Krueger, at present Vice President of the World Bank, and Jagdish N Bhagwati.[3] To Bhagwati (1978) import substitution strategy could be growth reducing as the import substituting industries happen to be capital intensive. Further, import substitution uses more of direct controls as distinct from price measures. While comparing India and South Korea, Bhagwati observes that while the Indian regime consisted mainly of *don'ts* the Korean regime consisted mainly of *do's*.

To Krueger (1978), under import substitution, industry plans would be based mainly on the profitability of the sheltered domestic market and the monopoly power that accrues to those starting new production activities. Monopoly power, exercised by increasing the domestic price of the commodity above its international level, would only result in the reduction of the already small domestic market. Because of the protected environment, substandard quality and high costs would persist. All these affect growth adversely. The logical answer to the problem of a low growth rate would be to open the economy to foreign goods and investments. These authors argue that South Korea and Japan switched over to export-led growth strategy and achieved spectacular results.

The basic assumption behind these conclusions is that Japan and South Korea followed export-led growth while India followed an import substitution policy; while the former regimes liberalised externally, the Indian regime was very restrictive in the domestic as well as in the foreign sector. However, facts do not support these assumptions about Japan and South Korea. To start with, both these countries followed import substitution policies till recently, Japan till 1962 and South Korea till 1967. It was the import substitution policy that enabled these countries to develop a strong industrial base and which later on enabled them to expand thier exports. Their rapid growth of exports was the result of their development and not the other way round.

In explaining the rapid development of Japan, Ishikawa (1981) emphasised the role of 'learning effects', which mainly consisted in promoting the domestic production of goods, which would be to start

Table: Socio-Economic Indicators

| | GNP Per Capita | | Annual Average Growth Rate (Per Cent) | | | | Share of Manufacturing in GDP | | Adult Literacy 1980 | Life Expectancy at Birth 1981 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Dollars 1981 | Annual Average Growth 1960-81 (Per Cent) | Agriculture | | Manufacturing | | 1960 | 1981 | | |
| | | | 1960-70 | 1970-81 | 1960-70 | 1970-81 | | | | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| *South Asia* | | | | | | | | | | |
| Bangladesh | 140 | 0.3 | 2.7 | 2.4 | 6.6 | 11.2 | 5 | 8 | 26 | 48 |
| Burma | 190 | 1.4 | 4.1 | 4.7 | 3.4 | 4.6 | 8 | 10 | 66 | 54 |
| India | 260 | 1.4 | 1.9 | 1.9 | 4.7 | 5.0 | 14 | 18 | 36 | 52 |
| Sri Lanka | 300 | 2.5 | 3.0 | 3.0 | 6.3 | 2.1 | 15 | 16 | 85 | 69 |
| Pakistan | 350 | 2.8 | 4.9 | 2.6 | 9.4 | 4.4 | 12 | 17 | 24 | 50 |
| *East Asia* | | | | | | | | | | |
| Thailand | 770 | 4.6 | 5.6 | 4.5 | 11.4 | 10.3 | 13 | 20 | 86 | 63 |
| Philippines | 790 | 2.8 | 4.3 | 4.9 | 6.7 | 6.9 | 20 | 25 | 75 | 63 |
| South Korea | 1700 | 6.9 | 4.4 | 3.0 | 17.6 | 15.6 | 14 | 28 | 93 | 66 |
| Malaysia | 1840 | 4.3 | — | 5.2 | — | 11.1 | 9 | 18 | 60 | 65 |
| Japan | 10080 | 6.3 | 2.1 | 0.2 | 13.6 | 6.5 | 34 | 30 | 99 | 77 |
| China | 300 | 5.0 | 1.6 | 2.8 | 11.2 | 8.3 | — | — | 69 | 67 |

*Source:* World Bank, "World Development Report". In the case of China, cols 5 and 6 refer to industry.

with of a lower quality and higher cost compared to the ones imported. Japan did follow this strategy. In later periods, however, the Japanese not only produced far superior quality goods compared to what was traded in the world market but also at a substantially lower cost. Ishikawa was also categorical in his conclusion that the competitiveness of the individual industries increased in the domestic and subsequently in the foreign markets. In this context Japan pursued protectionist policies with a relatively long gestation period.

As stated by Johnson (1982), the Japanese even during the 1950s realised the importance of large scale production and the role of scale economies to help them make a dent in the world market. To exploit scale economies they needed more customers, but they sought these customers in the potential market of Japan itself. Their exports were the result of their rapid industrial development which was in turn due to their domestic policies which resulted in the creation of institutions of high speed growth. As early as 1953, the Industrial Rationalisation Council called for the 'Keiretsu-isation' or cartelisation of trading companies and manufacturers. This meant in practice that the Ministry of International Trade and Industry would assign an enterprise to a trading company. In this way around 20 big ones were created, each serving a bank, a cartel of small producers and a full complement of companies. Enterprises Rationalisation Promotion Law (1952) provided direct governmental subsidies for experimental installation and trial operations of new machines and equipment, in addition to rapid amortisation of exemption from local taxes of all investment in research and development. It also authorised industries to depreciate the cost of installing modern equipment by 50 per cent during the first year. Further it committed the government to provide the infrastructure facilities. 'Japan external trading organisation', which is an international commercial intelligence service, was set up.

Despite its rapid industrial development and despite becoming one of the foremost leaders in technology, Japan continues to discourage imports and the entry of foreign multinational corporations. South Korea has also consistently followed a policy of discouraging multinational direct investments and imports. In this context, the conclusion of a detailed study by Westphal, Rhee and Pursell (1981) is worth reporting, namely, that Korea clearly has not had to rely on foreign entrepreneurship to identify profitable ventures to manage their operations. This had made it possible for Korea to 'unbundle' the package of resources that typically is made available by foreign direct investments, and had thus permitted the selective use of individual foreign resources. And their final conclusion that Korea's industrial competence resulted primarily from indigenous effort is important.

Japan and South Korea are two examples of countries that achieved rapid economic development which did not follow the neoclassical paradigm that is strongly advocated by the set of scholars who favour export-led growth. On the other hand, the strategy of encouraging free market operations, liberalisation, privatisation and export-led growth strategy were mainly followed by the Latin American countries in general, and Chile in particular, with disastrous consequences. The Japanese development was an anti-thesis of the neoclassical paradigm.[4] The Japanese state took the role of the main promoter of industrial development. Free play of the market forces was not allowed and imports and foreign direct investment were restricted and regulated.

## IV

## The Schumpeterian Paradigm

For an explanation of the rapid industrial development of these countries, one may have to turn to the Schumpeterian paradigm, which emphasises the role of non-price variables like skill, technology, innovation and market structures, as well as to certain non-economic variables like culture and ethos. In this paper I shall concentrate on the Schumpeterian variables rather than on the role of ethos.[5]

While the role of price variables and the importance of atomistic competition were emphasised by the neoclassical, Schumpeter emphasised the role of non-price variables, large enterprises and quasi monopolies in industrial development. Schumpeter not only considered the disappearance of atomistic competition as inevitable, a thought that he shared with Marx, he also considered perfect competition as inferior and not desirable.[6]

The policy implications of these two paradigms will differ substantially. If one went by the neoclassical paradigm, one would be advocating a policy aimed at breaking the formation of cartels, promoting atomistic competition, operating through price variables and avoiding state intervention and control. The Schumpeterian paradigm, on the other hand, would recognise size and scale advantages, will emphasise more expenditures on research and development and skill formation and will promote innovations. It will not expect the state to intervene in the market to promote a competitive structure.

Consciously or unconsciously, without being pure Schumpeterians, the Japanese seem to have followed more of the Schumpeterian principles than the neoclassical ones. They consciously followed a policy that actively encouraged the emergence of large conglomerates and forced the smaller units to join one of the large conglomerates. They tackled the problem of concentration of economic power through management reforms—abolition of hereditary Ziabatsus and holding companies. They emphasised more technology transfer, research and development and skill formation. Both Japan and South Korea aimed at and achieved very high literacy rates, 93 per cent in the case of Korea and 99 per cent for Japan. Both these countries spent a very large proportion of their national income on research and development. Their emphasis was more on a science and technology plan rather than on a plan that would fix firm targets for output of specific industrial products. They created a large number of institutions that would encourage introduction of new products, new methods, discover new sources of raw materials and markets, and they introduced changes in the market structures, all of which are considered as important constituents of economic development by Schumpeter.[7]

India, despite its policy of import substitution and planned economic development, has been much more neoclassical in actual practice than the Far East. Unlike the Far East, India did not introduce a comprehensive land reform which would genuinely give land to the tiller in agriculture, and correspondingly, hand over the management of the industrial enterprises (both in the public and private sectors) to professional managers —two preconditions for rapid development. Our emphasis on price variables, namely, profit rates, tax concessions, subsidies, differential interest rates, saving rates, etc, has been excessive to the relative neglect of non-price variables. Our effort at improving the skill content of the population has been very meagre, and as a result of this neglect the adult literacy rate even now remains at a miserably low level of 36 per cent. Our expenditures on R and D is only 0.06 per cent of the national income. Most of the direct controls, as seen from the MRTP Act, etc, derive their inspiration from the neoclassical outlook that atomistic competition is the ideal situation and conglomeration and trustification is wrong. The alternative paradigm would recognise the role of minimum economies of size, exploit size advantages, promote massive investment in R and D and would tackle the evils of concentration of economic power through land and industrial management reforms. In India, such a reform is not difficult as most of the hereditary owners of the industrial corporations are minority shareholders who control management mainly through government support. Even initial steps in these directions have not been taken. On the other hand, anti-trust laws on typical neoclassical lines have been enacted that are bound to fail in the modern corporate world.

## V

## Importance of Managerial and Organisational Reform

Rapid development resulting from innovations, introduction of new products, new methods of production, expansion of the markets and changing the structure is not possible without giving the decision-making power to those who run the enterprises, either agriculture or industry. In agriculture this is achieved through a comprehensive land reform that gives land to the tiller and in industry through organisational and managerial reform. In the case of the private sector, this would mean passing on the power from the hereditary owners to the professional managers and other staff; for the public sector this would involve the transfer for power from ministry to the enterprises. In the case of Japan the foundations of their rapid industrial development were laid soon after the war, with a comprehensive land reform that really gave land to the tillers and the abolition of the hereditary *zaipatsus* which transferred the power to the professionals.

Some of the socialist countries like Hungary, Yugoslavia and Romania have also introduced managerial and organisational reforms in their state owned organisations by transferring power from the ministries to the enterprises with very positive results. Through these managerial reforms they were able to substantially increase their productivity, make their industries competitive, successfully compete in the export markets and usher in rapid technological change, without resorting to de-nationalisation. The basic principle involved in both these cases is: transfer of power to those who run the enterprise, be it a farm, corporate unit or a public sector undertaking, from the non-cultivating landlord, non-professional hereditary owner and the ministry official respectively.

In India, we have taken very few steps in this direction in all the three cases. The public sector is dominated by the ministry officials, both directly and indirectly; directly as many of the officials in the ministry who have very little experience in or aptitude for managing an enterprise are sent as heads of these organisations and later transferred back to the ministry. The indirect control is exercised through a complex system of financial and physical regulations that virtually make it impossible for the enterprise even to take minor decisions without the consent of the ministry officials. In the case of the private sector, the power mainly rests with certain hereditary families, even though they hold only minority shares. Some of them could be professional managers, while some of them are not. In any case, the power they enjoy does not depend on their managerial ability but on their inheritence. The main casualties in this structure are enterprise, innovation and development.[8]

In recent months there are signs of change in the economic policy of the Government of India. The contemplated change should not aim at taking the economy even closer to the neoclassical ideal of free trade, liberalisation, free operation of market mechanism, privatisation of the public sector and increased emphasis on price mechanism and price variables. These were the very policies tried in the Latin American countries with disastrous consequences. As has been theoretically emphasised by Schumpeter, and demonstrated by the countries of the Far East and some of the socialist countries like Yugoslavia, Hungary and to a lesser extent by Romania, development consists in the production of new goods, introducing new methods in production, creation of new markets and materials, all of which depend on non-price and non-free market variables like technological change, R and D and innovations. The precondition for exploiting technology and to be innovative is an institutional reform: land reform in the case of agriculture and managerial reform in the case of industry. The way to development is to launch a bold institutional reform, a massive effort to substantially improve the skill content of the population by fixing and achieving physical targets for literacy, and increasing the proportion of the skilled population, and to substantially increase the expenditures on R and D. Liberalisation and non-interference of the state cannot achieve any of these objectives. On the other hand, all these are possible within our resource constraint and their implementation depends on a clear perception of issues based on an understanding of the theories of development (not the theories that help us manage existing structures, namely, neoclassical, but those that help to change the structures and create new ones), and an examination of the policies pursued by countries that have succeeded and those that have failed with disastrous consequences.

## Notes

[This paper was presented at a UGC Faculty Improvement Seminar held at Kirori Mal College, Delhi University.]

[1] Some economists attribute these differences to religion and culture, namely, Hindu in the case of India and Buddhist in the case of Sri Lanka and Burma. For instance see Sen (1982).

[2] Refer to Little (1981).

[3] Refer to Bhagwati and Desai (1970), Bhagwati (1978), Krueger (1978).

[4] Refer to Siddharthan (1984a).

[5] For works emphasising the role of ethos, refer to Morishima (1982) and Siddharthan (1984a).

[6] See Schumpeter (1943: p 106).

[7] Schumpeter (1934: reprinted 1961: p 66), for the role of Schumpeterian variables in Indian industrial performance, refer to Siddharthan (1984b).

[8] The managerial reform suggested here is not as difficult to implement as it appears at first sight. First, the hereditary owners, by and large, own only a minority of shares, and second, certain industrial houses like the Tatas, have already elevated professional managers to the position of chairman and managing director.

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# 1983 Assembly Poll in Assam

## An Analysis of Its Background and Implications

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*In this joint paper a geographer and a historian combine to make a post-mortem of the controversial 1983 Assam elections, down to the constituency levels. With the help of maps and poll statistics which bring out the significance of the ethnicity factor in the 1983 sanguinary elections, the authors conclude that although the voter turn-out was just half of what it was in the preceding 1978 Assembly poll for the state as a whole, there was normal to high polling in 40 per cent of the 105 constituencies where elections were contested and could be completed. These normal-to-high poll constituencies are, by and large, coterminous with seven of Assam's sixteen districts.*

*The authors believe that the latest electoral rolls published recently did take care to eliminate suspected foreigners' names, as far as possible, without violating the Constitution and justice in the given tangled situation. To avoid another break-up of what is now Assam on an ethno-linguistic basis, the Assamese need for their self-preservation various guarantees other than the expulsion of pre-1971 settlers. This is one lesson that the Assamese public opinion is now increasingly adjusting itself to.*

THE purpose of this study is to assess the verdict, if any, of Assam's controversial elections which were held in February 1983, under conditions of widespread violence and obviously incompetent official arrangements of electoral facilities. Hence their credibility came under question. Though there are diverse opinions as to the validity of the elections, most people now agree that they were neither free nor fair.[1] Nevertheless, since electoral responses and conditions widely varied from region to region within the state, it is worth studying this variation and its implications. Under the given circumstances, all usual election issues lost their relevance. The only real issue forcefully brought before the electorate by the situation was that of poll boycott. The verdict given in this respect therefore needs an analysis. For, lessons drawn from it have a relevance to the constitutional requirement of drawing Assam once more into the electoral process, this time to complete the national parliamentary poll of December 1984.

The main focus of this paper is on the Brahmaputra Valley, the hot-bed of the so-called anti-foreigner agitation. At the time of the elections under review, the State of Assam had 10 districts and, of these, seven were in the Brahmaputra Valley. But, after a reorganisation, now it has 16 such districts—12 in the same Valley, two in the Barak Valley and two in the hill region. Throughout this paper, all references are to these new districts, unless otherwise stated. We propose to introduce briefly the background and immediate antecedents of the elections first, and then proceed with the analysis of their results.[2]

### I

For the last five years, Assam is in the grip of an organised mass agitation which, while having its periodic peaks and troughs, has not yet died out. Detect, disenfranchise and deport or disperse all 'foreigners'—these are the main slogans around which the agitation was built up and is still sustained by a united front of several local organisations, with the backing of the local press media.[3] The blanket term 'foreigner' includes, *inter alia*, mostly the non-Muslim displaced persons from erstwhile East Pakistan who came over to Assam in their thousands during 1951-1971 and were treated as bona fide refugees even under the Immigrants (Expulsion from Assam) Act of 1950. They are now being asked to get out, irrespective of their stage of assimilation and naturalisation, together with other foreigners.

If the agitation leaders are to be believed, then a quarter of Assam's population today, is composed of such 'foreigners' of all brands. Because of the anti-foreigner campaign rising to its peak in late 1979 and early 1980, every fourth man in Assam became a suspect and remains so in the eyes of the indigenes. This resulted in the harassment of even pre-1951 old settlers of Bengali origin, both Hindus and Muslims. They as well as the settlers of Nepali origin were subjected to frenzied foreigner-hunts from time to time. The fear of loss of national identity on the part of the majority community thus led in its turn to the fear of loss of citizenship, hearth and home on the part of the minority communities of Bengal and Nepal origin. Means adopted by the agitationists to achieve their ends were, from the very outset, both violent and non-violent. They tried to coerce minorities to join their ranks and declared that no counter-agitation by all-India political parties or by regional minority organisations would be tolerated. All-out poll boycott until settlement of the foreigner issue emerged as the major agitational plank since mid-1979, and it remains so till date. Consequently, the routine revision of the electoral rolls had remained long suspended until its recent resumption during 19 November-31 December 1984, after these were for the last time intensively revised in September 1979. The agitation continues to have several other dimensions as well, but the focus of this paper is limited only to its electoral aspects, particularly in respect of the Assam Legislative Assembly.

The Assam agitation was at its height during the critical juncture of political uncertainties and drift that came in the wake of a chain of disturbing events in quick succession in New Delhi and Dispur. After the collapse of prime minister Morarji Desai's government the next prime minister Chaudhuri Charan Singh, too, had to resign. The Sixth Lok Sabha was dissolved on 22 August 1979; fresh parliamentary elections were announced; and Charan Singh's government at the Centre continued meanwhile only as a caretaker one. The state government of Assam, too, was caught in a political crisis following the fall of Golap Borbora's Janata ministry on September 8, 1979. From this time onwards till January 14, 1980, when Indira Gandhi resumed power at the Centre, the agitationists were practically in control of Assam's administration. The police, the bureaucracy, the lower echelons of the judiciary and even the Guwahati Broadcasting Station of the AIR—all were found colluding to boost the agitation. An intensive revision of the electoral rolls on the basis of house-to-house enquiries, in preparation of the Seventh Lok Sabha poll of 1980, was indeed undertaken. But in the midst of incessant bandhs, blackouts, satyagrahas, oycotts, strikes and other obstructions, nese could be revised and finally publish- d on December 2, 1979 amid confusion nly with great difficulty. Because of road lockades, gheraos of prospective election andidates and other coercive measures dopted by the agitationists, no nomina- ons could be filed in 10 and no election ould be held in 12 of Assam's 14 parlia- entary constituencies. The government lently accepted this election fiasco as a *it accompli*, not to be disturbed by a esh electoral process. It was decided so, espite Assam's remaining largely un- presented on the body of the Seventh ok Sabha. This policy however hardly cured peace.

Upto the end of 1979, there were only few stray cases of suspected foreigners their alleged abetors being killed by sailants. But in the first week of January 980, there followed large-scale massacres settled linguistic and religious minori- es, particularly in North Kamrup, where e situation had to be brought under con- ol by calling out the army.[4] After Indira andhi had taken over, there was yet nother spell of massacres of the minori- es in the last week of May, particularly the district of Nowgong, when they ied to take their counter-agitation to the reets. Despite efforts from every quarter nce then towards finding a solution to e foreigner problem and despite long- awn bipartite and tripartite talks, no ngible solution was indeed ever in sight. ending settlement, the government anted to go ahead meanwhile with the ork of detecting at least the post-1971 reign immigrants, about whose forei- ner status there was no controversy, and en of deleting their names from the elec- ral rolls. But as the agitationists would ot listen even to this interim proposal, e government did not pursue the mat- r seriously and allowed the stalemate to ntinue.

Even as the negotiations dragged on for ree long years, the over-all situation did ot remain wholly peaceful.[5] The State ssembly having been dissolved on arch 19, 1982, the permissible span of esident's Rule in Assam was fast com- g to its end, thereby threatening to bring its wake a constitutional deadlock. me Opposition parties approved of an nendment to the Constitution at this age, so that President's Rule could be ex- nded for one more year to avoid the her alternative of going ahead with the 83 polls, then fraught with the danger large-scale inter-ethnic clashes. But they ere not prepared to extend timely assur- nce of parliamentary support that the ling party needed for the purpose. In y case, the left parties were in principle opposed to such an ad hoc measure. Under the circumstances, constitutional compulsions prevailed. The government broke off the Delhi talks rather late on January 5, 1983 and, next day, the decision for holding elections in Assam to fill up the twelve vacancies in the Lok Sabha and to reconstitute a new Legislative Assembly was announced.

The electoral process started with the validation of the 1979 rolls for the 1983 poll. The process faced mounting resistence after the talks were broken off and agitation leaders returning from the talks were arrested. The no-poll campaign, combining both violent and non-violent tactics, was emotionally surcharged, well-organised and widespread. In contrast, the pro-poll political parties failed to launch regular campaigns in most parts of the state, because of the angry and violent mood of a section of the people. Some prospective candidates even failed to submit or had to withdraw their nomination papers for the same reasons. For instance, a candidate of the Left and Democratic Alliance (LDA) withdrew his nomination after his minor son was kidnapped and held to ransom. The proposer of a Congress(I) candidate was hacked to death. Such violent incidents were many.

Nevertheless, unlike in 1980, the nominations were not numerically unimpressive. Altogether 628 nominations were filed for the 126 Assembly seats as against 1,060 in the previous Assembly poll of 1978; and of these, 527 survived rejections and withdrawals as against 938 five years before. About 9,000 government employees, including IAS trainees, were inducted—they were mostly air-lifted—from other states to run the polling machinery, as local employees had refused to co-operate; this for fear of reprisals in many cases. Draconian laws were passed and the press was gagged to control the agitation. Para-military forces were detailed heavily all over the disturbed areas. Since the ball was now in its court, the Election Commission alone could have, on its own, cancelled the election process at this stage on grounds of breakdown of normal conditions for a free and fair election. But it did not. There was outbreak of fresh spells of large-scale violence and communal clashes even before the polls took off.

Elections to 62 Assembly seats were held on February 14, to 37 on February 17, to 16 on February 20 and to 11 on February 21—all this in a staggered fashion to minimise the risks of dislocation due to outbreak of violence. Only a week before the poll started, the pro-poll opposition parties had complained of being severely handicapped in their campaigns. All motor vehicles available for hire, they said, were found either requisitioned by the government or already booked by the ruling party. Neither could they freely move in the constituencies for lack of protection. Yet they did not withdraw from the polls they had begun by then to describe as farcical. The six-party Left and Democratic Alliance (LDA)—consisting of Congress(S), CPI(M), CPI, RCPI, RSP and SUC—tried to project an alternative to the Congress(I). The Plains Tribal Council of Assam (PTCA), CPI(ML), Forward Bloc and a number of independents were also in the fray. The BJP, the Janata, and the Lok Dal, however, actively supported the call for poll boycott.

The elections, held on a war footing, got drowned in blood in many areas. Some 150 agitators died of police firing when they tried to attack polling booths, destroy bridges or cut up roads with a view to preventing voters from exercising their franchise. Agitationists led attacks on pro-poll individuals and villages and, in turn, faced retaliatory counter-attacks. Clashes, which were essentially of political nature to begin with, thus ended up largely as communal massacres—even genocide at Nellie for instance—as it had happened on a smaller scale even before in North Kamrup in the early part of January 1980. The outbursts of violence both then and later were apparently preplanned. Clandestine leaflets were in circulation in thousands, instructing people how, to act, and there is evidence of large quantities of arms and ammunitions having been piled up and put into use by the extremists. As a result, the 1983 polls could not take place on the same dates as were originally fixed, in respect of as many as 43 constituencies. In such cases polls were adjourned to subsequent dates not later than February 21.

The message of violence was carried even in the state's premier daily newspapers. On the election day of February 16, 1983 when the Brahmaputra Valley was burning, the *Daily Assam Tribune* of Guwahati, for instance, carried a significant quotation under the caption "MESSAGE FOR TODAY" on top of its editorial column. It was as follows: "The very first essential for success is a perpetually constant and regular employment of violence—Adolf Hitler". "Message for Today" appeared in the same paper and in the same place, again, on the last day of the elections, i e, on February 21, in the form of yet another quotation. This time it was from Benito Mussolini: "There is a violence that liberates, and a violence that enslaves; there is violence that is moral and a violence that is immoral"

Such messages were not missed by people those were meant for.

The guresome stories of Nellie, Gohpur, Goreswar-Khairabari, Silapathar, Chamaria and Dhula are too well known to be repeated here. According to official estimates, no less than 4,000 men, women and children—mostly of the religious and linguistic minority communities—died as a result of the organised armed attacks and arson triggered by the agitation.[6] More than three lakh people of both majority and minority communities were turned homeless and had to be given temporary shelter in government relief camps.

## II

The poll results were as could be expected under the given circumstances. In as many as 13 Assembly constituencies no poll could be held at all and in three, though partially held, the poll could not be completed. In one constituency, Biswanath, the election was countermanded as the Congress(I) candidate was killed by a group of agitators when he was addressing an election meeting. Thus, because of the fierce opposition from a major section of the electors of the Brahmaputra Valley, there was no poll in as many as 17 constituencies. In another four constituencies of the same Valley, Congress(I) candidates got themselves elected unopposed as the agitators succeeded in forcibly preventing the other candidates from filing their nominations. People had therefore opportunity to actively exercise their franchise only in the remaining 105 constituencies, representing altogether 7,302 thousand voters out of the state's 8,682 thousand strong electorate.[7]

In all, 2,385 thousand voters or 32.7 per cent of the electorate in the contested constituencies cast their votes.[8] This was an all-time record low poll in percentage terms for any state-level general elections in India (except for Nagaland). The previous state averages had ranged between 45 and 67 per cent ever since the introduction of universal adult suffrage in 1952. Yet it is of no small significance that as much as one-third of the voters, who had an opportunity to vote, were able to assert their franchise in defiance of the boycott call, backed by organised violence. In 23 of the 105 constituencies, the polling rate was above 60 per cent (Table 1).

The regional variation pattern in the voting behaviour comes out sharply when we take up constituency-wise details. In the four contiguous districts of Lakhimpur, Sibsagar, Jorhat and Dibrugarh—all in the geographical region of Upper Assam—the respective highest constituency-wise percentage polling rates were 9.6; 22.6; 13.7 and 26.1. The corresponding respective lowest percentage rates were 0.4; 1.4; 1.5 and 6.3. The district averages were accordingly, as low as 4.4 per cent; 8.6 per cent; 3.5 per cent and 16.8 per cent, respectively. In the adjoining district of Sonitpur, which is also geographically very much a part of Upper Assam, the average polling rate was as low as 24.8 per cent. Polling there could however be held only in two of its eight constituencies, Tezpur and Rangapara, where the polling rates were 10.5 per cent and 40.1 per cent, respectively. However, while the polling was very low in some parts of the state, it was high to medium in other parts.

In the central districts of Darrang and Nowgong, the comparable district average rates were 49.5 per cent and 28.0 per cent, respectively. In Darrang, the highest constituency-wise polling rate was 66.6 per cent at Dalgaon and the lowest, 26.3 per cent, at Panery. Darrang district is indeed geographically very much a part of the Lower Assam region. In Nowgong district, the highest constituency-wise polling rate was 54.4 per cent at Dhing and the lowest rate was 1.9 per cent at riot-torn Marigaon. Darrang and Nowgong saw more of poll-time communal violence in 1983 than other parts of Assam.

In terms of Assembly seats, Kamrup of Lower Assam is now the state's largest electoral district with 16 seats, and there was electoral contest in 14 of these. The district's highest and lowest constituency-wise polling rates were 50.2 per cent and 0.4 per cent—recorded respectively at Tamulpur and Dharampur. The polling average in Kamrup was 12.3 per cent,

TABLE 1: NUMBER OF CONSTITUENCIES GROUPED DISTRICT-WISE ACCORDING TO VOTING TURNOUT

| District | Average Poll Per Cent | Number of Constituences in which Per Cent of Votes Polled Was | | | | | Total Seats | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Less than 10.0 | 10.1 to 30.0 | 30.1 to 50.0 | 50.1 to 60.0 | More than 60.1 | Contested | Unopposed | Deferred | |
| Dhubri | 64.0 | — | — | 1 | 1 | 5 | 7 | — | — | 7 |
| Kokrajhar | 67.7 | — | — | — | — | 4 | 4 | — | 1 | 5 |
| Goalpara | 38.7 | — | 1 | 2 | — | 1 | 4 | — | 3 | 7 |
| Barpeta | 48.3 | — | 1 | 2 | 2 | 2 | 7 | 1 | — | 8 |
| Kamrup | 12.3 | 6 | 7 | — | 1 | — | 14 | 2 | — | 16 |
| Darrang | 49.5 | — | 1 | 1 | 1 | 1 | 4 | 1 | 2 | 7 |
| Sonitpur | 24.9 | — | 1 | 1 | — | — | 2 | — | 6* | 8 |
| Nowgong | 28.0 | 3 | 4 | 2 | 4 | — | 13 | — | 1 | 14 |
| Jorhat | 3.5 | 8 | 1 | — | — | — | 9 | — | 1 | 10 |
| Sibsagar | 8.6 | 4 | 2 | — | — | — | 6 | — | — | 6 |
| Lakhimpur | 4.4 | 6 | — | — | — | — | 6 | — | — | 6 |
| Dibrugarh | 16.8 | 2 | 7 | — | — | — | 9 | — | 3 | 12 |
| Brahmaputra Valley | 21.2 | 29 | 25 | 9 | 9 | 13 | 85 | 4 | 17 | 106 |
| North Cachar Hills | 55.9 | — | — | — | 1 | — | 1 | — | — | 1 |
| Karbi Anglong | 40.7 | — | — | 3 | 1 | — | 4 | — | — | 4 |
| Karimganj | 58.4 | — | — | — | 3 | 2 | 5 | — | — | 5 |
| Cachar | 64.5 | — | — | 1 | 1 | 8 | 10 | — | — | 10 |
| Assam | 32.7 | 29 | 25 | 13 | 15 | 23 | 105 | 4 | 17 | 126 |

*Notes:* The obvious printing mistakes in our basic statistical source have been corrected by way of internal cross-checking. There still remains a small discrepancy (of 90 votes) in the total votes polled.

* In one of these, election was countermanded.

*Source:* Same as n 2 and "Report on the General Elections to the Legislative Assemblies of Andhra Pradesh, Meghalaya, Arunachal Pradesh and Mizoram, 1978, Statistical" (Election Commission of India, New Delhi, 1978).

while in the adjacent district of Barpeta it was as high as 48.3 per cent. There the constituency-wise polling rates ranged from as high as 70.9 per cent at Baghbar to as low as 28.4 per cent at Bhawanipur wherefrom hailed the agitation's first 'martyr' as far back as in December 1979.

Coming to the other districts of Lower Assam, one finds the average polling rates to be respecitvley 64.0 per cent and 67.7 per cent in Dhubri and Kokrajhar districts, but only a low 38.7 per cent in Goalpara district. The constituency-wise polling rates ranged from 44.4 per cent at Bilasipara-East to 79.4 per cent at Mankachar in Dhubri district and from 62.6 per cent in Sidli (ST) to 73.4 per cent in Kokrajhar-West (ST) in Kokrajhar district. However in Goalpara the poll rates ranged between two extreme poles—13.4 per cent at Dudhnoi (ST) and 65.7 per cent at Jaleswar. The last-mentioned constituency bordered on the Dhubri district.

In the hill district of Karbi Anglong, which enjoys a measure of autonomy under the Sixth Schedule of our Constitution, the average polling rate was 40.7 per cent, while the actual polling rates of its four constituencies ranged between 30.8 per cent and 51.7 per cent. In the other hill district under the Sixth Schedule, the North Cachar Hills, which had only one constituency, the polling rate was 55.9 per cent. In the two districts of the Barak Valley, i e, Cachar and Karimganj, the respective average polling rates were 64.5 per cent and 58.4 per cent as against 59.7 per cent and 61.4 per cent of the comparable 1978 poll. The constituency-wise polling rates in these two districts ranged from the highest 75.6 per cent at Sonai to the lowest 46.9 per cent at Dholai (SC). Cachar is the state's only district where, in fact, an increase in the average polling percentage over the last Assembly elections was recorded.

Because of the abnormal political situation, polling was in general depressed, as compared to 1978, all over the state barring the Barak Valley. In fact, with the exception of a lone constituency (South Salmara) in Dhubri and another (Baghbar) in Barpeta, every where else outside the two Barak Valley districts the constituency-wise polling rate was lower than what it was in 1978. Even in the latter two districts, five out of their 15 constituencies recorded lower rates. However, the decrease there was small and it had nothing to do with any anti-poll agitation. As can be seen from our constituency-wise detailed statistical analysis produced elsewhere (Occasional Paper No 72; CSSSC, Calcutta, 1985), the polling rate was below 50 per cent in as many as 67 constituencies of Assam in 1983, as against only one in 1978; and below 45 per cent in as many as 63, as against none in 1978 (see Fig 1).

The average polling rate for the state which was 66.9 per cent in 1978 came down to slightly less than half of it in 1983, i e, to 32.7 per cent. The polling rate in any individual constituency never exceeded 85 per cent in Assam, whether in 1983 or in any previous election. For instance, the highest such rate was 79.4 per cent in 1983 as against 83.4 per cent in 1978. So, if 85 per cent polling was the maximum realisable for a constituency or even for the state electorate as a whole under any circumstances—in fact, either average had always been much lower than this—and given the normal level of voters' apathy, the divide to determine whether a majority of the active voters in a constituency had voted or not could then be set at half this realisable ceiling, i e, at 42.5 per cent. To be on the safer side, we propose to take a higher figure, i e, 45 per cent, as this divide to cut off high poll areas from the rest.

Altogether 42 constituencies in 1983, on this criterion, constituted the high poll area. In 23 of them polling was above 60 per cent and in 19 it varied from 46 per cent to 60 per cent. Constituencies voting from less than one to 30 per cent may be called low poll areas. Altogether 54 such constituencies were there. In 21 of them polling was upto five per cent and no more; in 19 from above five to 15 per cent and in 14 from 15 per cent to 30 per cent. Finally, constituencies within the voting range of 30 per cent plus to 45 per cent, numbering nine may be called medium poll areas under the given abnormal circumstances. This three-fold classification into high, low and medium poll zones may be somewhat arbitrary but, as we shall see soon, it helps encapsulate the situation neatly and intelligibly on a map (Fig 1). In this classification, we could have as well used the word 'normal' for 'high'.

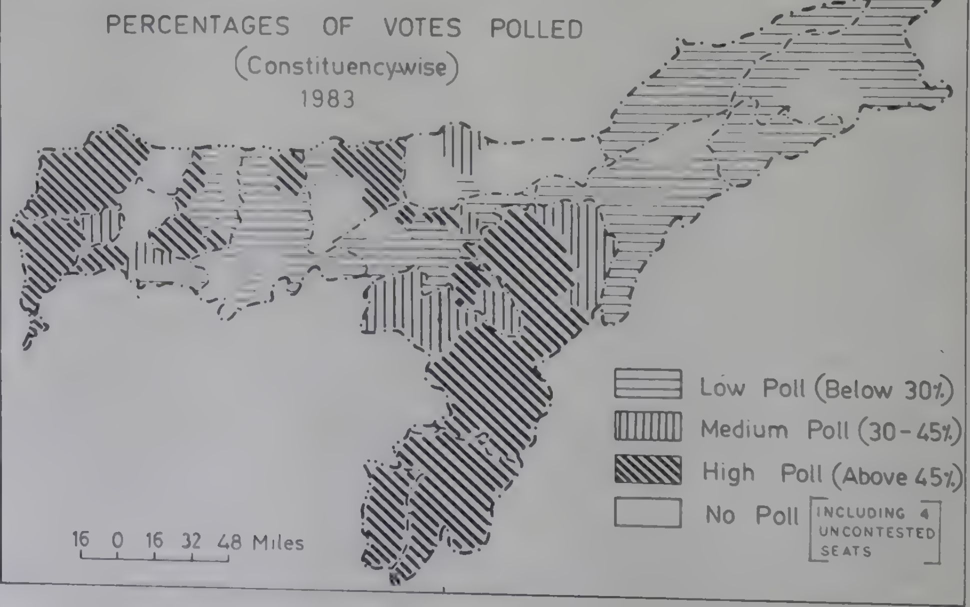
The constituencies classified into three zones—high, low and medium—do not, however, form as many compact areas when shown on the map. Nor are they formed of whole districts or subdivisions as such. Nevertheless, these zones reflect more precisely the regional voting patterns which have already emerged from our preliminary district-level approach. One or two constituencies here and there, however, break the contiguity or compactness of an otherwise uniform area. Besides, the 21 (17 + 4) no-poll constituencies also clumsily intervene and interfere with our classification.

In the high poll zone, as defined, are included the districts of Cachar, Karimganj, North Cachar Hills and Kokrajhar. So are half of Karbi Anglong district, covering the two constituencies of Howraghat (ST) and Diphu (ST) and the whole Dhubri district with the exception of one constituency, Bilasipara-East. Jaleswar and Goalpara-West of Goalpara district; Sorbhog, Jania, Baghbar and Chenga of Barpeta district; Tamulpur of Kamrup district; Dalgaon, Udalguri and Majbat of Darrang district; and Dhing, Rupahihat, Jamunamukh and Hojai of Nowgong district—these 14 scattered constituencies as belong to the high poll zone.

On the other hand, the low poll zone included the four contiguous districts of Lakhimpur, Sibsagar, Jorhat and Dibrugarh as well as the Tezpur constituency of Sonitpur district—all in Upper Assam. The whole of Kamrup district with the exception of Tamulpur (polling 50.2 per

FIGURE 1

PERCENTAGES OF VOTES POLLED (Constituency-wise) 1983



cent) and its two no-poll constituencies; Jagi Road (SC), Marigaon, Batadrava, Nowgong, Barhampur and Kaliabor—these six constituencies of Nowgong district; Bhabanipur constituency of Barpeta district; Panery of Darrang and Dudhnoi (ST) of Goalpara district—all these were also included in the same. Altogether, as said, there were 54 low poll constituencies.

The 21 no-poll constituencies—six in Sonitpur, three each in Darrang, Goalpara and Dibrugarh, two in Kamrup and one each in Kokrajhar, Jorhat, Barpeta and Nowgong districts—these were *terra incognito*. Nothing can be said of their voting behaviour, unless the forced vacuum in these constituencies be interpreted as sign of their negative political will rather than as a measure of the striking power of some organised sections of the relevant constituencies. In any case, they were hardly expected to yield high poll even if they were exposed to voting, given their mixed social compositions and disturbed conditions. This will soon be explained.

Finally, the nine constituencies of the medium poll zone included Rangapara of Sonitpur, Samaguri and Lumding of Nowgong district; Bilasipara-East of Dhubri; Goalpara-East of Goalpara; Barpeta and Sarukhetri of Barpeta district; and Bokajan (ST) and Baithalangso (ST) of Karbi Anglong. The medium poll areas were relatively scattered as compared to the areas of high and low poll zones.

Before we pass to the next section to correlate the voting behaviour to ethno-demographic factors, let us examine the question of rigging, which was complained of and was not impossible under the given circumstances. In the face of fierce resistance, many polling stations had to be shifted at short notice; there was chaos and confusion all round. Even booths set up hardly functioned on time. Scores of ballot boxes went empty. Under such circumstances, and given the large-scale absenteeism on the part of candidates' polling agents, authorities were said to have manipulated votes. This was the nature of the alleged rigging in the highly disturbed areas, where public vigilence was made impossible by the situation and where voting in any case remained extremely low. In one case, the LDA candidate failed to get a single vote—even that of his own—as he could not locate his own polling station in the Dharampur constituency. The particular station perhaps existed only on paper or was a mobile one. In as many as five cases, respective candidates of both ruling and opposition parties could get themselves elected because somehow each of them could altogether mobilise from 266 to 700 votes. In low and medium poll zones even hard-core party cadres were too obviously afraid to turn up to cast their votes. Rigging, if any, however, could not have in any case compensated the pro-poll parties for the total votes they lost in the process.

So far as the high poll zone is concerned, rigging was not necessary at all for returning the ruling party candidates, given the panic-stricken swing of the minorities in its favour under the prevailing conditions of the anti-foreigner agitation. Also, since our purpose is to assess regional variations in the response to the poll boycott, rather than to the party-wise distribution of votes as such, the question has little relevance to our anlaysis. There does not seem to be any reason to believe that the inter-regional variations within the state were affected by any factor such as 'rigging' distinguishable from the general situation of abnormality.

TABLE 2

| District | Total Voters | Number of Voters in Active Constituencies | Votes Polled | Per Cent Votes Polled | | Total Population | Per Cent of Religion | | Per Cent of Scheduled Tribes | Per Cent of Speaking | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 1983 | 1978 | | Hindu | Muslim | | Assamese | Bengali | Other Languages |
| | | 1983 | | | | | | | 1971 | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| Dhubri | 474,924 | 474,924 | 303,987 | 64.0 | 79.3 | 851,045 | 53.9 | 42.3 | 2.4 | 80.2 | 12.8 | 7.0 |
| Kokrajhar | 324,676 | 264,057 | 178,770 | 67.7 | 79.7 | 710,066 | | | 28.7 | 36.8 | 18.4 | 44.8 |
| Goalpara | 449,764 | 256,646 | 99,401 | 38.7 | 69.3 | 663,992 | | | 12.7 | 70.9 | 13.1 | 16.0 |
| Barpeta | 522,311 | 444,533 | 214,942 | 48.3 | 70.2 | 971,737 | 70.0 | 28.9 | 8.0 | 77.1 | 16.7 | 6.2 |
| Kamrup | 1,093,227 | 947,009 | 116,316 | 12.3 | 66.9 | 1,882,446 | | | 11.7 | 76.5 | 10.1 | 13.4 |
| Darrang | 438,337 | 230,283 | 113,911 | 49.5 | 69.2 | 834,544 | 45.4 | 16.2 | 15.4 | 63.4 | 14.7 | 21.9 |
| Sonitpur | 469,251 | 115,737 | 28,847 | 28.0 | 73.7 | 901,614 | | | 6.3 | 62.3 | 12.0 | 25.7 |
| Nowgong | 1,086,019 | 1,012,024 | 283,327 | 28.0 | 67.3 | 1,680,895 | 59.7 | 39.4 | 7.4 | 73.7 | 19.3 | 7.0 |
| Jorhat | 695,629 | 631,706 | 21,833 | 3.5 | 63.7 | 1,062,869 | 92.2 | 5.3 | 8.1 | 84.2 | 3.9 | 11.9 |
| Sibsagar | 408,868 | 408,868 | 35,123 | 8.6 | 62.7 | 774,560 | | | 5.1 | 87.9 | 3.4 | 8.6 |
| Lakhimpur | 444,089 | 444,089 | 15,776 | 4.4 | 66.5 | 711,600 | 91.4 | 4.9 | 28.8 | 61.2 | 5.9 | 32.9 |
| Dibrugarh | 788,737 | 586,186 | 98,513 | 16.8 | 69.5 | 1,411,119 | | | 5.8 | 64.2 | 11.0 | 24.8 |
| Brahmaputra Valley | 7,195,832 | 5816,062 | 1,510,746 | 26.0 | 68.2 | 12,456,477 | 69.2 | 23.3 | 10.7 | 71.0 | 12.1 | 16.9 |
| North Cachar Hills | 52,161 | 52,161 | 29,201 | 55.9 | 64.2 | 76,047 | 77.0 | 0.9 | 69.1 | 2.8 | 14.4 | 82.8 |
| Karbi Anglong | 223,903 | 223,903 | 91,193 | 40.7 | 57.7 | 379,310 | 90.3 | 1.3 | 55.4 | 13.6 | 9.7 | 76.7 |
| Karimganj | 426,879 | 426,879 | 249,127 | 58.4 | 61.4 | 582,108 | 59.9 | 40.0 | 0.1 | 0.3 | 83.0 | 16.7 |
| Cachar | 783,357 | 783,357 | 505,003 | 64.5 | 59.7 | 1,131,210 | | | 0.3 | 0.5 | 75.1 | 24.4 |
| Assam | 8,682,138 | 7,302,602 | 2,385,270 | 32.7 | 66.9 | 14,625,152 | 68.7 | 24.6 | 10.9 | 60.9 | 19.7 | 19.4 |

*Sources:* (1) Same as in Table 1 and (2) Census of India, 1971, Series 3, Assam, Part II - A,General Population Table, pp 148-203, Assam, Part 2c (i) Social and Cultural Tables, pp 4-5, Assam, Part 2c (ii) Social and Cultural Tables, pp 96-120.

## III

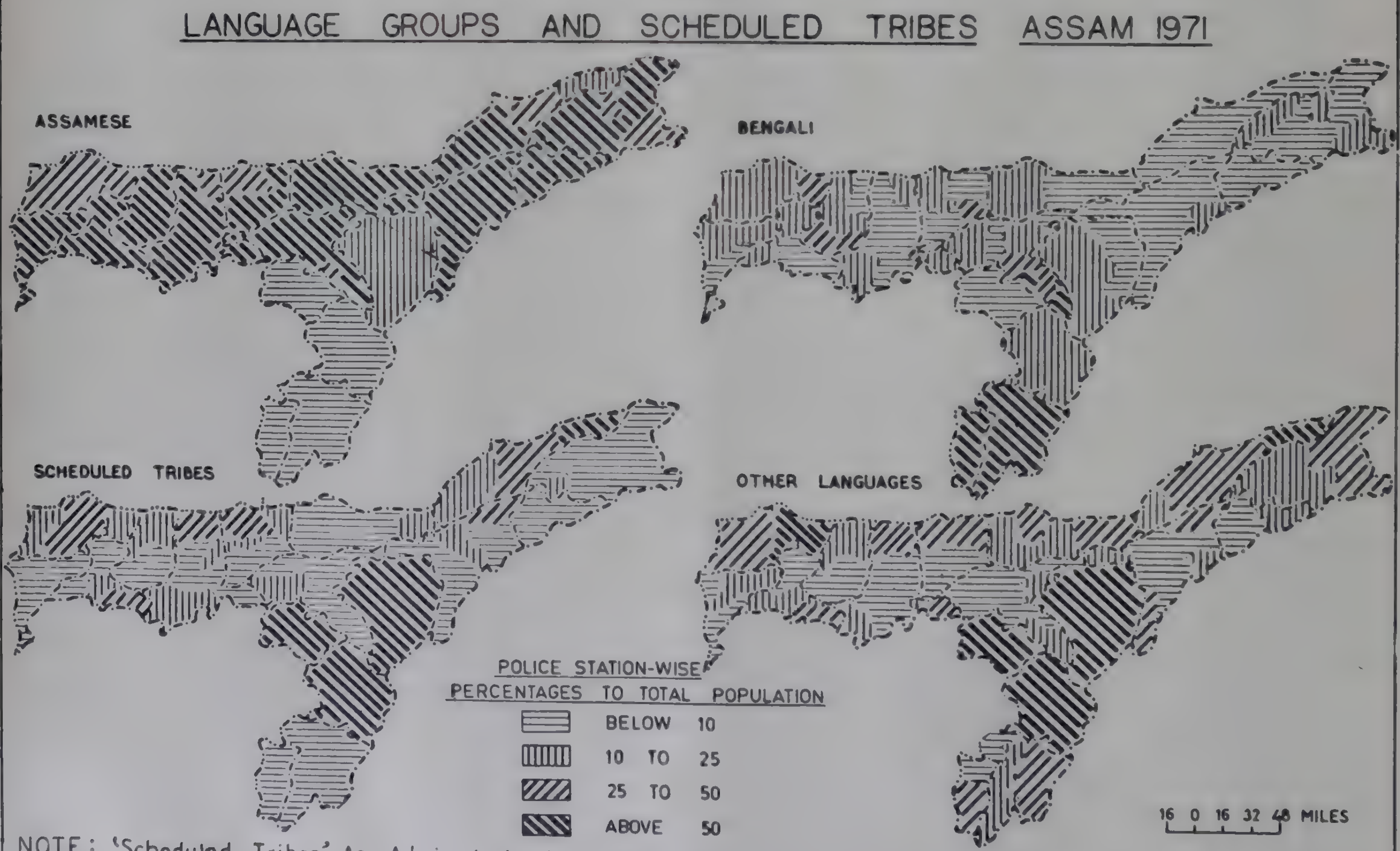
We shall now make an attempt to explain the regional peculiarities of the voting behaviour with reference to religion, language and tribal/non-tribal identity—the three variables which had considerable influence on it. In 1983, in particular, these community ties played obviously an unusually larger role in Assam. But before we do so, let us first look into their respective magnitudes in the population of the state as such and its several districts (Table 2). Fig 2 shows the distribution of languages and the scheduled tribes police station-wise. Religion-wise population data are available for the old census districts only, as these districts were constituted from time to time upto 1971, and not for units below this level. So for the new districts, as such, no religion-wise distribution of population can be shown.

In the census of 1971 (the last one for Assam till date), the Hindus accounted for 72.5 per cent and Muslims 24.6 per cent of the state's total population. These percentages were, more or less, the same also in the censuses of 1951 and 1961. The proportion of Muslims in the combined population of the districts of Dhubri, Kokrajhar and Goalpara was 42.9 per cent in 1951; 43.3 per cent in 1961 and 42.3 per cent in 1971. In Cachar and Karimganj districts taken together, the corresponding figures were 38.5 per cent, 39.2 per cent and 39.9 per cent, respectively. This proportion of Muslims remained, more or less, steady around 29 per cent in the combined population of Kamrup and Barpeta, and at 40-41 per cent in Nowgong over all these census years. In the old district of Darrang (inclusive of Sonitpur), this proportion first rose from 17 per cent in 1951 to 19.4 per cent in 1961 and then came down to 16.2 per cent in 1971. It was negligible in every other district; in the four Upper Assam districts of Lakhimpur, Sibsagar, Jorhat and Dibrugarh, taken together, no more than five per cent and in the two hill districts still less. Over the three decades ending 1971, the proportion of the Muslims in the population, both at the state and district levels, thus tended to fall slightly while that of the Hindus tended to rise.

Like the distribution of religion, that of language, too, is interesting. As per the 1971 census, people with Assamese as mothertongue accounted for 61 per cent, Bengali-speakers for 20 per cent, Hindi-speakers for 5.4 per cent and speakers of indigenous tribal languages for about 8 per cent of the state's population. These percentages were not much different from those prevailing in 1951 and 1961, the variations being limited within one per cent range. For instance, Assamese-speakers' ratio to the state's population constituted 62 per cent and Bengali-speakers' 21 per cent in 1951. Languages, however, were not evenly distributed over the state. Concentrated almost entirely within the 12 districts of Brahmaputra Valley and accounting for about 71 per cent of its population, Assamese-speakers remained—as it still remains—the dominant linguistic community not only there as a whole but also in each of its districts throughout 1951-71. In 1971 the ratio of Assamese-speakers to district population ranged in this valley from the lowest, 61.2 per cent, in Lakhimpur to the highest, 87.9 per cent, in the new district of Sibsagar. Compared to Assamese language, Bengali had a wider distribution. Half of the state's Bengali-speakers lived in different districts of the Brahmaputra Valley and accounted for 12 per cent of its population. The other half, concentrated in the Barak Valley, accounted for 77.7 per cent of its population as against 0.5 per cent accounted for by Assamese-speakers.

These two distinct linguistic regions

FIGURE 2



LANGUAGE GROUPS AND SCHEDULED TRIBES ASSAM 1971

NOTE: 'Scheduled Tribes' As Administratively Defined Irrespective Of Language Spoken apart, there is a third linguistic region—the twin hill districts of North Cachar Hills and Karbi Anglong—where their own tribal languages dominate. Assamese and Bengali-speakers together accounted for only 22.4 per cent of this region's population in 1971. Assamese accounted for 13.6 per cent in Karbi Anglong and only 2.8 per cent in North Cachar Hills; while Bengali accounted for 9.7 per cent in the former and for 14.4 per cent of the total population in the latter district.

Our third variable, is caste and tribal solidarity. In 1971 scheduled castes constituted only 6.4 per cent of the state's population, and caste feelings as such have generally always remained on a low key as compared to other states. For some years preceding the agitation, Assam was indeed under the shadow of caste politics in a novel way. People of intermediate castes, labelled as Other Backward Classes or Communities (OBC), successfully combined on various political platforms to oust higher caste Hindus, such as Brahman, Kayastha and Kalita, from their niches of power. Data on different non-scheduled castes are not severally available for any census year after 1931. Besides, the division between the OBC and the higher castes ceased to be a factor after the phenomenal rise of the anti-foreigner united front, well until the 1983 poll. So the caste factor may be overlooked, but not the tribal factor for purposes of our analysis. The scheduled tribes accounted for almost 11 per cent of the state's population in 1971 concentrated in the districts of North Cachar Hills, Karbi Anglong, Lakhimpur and Kokrajhar. There they constituted 69.1 per cent, 55.4 per cent, 28.8 per cent, and 28.7 per cent of the corresponding relevant populations. While fully sharing the anti-foreigner sentiments, the tribal populace was divided on the question of giving support to the agitationists' anti-poll stand. Since they suffered from the fear of being culturally swamped also by the non-tribal Assamese, they remained lukewarm towards the call of the AASU and its allies.

The above ethno-demographic profile needs some further clarification. Large-scale migrations from time to time in the past were responsible for its heterogeneity. Historically it is observed that both autochthonous (tribal) and migrant linguistic groups gravitated over the centuries towards the Assamese (Asamiya) language and tended to adopt it in due course. This Asamiyaisation process is still active resulting in a very fast—indeed fantastically high—rate of growth of the Assamese-speaking population over the last half-century.[9] Linguistic converts of tribal and migrant origin of this period, most of whom still continue to be bilingual, thus account for a sizeable proportion of the censused Assamese-speakers and complicate the situation. Muslims of East Bengal origin predominate among these linguistic converts in the central district of Nowgong, as well as, in Lower Assam. Non-Muslims of immigrant tea labour origin and Ahoms predominate, on the other hand, among the linguistic converts in Upper Assam.

On the foreigner issue, it is likely that no neo-Assamese of Bengali or Nepali origin share the fear complex of the autochthonous Assamese; on the contrary, they may even have sympathy for the post-1951 immigrants of their own respective ethnic stocks. The neo-Assamese linguistic converts from tea labour communities, on the other hand, are likely to be, by and large, somewhat indifferent to or at least less involved in the whole question. In any case, they have generally remained aloof from the action programme of the agitation, though not explicitly opposed to it. Bengali Hindu refugees and Nepali settlers have generally retained their languages, but not all of them. On the whole, a considerable number of them, Muslim immigrants from East Bengal in general and about half of the plains tribals of the Brahmaputra Valley appear to have firmly adopted Assamese as their first language. So have the indigenous Rajbhansi community of Lower Assam who used to be generally returned as Bengali-speaking in the old district of Goalpara upto 1931. In Assam they are recognised as a 'backward community' today, whereas in West Bengal they are a scheduled caste and their mothertongue is returned as Bengali.

While analysing the poll performance within the above demographic profile, some limitations are to be faced. The 1971 census data on religion are not available below the then district level. Secondly, the speakers of a particular language as such were not cross-classified in any census in terms of religion, nor were the adherents to a religion as such also noted language-wise. Hence in the absence of such cross-classifications, it is not possible to ascertain what percentage of the Assamese-speaking population were Muslim by faith or what percentage of the Muslim populace were Assamese-speaking. How many were Assamese-speaking by origin and how many by choice cannot also be ascertained. Data on languages and tribal identity are available downward upto the police station level. There were 127 police stations (*Thana*) in Assam on March 31, 1978 covering its 126 constituencies. But there were only 103 such police stations at the time of the 1971 census, as against the same 126 constituencies. Since police stations and constituencies were found to be coterminous by and large in most cases, their data can be correlated for our purpose. In some cases, however, the constituency involved more than one police station; or a police station, more than one constituency. To that extent, our laboured exercise to establish correlation may be somewhat deficient, but the margin of such deficiency in any case remains insignificant.

By super-imposing the map showing the constituencies upon the map showing the thana areas—both drawn to the same sacle—one could always check the extent of their coincidence. Having pointed out our methodological shortcomings, we shall now explain, with a reference to the three chosen variables, why in certain areas poll performance was high and in others low or medium in 1983. In that poll year, community considerations predominated.

### HIGH POLL ZONE

On the map (Fig 1), five separate contiguous blocs represent the high poll zone. The biggest of them, consisting of 20 constituencies, covers the whole of the districts of Cachar, Karimganj and North Cachar Hills; and it also includes the two constituencies—Jamunamukh and Hojai—of Nowgong and another two—Howraghat (ST) and Diphu (ST)—of Karbi Anglong Districts. In Cachar and Karimganj taken together, the ratios of both Bengali-speakers (77.7 per cent) and Muslims (39.9 per cent) to the total population were high, and this fact sufficiently explains the voting behaviour in this region. The ratios of Assamese-speakers (0.5 per cent) and scheduled tribes (0.89 per cent) were too small there to have had a significant bearing on the poll. In the North Cachar Hills, the tribal factor (79.1 per cent) was undoubtedly the deciding factor. The tribals were somewhat influenced there by the agitation, as was obvious from newspaper reports, but not to the extent of sizeably lowering the district's polling rate (in 1978, 64.2 per cent voted; in 1983, 56 per cent) to keep it out of the high poll zone. The fact that the Bengali-speakers had a higher ratio (14.4 per cent) to the population there than the Assamese-speakers (2.8 per cent) only partly explains the high poll. Its main explanation has to be sought in the poll participation of the tribal voters themselves.

In the case of Karbi Anglong, the agitation had relatively greater impact than in the North Cachar Hills—partly because the Assamese-speakers outnumbered the Bengali-speakers there and the ratio of the tribal to total population was also relatively lower. The latter, for instance, was 43.4 per cent in Howraghat and 55.5 per cent in Diphu. The polling rate dropped from 67.4 per cent in 1978 to 46.9 per cent in 1983 in Howraghat (ST) and from 60.7 per cent to 51.7 per cent in Diphu. What is obvious from these facts is that the drop in the two constituencies under review here was not enough to keep them outside the high poll zone. In the district's other two constituencies, polling was of medium, rather than of low range.

Coming to Jamunamukh and Hojai of Nowgong district, we find that their polling rates dropped from 66.2 per cent in 1978 to 50.5 per cent in 1983 in the first case and from 69.3 per cent to 50.1 per cent in the second case. These two constituencies did not exactly coincide with the police stations of the same names. Jamunamukh included not only the whole area under the Thana of the same name, but also that under neighbouring Murajhar Thana as well as a portion under Kampur Thana. Hojai constituency included the whole area under Hojai Thana and one-third area of Lanka Thana. To explain the relevant voting behaviour, let us therefore have a look at the linguistic composition of the population in the above-mentioned police station areas, given the knowledge that the share of the scheduled tribe population in these was insignificant.

From Table 3 it is apparent that Bengali-speakers' concentrations were significantly large in the two constituencies under review here. Besides, sizeable sections of the Assamese-speakers, too, were neo-Assamese—mostly immigrants of Bengali Muslim origin. Hence, both communities could together ensure a high poll.

The Lumding constituency, consisting of 66.7 per cent Bengali-speaking Lumding Thana and two-thirds of 30.9 per cent Bengali-speaking Lanka Thana, polled only 41.2 per cent. This is surprising. Assamese-speakers had a low 15.8 per cent share in the population of Lumding Thana (where the constituency's electors were mostly concentrated); besides the scheduled tribes' share there was also as low as 1.1 per cent. Why then, despite its Bengali-majority character and despite its electing once more a Bengali Hindu candidate (Congress(I) won in place of the LDA), did the polling rate in Lumding constituency go down so sharply from 60.5 per cent in 1978 to 41.2 per cent in 1983? The drop was, perhaps, partly due to voters' different behaviour in the constituency's less-Bengali Lanka Thana portion and partly due to the specific law and order situation.

The high poll zone's second largest bloc, consisting of 12 constituencies, included the whole of Dhubri district excepting Bilasipara-East, the whole of Kokrajhar district excepting Bijni, where no poll could be held, and only two constituencies —Jaleswar and Goalpara-West—of Goalpara district. Muslims, who formed 42 per cent of the combined population of these three districts in 1971, had apparently a still larger share within this 12-constituency bloc, possibly accounting for a majority of the Assamese-speakers and even of the total population. Besides, Bengali-speakers had their sizeable concentrations in this bloc. So had the scheduled tribes in the Kokrajhar district portion of the bloc. Bengali-speakers' share was 18.4 per cent and scheduled tribes' 28 per cent in the population of Kokrajhar district. All these factors explain the high poll, ranging from 59.5 to 79.4 per cent there, even in the face of determined opposition of the local Rajbansi community and other Assamese-speaking indigenes.

The voting behaviour in the three above-mentioned districts, which earlier formed a single district, needs a little more clarification on a couple of points. The tribal political behaviour was not uniformly pro-poll. It was very much so north of the Brahmaputra, particularly in Korajhar district so located. But it was quite opposite in areas south of the river. In fact, this north-south difference in tribal attitude could be generalised for the whole of the Brahmaputra Valley, excepting for the district of Lakhimpur. The reason may be sought in the differences in the degree of their Asamiyaisation. North of the Brahmaputra, the plains tribals have, more or less, successfully retained their own languages, and they are much under the influence of the separatist movement of the PTCA. But, south of the river, they are increasingly adopting Assamese as their language, or have already done so, as in the case of the Lalungs of Nowgong, or the Rabhas of Goalpara.

TABLE 3: LANGUAGE-WISE PERCENTAGE SHARES IN THANA POPULATION: 1971

| Thana | Assamese Speakers | Bengali Speakers | Speakers of Other Languages |
|---|---|---|---|
| Jamunamukh | 64.5 | 26.8 | 8.7 |
| Murajhar | 62.5 | 33.4 | 4.1 |
| Hojai | 28.8 | 50.4 | 20.8 |
| Lanka | 57.5 | 30.9 | 11.6 |
| Kampur | 68.8 | 25.8 | 5.4 |

*Source:* Census of India, 1971, Series 3, Assam, Part 2c (ii), Social and Cultural Tables.

Secondly, not all Assamese Muslims were or are immigrants. Even as early as in 1881, when immigration had not yet started from eastern Bengal towards the Brahmaputra Valley, they constituted a quarter of the combined population of the present districts of Dhubri, Kokrajhar and Goalpara and spoke the same district dialect in common with the local Hindu Rajbhansis. Even as far back as in the 1809, Francis Buchanan Hamilton estimated their share in the local population at 23 per cent.[10] It was only after incessant immigration during the first half of the 20th century that the share of Muslims rose to the present 42 per cent by 1951 and that of the Hindu Rajbhansis came down from a quarter or so to much less than that. And no census data are available on castes after 1931, the latter's exact number or their percentage share in the population now is difficult to estimate. As a community, the Rajbhansis were and still are deeply involved in the anti-foreigner movement.

The high poll zone's third largest bloc, with its constituency-wise polling rates ranging from 47.6 to 66.5 per cent, consisted of five constituencies. These were Udalguri-ST (covering about half of the Paneri Thana area and one-third of Udalguri Thana area), Dalgaon and Majbat of Darrang district—all north of the Brahmaputra; and Dhing and Rupahihat of Nowgong district, south of it. Assamese-speakers were a minority in the first, but a majority in the remaining four. Related Thana-level data suggest what favoured the high poll. It was mainly the neo-Assamese Muslim factor in Dalgaon, Dhing and Rupahihat; it was the tribal factor in the case of Udalguri (ST); and the heterogeneous plantation labour community in the case of Majbat. The sizeable presence of Bengali-speakers—e g, 31.2 per cent in Dalgaon and 18.8 per cent in Rupahihat Thanas—was also favourable to high polling in the related constituencies.

The high poll zone's fourth largest bloc, where the constituency-wise polling rates ranged from 52.7 in Sorbhog to 71 per cent in Baghbar, consisted of four of the eight constituencies of Barpeta district. Of these, Baghbar was an enclave within the Thana of the same name, occupying four-fifths of its area. Chenga covered half of Tarabari Thana and a part of Barpeta Thana; and Jania constituency was formed of portions of three Thanas, namely, Baghbar, Barpeta and Sarbhog. In all these Thanas (Tarabari included), the concerned populations were overwhelmingly Assamese-speaking and, except in Sarbhog, also had an overwhelmingly high neo-Assamese Muslim component. This was, for example, reflected in the electoral rolls for Baghbar and Chenga constituencies. In the 1979 rolls, 98 per cent entries for Baghbar and 80 per cent for Chenga were Muslim names.[11] In Baghbar and Tarabari Thanas, Bengali-speakers' concentrations were also quite heavy, being 37.5 per cent and 31.4 per cent respectively. This also favoured a high poll in Baghbar, Chenga and Jania constituencies, despite the fact of large-scale exclusion of non-Muslim Bengali refugees from the relevant electoral rolls.

In Sarbhog constituency, occupying two-thirds of the Sarbhog Thana area, the population was more mixed in social composition. Scheduled tribes represented 15.1 per cent of the related Thana population. Among the Assamese-speakers accounting for 71 per cent of the same, autochthonous elements apparently outnumbered the neo-Assamese Muslims. The Bengali-speakers' comparable share, on the other hand, was 15 per cent. The polling rate in Sarbhog dropped from 73.9 per cent in 1978 to 52.7 per cent in 1983, but the sitting LDA candidate (an Assamese Hindu) was able to retain his seat by retaining support bases within all communities. In this constituency, voters' political considerations were not totally lost in the rising tide of community consciousness.

The voting behaviour of Tamulpur, the lone high poll constituency of Kamrup district, has also to be understood in terms of its highly mixed social composition. Within the Thana area of the same name, 46.4 per cent of the people were Assamese-speaking, 16.6 per cent Bengali-speaking and the remaining 37 per cent speakers of tribal and other languages. Ethnicity-wise, 25.1 per cent of the Thana population belonged to scheduled tribes. In Tamulpur, the polling rate was as high as 73.5 per cent in 1978. It dropped sharply, but not below 50.2 per cent, because of the strong pro-poll attitudes of the tribals here in general and also of other speakers of non-Assamese languages.

### LOW POLL ZONE

In the low poll zone, as shown in the map, we find 53 constituencies forming one continuous large bloc. Of them 30 are in the four eastern-most Upper Assam districts; seven in Nowgong; 13 in Kamrup and one each in Sonitpur, Darrang and Barpeta districts. Besides, Dudhnoi (ST) also stands out in the map as the lone low poll constituency of Goalpara district.

Though the presence of Muslims was not electorally significant in Upper Assam except in one constituency (Naobaicha of Lakhimpur district), that of non-Muslim immigrants of plantation labour origin was. In one of the districts, Sibsagar, the Ahoms (13th century migrants from Burma long Asamiyaised)—caste recognised as 'backward community'—were sizeable in number and dominant. In another, Lakhimpur district, 28.7 per cent of the people were tribals, mostly belonging to the Mishing tribe. Again, the three industrial townships—Tinsukia, Digboi and Margherita—of Dibrugarh district had a multilingual character; in none of these did Assamese-speakers constitute an absolute majority. This could be seen from the Thana-level census data on 1971 (Table 4).

It is interesting to note that in Upper Assam, too, the population was highly mixed, but in a different way. Here, the tribal people generally backed the no-poll stand, as did the Assamese-speaking indigenes including the Ahoms. Besides, if some of the voters of the plantation labour community abstained under duress from voting, others did so voluntarily out of sympathetic feelings for their agitated neighbours. In Upper Assam, therefore, the boycott campaign was most successful in depressing the poll participation in the active constituencies.

The next arena of success for the boycott campaign was the districts of Kamrup and Nowgong. There, too, in as many as 20 active constituencies, as has been said, dominant Assamese-speaking indigenes could depress the poll participation to a low level, despite the presence there of sizeable pro-poll minority groups. Take, for instance, the four urban constituencies (Greater Guwahati which includes also Dispur) under the two police stations of Jalukbari and Guwahati. Bengali-speakers constituted a quarter of the relevant combined population and, in many polling stations, even an absolute majority. But Assamese-speakers who constituted half or almost half of the said population, were much more intensely involved in and much more organised for the no-poll campaign than were the minorities for their counter-stand. The former were able to neutralise many and create a grim atmosphere in which others could come out to vote only at the risk of their lives. The result was an average 7.3 per cent polling in Greater Guwahati.

Let us also look for the reasons of the low 13.4 per cent polling in Dudhnoi (ST), a rural constituency coterminous with the Dudhnoi Thana. There scheduled tribes accounted for 38.2 per cent of its population; and Assamese-speakers—most of them apparently indigenes—for 33.7 per cent. As elsewhere south of the Brahmaputra, the tribals there were as much involved in the anti-poll agitation as their non-tribal Assamese-speaking neighbours. Hence, with mass support to their violent and non-violent action programme, the agitationists could establish hegemonic control in Dudhnoi (ST) which only five years before in 1978 was regarded as a leftist strong-hold. The leftists, though divided, were in 1978 able to secure between them 29.4 per cent of the total votes on the rolls and 46.3 per cent of valid votes cast. But in 1983, the defeated LDA candidate could mobilise, despite left and democratic unity, only 2.1 per cent of the total votes on the rolls and 16.5 per cent of the actual votes cast. This was because of the divisive and explosive situation.

### MEDIUM POLL ZONE

Of the nine constituencies in the medium poll zone, some were almost at the margin of the low poll areas, e g, Goalpara-East (31.7 per cent), Sarukhetri (33.8 per cent) and Baithalangso-ST (30.8 per cent). Some were nearer the high poll margin such as Bilasipara-East (44.4 per cent) and Lumding (41.2 per cent), while others like Barpeta (37.1 per cent) ranged in between. In such constituencies the poll tended to be neither low nor high because of organised pulls in opposite directions, given the mixed social composition, and feelings of insecurity. The settlement pattern and location of polling booths, the numerical inter-community balance, the specific situation of law and order and such other factors determined the actual extent of polling in a complex manner in

TABLE 4: LANGUAGE-WISE PERCENTAGE SHARES IN THANA POPULATION: 1971

| Thana | Assamese Speakers | Bengali Speakers | Hindi Speakers | Speakers of Other Languages |
|---|---|---|---|---|
| Tinsukia | 45.9 | 23.6 | 21.3 | 9.2 |
| Digboi | 41.4 | 17.1 | 14.9 | 26.6 |
| Margherita | 35.4 | 19.9 | 12.0 | 32.7 |

*Source:* Same as in Table 3.

each case. The specific conditions prevailing in Lumding have already been explained in this context in an earlier section.

### NO-POLL ZONE

What would have been the extent of voting in the 21 no-poll constituencies had he polls not been uncontested or adourned *sine die*? The outcome would have then depended, again, on the social composition in each case, the pattern of ettlement, the location of polling staions, the numerical balance of various ocial groups, the intensity of group feelngs on the issue, their organisation and uch other factors.

In most of these 21 constituencies, the organised tea labour was a force, having he capacity to resist pressure in their own ea garden campuses, if they had a will to exercise their franchise in defiance of their neighbour's strong feelings. But, though not involved in any action programme of he agitation, it appears that, in general, hey had a preference for avoidance of onfrontation with their neighbours. In he no-poll area under the Behali and Gohpur Thanas of Sonitpur district, for xample, where speakers of non-Assamese/non-Bengali languages accounted or about 46 per cent of the population, ecause of the presence of tea gardens, medium polling was a strong possibility ad the polls not been adjourned there.

Again, in Bijni of Lower Assam, the tea abour was no factor, and Muslims contituted a sizeable proportion of the Assamese-speakers. Hence, as non-Assamese languages accounted for 53.3 per ent of the relevant Thana population and s there was also a strong minority organiation (Citizens' Rights Protection Committee), there was a probability of high olling had the polls not been adjourned. Though polling could be completed 49 out of Bijni's 76 polling stations, the ection in that constituency was allowed remain incomplete and lapse, because f outbreak of arson and violence.[12] here is no use speculating further in this anner over what could have happened the area.

## IV

While in the post-Emergency 1978 olls, the electors were mainly seized with olitical issues of national importance and ey sent new political forces to the ssembly, in the 1983 polls divisive and arochial issues seized and led them into idespread communal frenzy and vionce. In 1978, the Congress(I) party in ssam got only eight seats; in 1983 it got . In 1978 the left parties, even though ghting against each other, got 24 seats. ut, in 1983, despite their forging a left and democratic alliance, the left parties and their ally, Congress(S), got in all only five seats, another going to the CPI(ML). All this could happen only because of the poll boycott campaign of the anti-foreigner front. The front succeeded, by and large, in mobilising the Assamese-speaking indigenes against poll participation. But it alienated the religious and linguistic minorities, as well as large sections of the tribals by its ambiguous and sectarian slogans, to the extent of pushing them towards the 'protection' of the ruling party.[13]

After the 1983 election, even as the agitationists branded both the newborn Assam Legislative Assembly and the Congress(I) state government as illegitimate and demanded their dissolution, the latter utilised every opportunity to split the agitation by its divide-and-rule policy. The support the agitation received from a section of scheduled tribes and indigenous Muslims at its peak gradually eroded, and the united front it built split into factions. The sweep and grip of this once-powerful agitation is now much reduced, its area of influence having shrunk both geographically and socially. Even the Ahom Community of Upper Assam is now retracing its steps in a big way to rally behind Assam's first-ever Ahom Chief Minister Hiteswar Saikia. The community, which had migrated to Assam long six centuries ago and had lost its language is currently gripped by a revivalist ethnic movement.

More serious than that, the plains and hill tribes, in their pockets of concentration, have once more raised the bogey of their cultures being at stake by Assamese aggressiveness and have renewed their demands for separate states within the Indian Union. There is also talk of separating the Bengali-speaking Barak Valley districts from the State of Assam to make the latter ethno-linguistically more homogeneous. Furthermore, there is now, as was never before since Independence, a growing tide of fundamentalism, both among Assamese and neo-Assamese Muslims, even as the Hindu communal approach is, for the first time, getting a foothold in both the Valleys of Assam.

The regional variations in the 1983 poll verdict as reflected in Fig 1, seen together with Fig 2, suggest that any solution by putting the clock of history back beyond 1971, as demanded by the AASU and its allies, for determining citizenship of migrants from neighbouring countries, will not be acceptable to the major linguistic and religious minorities of the state. If such a solution is insisted upon and imposed, Assam may ultimately face yet another vivisection on an ethno-linguistic basis, as it did earlier during the period 1957-72 when, in the wake of the language movements, Nagaland, Meghalaya and Mizoram slipped out of it one after another.

If the essence of the agitation's demand is preservation of the "small composite nationality of the Assamese" as one of its top leaders put it to a press reporter, then, even 1971 as the cut-off year is not too late for the purpose.[14] The linguistic and religious community-wise balances, as per census figures for the state as a whole, remained almost the same in 1971 as it was in 1951 or 1961. This observation is also true of the situation in the Brahmaputra Valley, the historically evolved homeland of the Assamese as such.[15] Since further delay or procrastination in the matter of finding a solution will only complicate the task of foreigner identification, what could be achieved immediately is to sanctify 1971 as the cut-off year by common consent, identify foreigners on that basis and disenfranchise them through a judicial process and then keep a strict watch on the international frontiers to halt further infiltration. It is our hope that a political settlement of the problem will be made on these lines before the deferred parliamentary elections in Assam are once more held, together with the overdue by-elections to the Assam Assembly. The publication of draft electoral rolls this year in March on the basis of last year's fresh house to house enquiry by the Election Commission progressed so far without any obstruction from the agitators. This has raised hopes regarding a compromise solution within this very year.

## Notes

(An earlier draft of this paper was presented at the Fifth Annual Conference of the North-east India History Association held 18-20 November, 1984 at Aizawl, Mizoram, before being mimeographed as Occasional Paper No 72 of the Centre for Studies in Social Sciences, Calcutta. We acknowledge the help rendered by Anjusree Chakrabarty towards preparing the maps and Rita Banerjee towards arranging and computing the relevant electoral statistics. We are indebted also to J Saikia and D Das, both of the Department of Publicity and Information, Government of Assam, and to Amit Nag, a journalist based at Guwahati, for their prompt help in procuring copies of the official publication on the 1983 Assam Elections issued by the Chief Electoral Officer, Assam, for our use. Discussions with colleagues at the Centre helped us to give a final shape to this paper in its present form.)

1 In its verdict of September 28, 1984, the Supreme Court of India upheld the Assam

polls of 1983 and the related 1979 electoral rolls as legally valid. Whether the conditions prevailing were congenial to free and fair elections, in general, was outside its consideration.

2 The coverage of the Assam polls of 1983 by the national press was devoid of clarity and accuracy. We have, therefore, throughout this paper, used S L Khosla, Chief Electoral Officer of Assam, compiled, "The 7th General Election to Assam Legislative Assembly—1983 and Elections to Fill up the Twelve Vacancies in the House of People—1983: Statistical Analysis" (Gauhati, 1983), for the relevant poll statistics.

3 The All-Assam Gana Sangram Parishad was formed on August 26, 1979 and, on its executive body, were represented the All Assam Students' Union (AASU: established in 1967), the Purbanchaliya Lok Parishad (PLP: estd in 1977), the Assam Jatiyatavadi Dal (estd in 1977), the Assam Sahitya Sabha (estd in 1917) and five other bodies of lesser importance. The AASU took initiative in the formation of this united front and remained its accredited leader until serious intra-front differences broke out in August 1984 on such issues as that of the AASU's unilateral secret negotiations with the ruling Congress(I) party for a deal facilitating its participation in coming elections.

4 For the nature and extent of the January 1980 massacres, see the report of the fact-finding committee of the People's Union of Civil Liberties (PUCL), New Delhi, as fully serialised in *Mainstream*, March 8, 1980 and subsequent issues.

5 The death roll relating to the anti-foreigner agitation increased to 226 by December 24, 1980 and to 340 by October 7, 1982, according to statements respectively made in the Rajya Sabha and the Lok Sabha by the then Home Ministers—*The Statesman*, December 25, 1980 and *Anandabazar* (Bengali daily), October 8, 1982. The number went on increasing, as fresh assassinations took place and dead bodies of missing persons were from time to time discovered. Thus, even according to the government's own conservative counts, the deaths caused by the violent agitation during the three and half years preceding the 1983 election process numbered some 500 in all. The figure, of course, also includes deaths from police firings on agitators and cases of assassination of pro-poll political workers.

6 According to the Chief Minister of Assam, Hiteswar Saikia, "more than 4,000 lost their lives over the 1983 Assembly elections", *The Statesman*, September 14, 1984. Non-official estimates of the deaths far exceed this latest official estimate.

7 These figures are from our basic primary source, as mentioned in note 2. For constituency-wise detailed computation and analysis based on this source, see our mimeographed Occasional Paper No 72 (CSSSC, 1985).

In yet another official publication, "Report on the General Election to the Legislative Assembly of Assam 1983 (Narrative)", published by the Election Commission of India, the aforesaid two figures are, respectively, given as 7,245 and 8,655 thousand voters. The anomalies remain unexplained, as this latter report does not give constituency-wise breakdown figures. Hence, we have not used this latter report.

8 This figure of the total votes polled in the contested constituencies is, however, the same in both the official sources.

9 The process has been discussed in greater details in Amalendu Guha, "Nationalism: Pan-Indian and Regional in a Historical Perspective" (Presidential Address to the Modern History Section, Indian History Congress, 44th Session Burdwan, December 1983), in *Social Scientist*, February 1984, pp 53-61.

10 Francis Buchanan Hamilton, "Account of Ronggopur" (Manuscript, India Office Records, London), Book 2 and appended statistics. His estimate was for an area covering the present districts of Dhubri, Goalpara and a part of Kokrajhar district.

11 Chief Minister Hiteswar Saikia's statement reported in the *Statesman*, August 11, 1984.

12 Thousands of houses were set on fire in Bijni and adjacent Abhayapuri constituencies, which had remained relatively calm earlier, as a result of the communal frenzy of 1983. In the town of Bijni itself, the distruction of the impressive building of the Assam Government's Flood Control Department and of the Bengali-medium Higher Secondary School by arson—such instances indicate the nature and persistence of the widespread sabotage method and the role it played in course of the movement Such cases of arson regularly took place since 1979. See *Janajiivan* (Assamese Weekly, Guwahati), Vol 4, February 26, 1985 and its earlier issues.

13 See "Historian Takes Close Look at Assam Crisis", the *Hindu*, April 14, 1983.

14 The quote is from Bhrigu Phukan's reply to S Gurudev, *The Statesman* (October 1, 1984).

15 Assamese-speakers' percentage ratios to the total populations in the six old districts of the Brahmaputra Valley during 1911-71 were as in Table A.

TABLE A

| District | 1911 | 1921 | 1931 | 1951 | 1961 | 1971 |
|---|---|---|---|---|---|---|
| Goalpara | 14.2 | 18.2 | 18.3 | 62.0 | 66.1 | 63.5 |
| Kamrup | 79.2 | 75.5 | 66.5 | 79.0 | 80.8 | 76.7 |
| Darrang | 44.4 | 36.6 | 32.9 | 77.4 | 65.1 | 62.8 |
| Lakhimpur | 33.8 | 29.8 | 30.4 | 64.1 | 63.0 | 62.9 |
| Nowgong | 64.4 | 52.9 | 42.2 | 69.1 | 76.8 | 73.7 |
| Sibsagar | 56.7 | 52.3 | 54.0 | 84.4 | 85.5 | 72.6 |
| Total Brahmaputra Valley | 49.2 | 44.6 | 42.0 | 73.2 | 73.3 | 71.0 |

*Source:* Worked out from census data. There was no language census in 1941 and no census in Assam in 1981.

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## Gujarat Metalform

GUJARAT METALFORM, a new company, is setting up a Rs 250 lakh project at village Karannagar in Mehsana district of Gujarat for annual manufacture of 4,500 tonnes of high tensile fasteners and 500 tonnes of automobile components. The company has imported its main machinery and equipment under OGL from National Machinery of West Germany. Initially, the project is being implemented with an installed capacity of 2,000 tonnes per annum. The full licensed capacity is intended to be installed in three to four years. The project is nearing completion and is expected to go on stream shortly. The company has been promoted by Sanjay S Lalbhai of the Lalbhai Group and Chintan N Parikh, an industrialist, managing a number of companies engaged in a wide range of activities. The company is making a public issue of 3.60 lakh equity shares of Rs 10 each at par to raise a part of the finance required for the project. The subscription list will open on May 20. The issue is managed by Bank of Baroda's Merchant Banking Division.

# Case for Injectible Contraceptive

**Iris Kapil**

THE article "Retreat on Depo-Provera?" by Padma Prakash (1984a) raises an issue of great importance, one that deserves public examination and discussion. I am writing to give fuller information and a different perspective than was presented in the article and also to explain why I think your readers should become better informed about Depo-Provera.

Depo-Provera is the brand name for the world's most widely used injectible contraceptive, medroxyprogestorone (DMPA). The issue is: What contraceptive technologies should the government make available to the public through its family planning programmes?

Most people in India would agree that a well planned, well managed family planning programme is essential to the nation's socio-economic development. Moreover, most couples in India, including poor and rural families, would prefer to have fewer children than they actually have. Motivation to limit family size is increasing with the rapid modernisation of the economy and society (Srinivasan, et al, 1984).

Given the national commitment to family planning and a broadly felt need for family planning services, the government's responsibility is to implement an effective family planning programme, one which makes easily available, to all couples, at a reasonable cost, the safest, most reliable, most convenient contraceptives. The question, then, of technologies for birth control becomes critical. The government decides which contraceptives to offer in its programme and that choice shapes programme organisation, strategies for delivery of services, manpower requirements, equipment and supply needs, costs.

What are the possible contraceptive technologies around which an effective government programme can be built? Let us first consider those already being used and return to the case of DMPA.

### Disadvantages of Sterilisation

The present Indian government policy, although nominally a 'cafeteria' approach which offers the oral contraceptive (the pill), the interuterine devise (IUD), condoms and sterilisation to the couple, is, in reality, a programme which promotes sterilisation of women. For the organisation, the advantages of the sterilisation approach are obvious: management becomes enormously simplified. Termination of fertility means that the programme staff need bother no more with the woman and her family. Unlike a programme built around contraceptives, continuing education and persuasion by the field staff is dispensed with; medical and paramedical care for the woman is no longer needed; supply and logistical problems are minimised.

The disadvantages of an active sterilisation programme are now receiving attention and being reported. These disadvantages can be viewed from the perspective of the woman or of the nation. Let us first consider the latter.

Basu has set forth the arguments for rethinking the present emphasis on female sterilisation (Basu, 1985). She prefers a (re)emphasis on vasectomy, since sterilisation of men is a simpler and safer operation than female sterilisation. Most importantly, she points out that "Indeed, from the viewpoint of demographic effectiveness, it would be worthwhile to increase greatly the availability of non-terminal methods of birth control (see, for example, Basu, 1984). For while it is true that sterilisation requires a one-shot procedure, its acceptance requires a much greater degree of motivation, because of its final nature and because it involves surgical techniques, than do well-provided birth-spacing or delaying contraceptives. Which is why acceptors of the loop and the pill tend to be younger and have fewer children than those who undergo sterilisation, whether male or female. And by drawing more such women into the family planning programme, even if they end up having exactly the same number of children as the sterilisation acceptors, birth rates will be affected downwards by the larger gaps between pregnancies. Moreover, in practice they will *not* have the same number of children as women whose first exposure to birth control is to sterilisation."

In other words, an active female sterilisation programme may not, after all, yield the greatest population growth rate advantage. Perhaps a slower population growth rate would be achieved with a well-managed family planning programme that educates families and communities to the benefits of a small family and provides them with the contraceptives and health services which enable them to have babies only when wanted.

The cost of the sterilisation programme to the poor woman is high. If a woman from a fairly prosperous family decides to be sterilised, chances are she will have the surgical procedure done properly, in a sterile setting by a doctor who can be held accountable to the family, and she will enjoy proper post-operative care and rest. For the poor woman, the situation is very different (Pettigrew, 1984). A village woman who undergoes sterilisation has the operation in a camp or in a hospital setting that may well be unhygenic. She returns immediately to her heavy household and farm work. Her wounds may become infected. Because of malnutrition and poor health, she will heal slowly and suffer considerable pain. Her children, now irreplacable and whose work is necessary to family survival, have a nearly 75 per cent higher chance of dying than does an urban child (UNICEF, 1984, p 30).

### Laparoscopy

The new female sterilisation technique, laparoscopy, is undoubtedly far safer than the tubectomy. However, to be performed successfully, the laparoscopy must be done by a specialist, someone highly trained in the technique, using an expensive fibre optic surgical instrument. The specialists and the instruments are too scarce to be based in rural areas for family planning programmes. Technological requirements have lead again to sterilisation camps, where doctors are paid by the day and the incentive is to perform as many sterilisations as possible during the alloted time. Follow-through for the women has definitely not been a notable feature of the programme.

Prakash, in an article on laparoscopy, draws attention to the strong statement issued by the Indian Assocation of Gynaecological Endoscopists criticising the way mass sterilisation camps are conducted. While the Association recommends that to keep the instrument sterile, no more than 25 operations a day be done, the actual number performed in a sterilisation camp is closer to 500. The camp sites, moreover, are usually unhygenic and, after a few hours, the surgeons fatigued and undoubtedly prone to making errors that can cause irreparable damage to the patients. Certainly, the death rate from sterilisation in the camps, an estimated 10 to 12 per 100,000 operations, is higher than the rate of 0.25 to 0.5 expected when the procedure is done under acceptable conditions (1984b).

It can be argued that even with this death rate women are better off, on the average, being sterilised than facing the higher risks of death in child birth and abortions. An analysis made in Bangladesh "indicates that the current sterilisation programme is highly effective measured by either pregnancies or deaths averted . . . Sixty-four of every 10,000 pregnant women in Bangladesh die due to complications of pregnancy, while sterilisation, which effectively averts pregnancy, results in the death of 10 in every 10,000 women" (Rosenberg and Rochat, 1982). Basu, however, reminds us that a programme can be politically damaged by bad planning and inefficient implementation. "Just as, after an initial enthusiastic welcome, the IUD rapidly lost favour with the population largely because of sudden widespread fears about its real and imagined side-effects, the careless and hasty promotion of laparoscopy without sufficient services for information and follow-up could well suffer a backlash because of a few (*sic*) wrongly handled cases" (Basu, 1974).

The problems with the IUD, the pill and the condom for poor and rural families are well known. Barrier methods, such as the diaphram and spermacidal jellies, are too expensive and cumbersome to be considered at all as a programme element. The condom has not proved acceptable to most men. The IUD can be ideal for a reasonably healthy woman but for the programme it entails a heavy input of skilled manpower. It must be inserted by a skilled paramedic or doctor. Even then, regular medical attention is needed, since the woman's body can expel it without her knowledge. It should also be periodically checked and replaced. The IUD can cause heavy menstrual flow, which is damaging to the health of an already anaemic woman. The pill is quite safe for women not suffering from high blood pressure or diabetes, but it is expensive, its storage and regular supply in rural areas presents many problems and, most serious of all, the woman may forget to take it each day.

It is generally believed that because they cannot cope with contraceptives, poor women have only sterilisation as an option. This may be true, as long as the only contraceptives available are the pill and IUD; their effective use is simply more than an underprivileged, undernourished, overworked woman can handle.

For the family planning programme the pill and IUD pose almost insurmountable problems. For these technologies, the programme faces the overwhelmingly difficult tasks of educating the community and family, as well as the woman, about the contraceptive technology; of providing the required services and supplies to the family, at their convenience, in the home; of helping the couple, who ordinarily lack knowledge of biology, to understand and anticipate possible side-effects of the contraceptive.

### INJECTIBLE CONTRACEPTIVE

Which brings us to the injectible contraceptive.

The injectible contraceptive, DMPA, is reliable, long lasting (about three months), easy to use, easy to administer, and, as an injection, acceptable to most women. Since it does not stop lactation, as does the pill, it can be used soon after child birth. The cost ($ 0.50 to $ 1.00 per dose) is still somewhat higher than for the pill or IUD but not so high that a government programme cannot afford to subsidise it. An immediate possible side-effect of the injectible contraceptive is a diminution or even cessation of menstruation, but research shows that this is not medically harmful and may actually be beneficial to a woman who is anaemic.

Injectible contraceptives are one form of the drug progestins, which is used in the standard 24 hour oral contraceptive pill. The effectiveness of some progestins can be prolonged by incorporating them into an injectible solution or a carrier that gradually releases the hormone. (Other ways to administer long-acting progestins are in hormone-releasing IUDs, implants placed under the skin, vaginal rings and once-a-month pills.) Thus they can be effective for one month to five years or more. The two tested, highly effective injectibles are:

—medroxyprogestorone acetate in its depot form (DMPA; Upjohn Company trade name, Depo-Provera)

—norethindrone enanthate (NET EN; Schering AG trade name, Noristerat).

Laboratory experiments on animals and controlled observation of women using DMPA have been, and continue to be, made for testing the safety of the injectible.

"Concern over injectibles focuses on studies in beagle dogs, which developed benign and malignant breast tumors and studies in monkeys, which developed endometrial cancer while receiving high doses of these hormones. The relevance of these animal studies to humans has been questioned. In particular, testing hormones in dogs at very high doses has been challenged.

"Studies in humans using injectibles show no increased risks of cancer. Most human studies, however, have not been large enough or have not had adequate controls over long-term follow-up needed to produce conclusive results. An ongoing, large, multicentre study conducted by the Special Programme of Research, Development and Research Training in Human Reproduction of the World Health Organisation (WHO) is providing clearer answers to the cancer question. Preliminary results show no added risk of breast or cervical cancer with DMPA use ... In addition, a number of methodologically sound studies of combined oral contraceptives suggest that, in humans, progestins protect against endometrial and overian cancer and have no effect on breast cancer risk. In fact, progestins, including DMPA, are used to treat endometrial cancer.

"After examining the cancer issue, the WHO Toxology Review Panel and the International Medical Advisory Panel of the International Planned Parenthood Federation, as well as a number of other medical bodies, have endorsed the use of DMPA.

"In the rare cases where pregnant women were exposed to DMPA, no increase in congenital malformations or prematurity has been observed. Also, there has been no increase observed in congenital anomalies when women become pregnant after the contraceptive effect of DMPA has ended ... In the 1950s and 1960s large doses of various progestins were given to pregnant women to try to prevent threatened or habitual abortion. This treatment ... is no longer recommended" (Population Reports, 1983).

Other medical bodies endorsing DMPA, under its trade name Depo-Provera, for long term use include the British Ministry of Health, the Federal Republic of Germany Health Office and Sweden's National Board of Health and Welfare. Injectible contraceptives are now legally permitted in over 100 countries and level of use is increasing. For example, in Sri Lanka in 1981, over 70 per cent of new acceptors of reversible methods chose the Depo-Provera.

From a programme management perspective, the advantages of the injectible over other contraceptives are great. Unlike sterilisation, its use does not require persuading anyone to make a drastic decision nor does it result in a trumatic experience for the woman; in fact, rural people in most countries have come to equate the injection with effective medicine and prefer it. Highly skilled medical personnel are not needed to deliver the service; a paramedic checks the woman's health and then trained workers can take the injection to the home on a three month schedule, using an individually packaged dose with its own sterile, disposable needle. The family planning worker need not give long explanations or lessons on how to use it, although field workers must explain and counsel with the woman about diminished menstruation.

With all these advantages, one would assume that the injectible contraceptive would have become the basis of programmes everywhere and, indeed, it is increasingly the preferred contraceptive in many countries. However, acceptance has been slowed by a controversy that has as much, or more, to do with consumer group and government regulatory body politics within the United States as with the medical nature of the drug. Prakash, in her article "Retreat on Depo-Provera?" sides with those who believe that DMPA is dangerous and should not be allowed onto the market. Since the issue is of such importance to family planning, it is worth the trouble to look briefly at history of the controversy.

### THE US CONTROVERSY

The injectible is not approved for use as a contraceptive in the United States, although the United States Food and Drug Administration (FDA) has had it under reveiw for many years. In 1973 the FDA's Advisory Committee on Obstetrics and Gynaecology recommended the Depo-Provera drug, DMPA, for use as a contraceptive. In 1975 the FDA convened a joint meeting of its Advisory Committees on Obstetrics and Gynecology and on Biometric and Epidemiologic Methodology. The Committees in turn jointly constituted a sub-committee task force which, after open hearings, recommended that the FDA approve DMPA as a contraceptive.

Because of controversy aroused by consumer groups, the FDA continued the review of DMPA and, in March 1978, decided to deny approval of Depo-Provera for use as a contraceptive in the United States. The manufacturers, Upjohn Company, appealed against the decision. In July, 1979 the FDA announced that the appeal would be heard by an FDA-appointed Board of Inquiry. The Board of Inquiry was convened in January 1983 and it is that report, issued in 1984, with which Prakash begins her article. The Board recommended against approving DMPA for marketing in the United States.

How does one know whom to believe? When making policy-decisions, responsible authorities receive advise from many sources and they must judge carefully the credibility of each. The source of the technical information I presented above is a report issued in 1983 by the Johns Hopkins University (Population Reports, 1983). This report was written on the basis of all available published and unpublished materials plus additional correspondence and interviews. Before publication it was reviewed by people well known for their work in contraceptive technology and family planning. I have also included information from a large body of materials made available by the International Planned Parenthood Federation (IPPF), (IPPF Fact Sheet, 1984). Among the materials is a summary of the FDA Board of Inquiry report.

Another source of information is a technical article on breast-feeding in the *Scientific American*, April 1984. Its author recommends Depo-Provera as a contraceptive. "One of the most effective and safest contraceptives for lactating women in developing countries and the simplest to administer is Depo-Provera . . . I touch here on an area of controversy. Studies by WHO have as yet failed to identify any health risk associated with the use of Depo-Provera and have shown no adverse effect on the composition or yield of breast milk . . . Because of opposition from consumer groups, the US Food and Drug Administration has reversed a decision it once reached to approve the drug for contraceptive use in the US; the case in on appeal. Hence Depo-Provera cannot be part of family planning programme funded by the US Agency for International Development" (Short, 1984).

The FDA decision will be made for American women but, since policy guiding US foreign assistance requires that it follow US law, whether or not USAID will provide the injectible contraceptive to family planning programmes may depend on whether or not it is sold in the United States. In 1978, the United States Agency for International Development (USAID) requested an ad hoc Consultative Panel on DMPA be formed to review a variety of issues relating to DMPA and its possible provision in the International Programmes of USAID. In July 1980, after a review of the various materials and information, and after making what in its own view was as thorough as possible an assessment of the risks *versus* benefits of DMPA use in humans, the Panel recommended that USAID make DMPA available to those nations that especially request it for use as a contraceptive.

The organisations presently providing DMPA for contraceptive use to family planning programmes are the World Health Organisation, the United Nations Fund for Population Activities and the International Planned Parenthood Association.

The American consumer groups which are proving effective in delaying, perhaps stopping, government approval of the injectible represent only a small proportion of the American public. The groups are certain feminists organisations such as the Women's Health Network, a few scientists (Gold and Willson, 1980), and certain conservative political groups who oppose any funding at all for family planning programme in developing countries. These groups form an active one-issue lobby which, in the US political system, can bring great pressure to bear on government decision-makers. In the past decade one-issue political activists have become extremely influential in the American political process.

For Depo-Provera, the American public has shown little interest and no counter consumer groups have taken up its cause. It is quite possible that Americans believe they already have easily available a sufficient variety of convenient contraceptives. Also, it is interesting, maybe relevant, that Americans tend to favour taking their medications orally rather than by injection. However, if the injectible contraceptive were easily available its three-month duration and its use during lactation might prove attractive to many American women.

Consumer groups make an essential contribution to public policy formulation. Several of the groups concerned with DMPA are to be commended, as is Padma Prakash, for focusing attention on the health and welfare needs of women. In this particular case, however, perhaps they should rethink their position. They should remember that, as with all medications, no contraceptive is perfect; all have side-effects which are more or less discomforting or harmful.

### STRONG EVIDENCE

All of us make decisions on which medications or contraceptives are both effective and reasonably safe for use by ourselves and those persons for whom we are responsible. Since few of us are biomedical experts, we turn to experts for advise. Prakash prefers the judgment of one US advisory body over that of other American experts and over that of the ministries of health of Great Britian, West Germany, Sweden and scores of other countries. She mistrusts the advise of experts representing the world's most respected health care international organisations. If we cannot trust the technical judgment of researchers working under the aegis of the World Health Organisation and the International Planned Parenthood Federation, whom *can* we trust?

The evidence is strong that the injectible contraceptive is as safe as any other birth control technology now available. The greatest danger is not the remote chance of cancer or deformities induced by a contraceptive. The greatest danger to a woman's health, and to the health and very life of her babies, is too many births, too closely spaced. In my view, Indian women should have the right to use the injectible contraceptive if they so wish.

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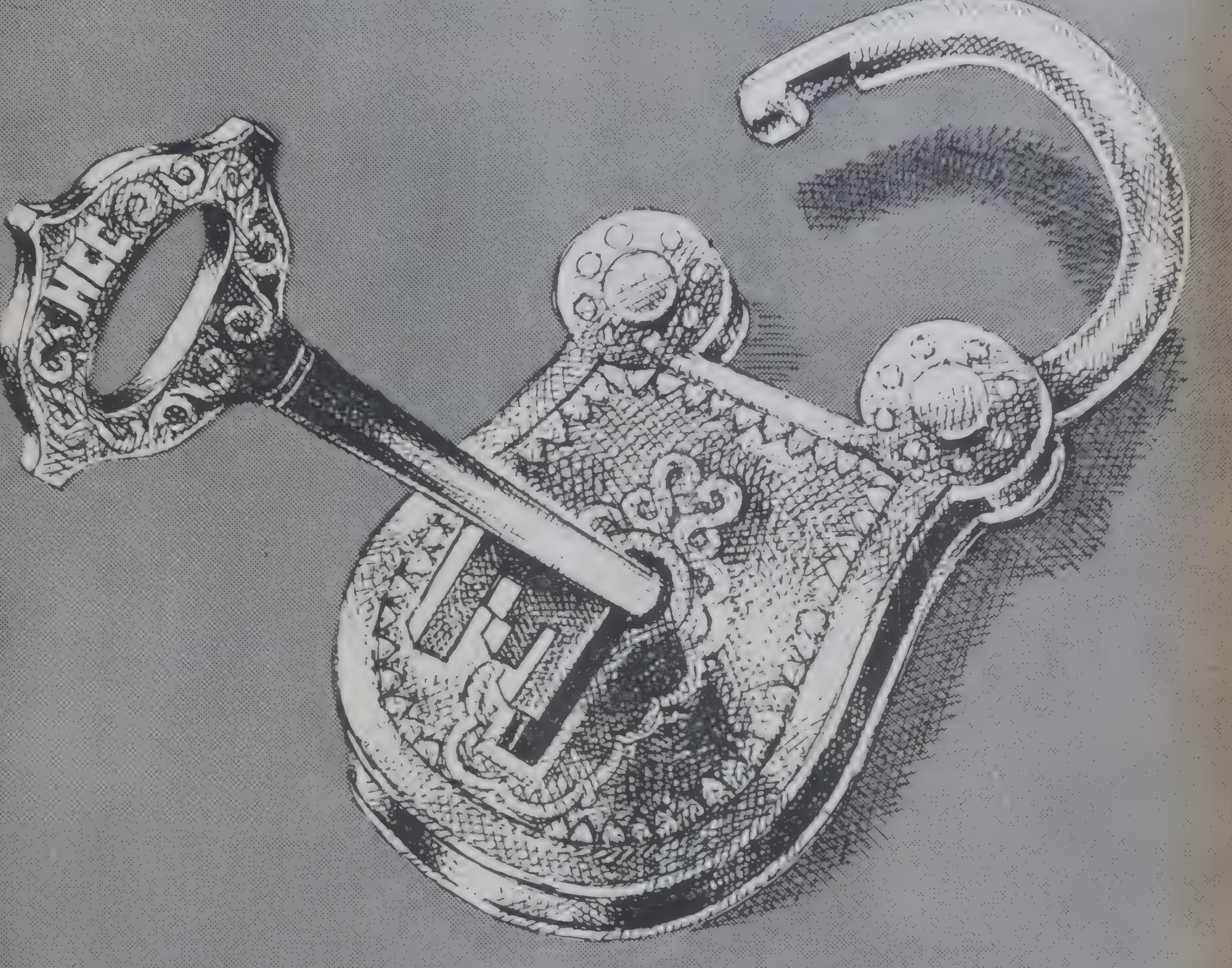

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## IMPORT POLICY: SEARCH FOR INSTANT GROWTH

## FAILURE OF WESTERN ECONOMIC SUMMIT

## EMERGING TRENDS IN CHINA'S DOMESTIC POLICIES

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Vol XX No 20 May 18, 1985

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# Playing Politics

THE reprehensible bomb attacks by Sikh terrorists in Delhi and in towns in UP, Haryana and Rajasthan, in which nearly 100 innocent people have been killed and a larger number injured, are a reminder of how grave the situation in Punjab continues to be. The terrorists perhaps hoped to provoke a backlash in the form of another round of attacks on and killing of Sikhs. This has not materialised which incidentally is a pointer to how the anti-Sikh pogrom of last November had succeeded because of its political inspiration and the government's failure to take timely action. The well planned and successfully executed terrorist action has nevertheless exposed that a year of virtual army rule in Punjab, with the paramilitary and police forces too enjoying a free hand, has failed in putting down terrorism.

The government's response to the bomb attacks has been along expected lines. It has decided to bring forward new legislation to amend the Arms Act, the Criminal Procedure Code and other laws to give even more sweeping powers to the police to deal with terrorism. It will be difficult to argue, however, that if the government has not been able to contain terrorism, it has been because of lack of legal powers. The army and the rest of the security forces have had at their disposal the Punjab Disturbed Areas Act, 1983, the Chandigarh Disturbed Areas Act, 1983, the National Security (Amendment) Act, 1984, the Armed Forces (Punjab and Chandigarh) Special Powers Act, 1983, the Code of Criminal Procedure (Punjab Amendment) Act, 1983, and the Terrorist Affected Areas (Special Courts) Act, 1984. In fact, the abandon with which the powers conferred by these special laws have been used—the indiscriminate rounding up of young men, including teenagers, for questioning, the interrogations and torture, the prolonged detention on mere suspicion—has contributed in no small measure to the growing sense of alienation among the Sikhs in Punjab.

What has been lacking in the government's approach to the situation in Punjab is political wisdom and sincerity. In his statement on the bomb explosions, the Home Minister once again accused the Akali leaders of not making "a positive response" to "the measures that we initiated in the last two months to bring the process of normalisation". The terrorist bomb attacks, he said, were "a challenge to [the Akali] leadership to wake up and understand the immense damage they were causing the nation" and added, "I trust that even at this stage, they will realise the grave implications of their actions and the extremist forces they have indirectly unleashed". These accusations, however, lack credibility on a number of counts.

First, the Home Minister knows only too well that the activities of the Sikh terrorists, such as the recent bomb attacks, are aimed as much against the Akali Dal leadership as they are against the government. Second, the so-called 'concessions' offered by the government to the Akali Dal to which it expects a 'positive response' from the latter actually amount to very little: the belated ordering of a judicial enquiry into the massacre of over 2,000 Sikhs in the wake of Indira Gandhi's assassination (in any case the enquiry has yet to seriously get going), the release of a small number of senior Akali leaders and the lifting of the ban on the All-India Sikh Students Federation (which it is difficult to believe was not meant to add to the political problems of the Akalis). Third, the government's own attitude to the initiation of talks with the Akali leaders has been ambiguous, to put it mildly. To mention the latest evidence of this, the moment the late Bhindranwale's father, Joginder Singh, sought to challenge the leadership of Longowal by 'dissolving' the Akali Dal and setting up a so-called *ad hoc* committee, the government let it be known that it was not interested in any contacts with the Longowal group till the question of leadership in the Akali Dal had been settled.

This has reaffirmed once again that the government's approach to the Punjab problem continues to be dominated by the Congress(I)'s ambitions of eroding the support for the Akali Dal, which had been responsible in a large measure for the original sin of building up Bhindranwale. It is now leading to tacit encouragement being extended to elements like Joginder Singh, even though they avowedly stand for a more uncompromising attitude to the securing of undefined Sikh demands. Against this background, the fact that a Congress(I) supporter has been nominated by Joginder Singh as the general secretary of his *ad hoc* committee or even the revealed Congress(I) links of some terrorists arrested recently should come as no surprise.

## *The Bomb*

### Dangerous Game

*A Correspondent writes:*

BY organising a round-table for voicing the demand for going nuclear, as it seems to have done, the Servants of the People Society of New Delhi, has hardly served the people—of India or anywhere else. By further advocating the making of the 'bomb' behind the back of the Indian people, the so-called round-table displayed a dangerous disloyalty to the people. As *The Statesman* reported from New Delhi on May 12:

> At a day-long 'round-table' discussion on the nuclear threat and India's options, organised by the Servants of the People Society here yesterday, a broad view emerged that, with Pakistan close to having a nuclear weapon or already having it, it would be most unwise for India not to have it too. The view was also voiced that India did not have to declare its intentions in this respect in advance; it should act first, and could then inform the people.

Most vehement in demanding nuclear arms and that too in secret and without a public discussion was K Subrahmanyam who has the reputation of being a defence strategist. According to the newspaper report,

> He [Subrahmanyam] disagreed with the suggestion that a decision in this respect could be taken after a public debate ... The government had the right of decision in this matter and it did not have to 'articulate' that decision in advance to the public.

Without denying or minimising the serious threat to the Indo-Pak subcontinent created by Pakistan's sinister designs in collusion with the US and some other Western powers for making the bomb, the New Delhi conclave has to be branded as a dangerous provocation. Subrahmanyam and his confreres are in a sense guilty of abetting the Pakistani military rulers. By urging secret nuclearisation by India, this gathering of Indian notables has really provided new arguments and 'moral' justification for Pakistan's semi-secret contrivings in this field, particularly because India has a record of secret nuclear explosion at Pokhran more than a decade ago.

Subrahmanyam put forth another dangerous argument that India could go in for nuclearisation without provoking an arms race with Pakistan because that country "had only a fraction of India's GNP". Doesn't he know that Pakistan (just as Israel) does not have to depend on its own limited resources for arms—nuclear as much as conventional? The US purse-strings are always and increasingly open for this purpose.

The specific, and dangerous, 'consensus' apart, the New Delhi round-table is also significant in another sense: it represents a coming together of defence strategists, retired army officers, retired diplomats and top bureaucrats, MPs, journalists, academics and so on—that is, elements which provide the foundation of the think tank and PR work for the notorious military-industrial complex in the USA. Seymour Melman in his famous study "Pentagon Capitalism" in 1971 listed among others the following as the principal auxiliary groups behind the US phenomenon: career men, military and civilian, in the armed forces; people working in the military research-and-development establishment; Members of congress . . .; people of strongly authoritarian personality who identify with martial leadership.

The people of India should beware of these 'servants'. All Indian democrats must protest against any attempts at decision-making on nuclear weapons—a supreme question of human survival—behind their back. It is foolish to believe that in the present international situation Pakistan could really make use of any of its extremely limited—toy-sized by the present world standards—bombs even if it succeeds in making them. Look at Israel which is reported to have possessed some similar bombs for some time past—it has had to retreat and make concessions to Palestinians and Arabs, much weaker and divided though they are.

## *Steel*

### Failure of Planning

THE fluctuating fortunes of the steel industry clearly reflect the gross inefficacy of the country's planning process with respect to even attainable physical targets.

In 1982-83 domestic production of steel had to be supplemented by 1.3 million tonnes of imports. Now, in the current year, about 1.7 million tonnes of the metal are to be purchased from abroad as the output of about 10 million tonnes is expected to be insufficient. In between, in 1983-84, the industry was saddled with huge stocks, pushing the integrated public sector plants run by the Steel Authority of India into massive losses. This happened despite production being curtailed to 8.8 million tonnes, with the SAIL plants—which account for roughly 60 per cent of the industry's total capacity—operating at only about two-thirds of their full capacity.

1983-84 did witness a recession in the engineering and automobile industries, thereby reducing the demand for steel in that year. There was in addition a drop in demand from the major consuming sectors, namely, power and railways. The demand of these latter two sectors could well have been regulated to not only ensure better capacity utilisation, and therefore better financial performance, of the SAIL plants but also to probably pre-empt the need for large imports of steel in the current year. For instance, the 0.2 million tonnes order placed by the National Thermal Power Corporation for 1985-86 is more than 50 per cent higher than the supplies sought last year, which was even lower than that of 1983-84. Similarly, the railways will be lifting 0.68 million tonnes of the metal in 1985-86 as against only 0.27 million tonnes in 1984-85. If the steel requirements of such undertakings had been carefully planned in collaboration with the steel industry then the quantum of imports would probably have been lower this year. There are certain qualities of steel which are not being manufactured domestically and therefore need to be imported. The exact quantum of such imports is not known though in 1983-84 0.64 million tonnes were imported, i e, as much as one million tonnes lower than in the current year.

The factors underlying the 'faulty' planning would be worth investigating. One possible explanation could be the Union government's desire to curtail long-term investment in the years immediately preceding a general election so that the funds could be diverted for populist measures.

It needs to be added that the chronic problem of low level of capacity utilisation in the public sector will continue in the current year too. The utilisation in 1985-86 is expected to be roughly 80 per cent, i e, about the maximum level attained in the recent past. Steel plants do operate at even over their full capacity, which if achieved by the SAIL units would mean a drastic reduction in imports.

An aspect interrelated to the proper use of capacity is that of price. The price of steel was raised twice during last year, the second time by as much as 25 per cent in January 1985, essentially to boost the earnings of the SAIL plants. So following two consecutive years of losses, SAIL did end up with a profit in 1984-85. Had SAIL's capacity utilisation been better in 1982-83 and 1983-84 its finances would have been better too. Then there would probably have been little justification for the rise in steel prices last year, or at any rate the steep hikes. In this context it is not very surprising that, given the high level of capacity utilisation in the current year, the Union Minister of State for Steel and Mines categorically assured the Parliamentary Consultative Committee of his ministry on May 15 that there would be no hike in the price of steel for the next twelve months.

## *Sri Lanka*

### Escalating Conflict

THERE appears to be little prospect of a negotiated settlement of the Tamil problem in Sri Lanka, at least in the near future. The killings and counter-killings have led to a hardening of attitudes on both sides, i e, the government and the Tamil groups. The Government of India's earlier strategy—of bringing about some sort of disengagement, followed by a cooling-off period, leading to a renewal of dialogue between the two sides—does not seem to have made much headway.

The conflict has escalated to a stage where either side can, with a semblance of 'legitimacy', blame the other for inviting punitive reprisals. This is evident for instance from the latest round of bloodshed that occurred in the Buddhist holy city of Anuradhapura this week claiming over 200 lives. Over 85 Tamils were killed, including 48 travelling in a launch, on May 15 in retaliation for the slaying of 175 Sinhalese the previous day, which in turn was said to be in retaliation over the murder of 75 Tamils by the army last week, and so on.

The growing violence seems to have pushed the Tamils towards extremist solutions and thus to supporting extremist groups. (The competing zeal of these groups to exhibit their prowess and thereby win popular support could also be partly responsible for the continuing retaliations.) Even the moderate Tamil United Liberation Front, which earlier took part in talks with the Sri Lankan government, now believes that with all doors for a negotiated settlement being closed there is no alternative but to mobilise mass struggles. Such widespread sentiment, together with some successes scored by the Tigers against the security forces, has egged on the Tigers; so much so that they are firmly opposed to any ceasefire as they feel it would only give an opportunity to the government to rebuild the 'demoralised' Sri Lankan army. Negotiations, the Tigers say, can be held only after the balance of power has shifted in their favour, which they expect will happen through their guerrilla actions in the coming days. Their efforts to convert the Tamil-speaking Muslims in the east to their cause, however, seem to have been sabotaged by sustained Tamil-Muslim riots a few weeks ago, allegedly instigated by government forces.

The demands too have become more extreme. On April 10 spokesmen of four Tiger groups, with their headquarters in Tamil Nadu, stated that they have decided to co-ordinate their functioning "for armed revolutionary struggle for national independence". The Tigers must also be emboldened by the sympathy being drummed up for them in Tamil Nadu. The DMK, the main opposition party in the state, is conducting a mass campaign on the one hand to pressurise the Government of India into adopting a sterner attitude towards the Sri Lankan government and, on the other, to embarrass the AIADMK ministry in Tamil Nadu for being silent over the Sri Lanka issue. The Government of India has to contend with, apart from domestic public opinion, especially in Tamil Nadu, the problem of Sri Lankan Tamil refugees (said to be around a lakh in number) and the hampering of Indian fishing activity in the Palk Straits that divide the two countries. A Special Advisory Group was set up by Prime Minister Rajiv Gandhi on April 25, to continue efforts to resolve the Sri Lankan tangle. But it seems to have been dormant so far.

## *United Kingdom*

### Miners Fight On

EVEN if the first round of the British miners' struggle was defeated by an array of force unprecedented in the island's history since mid-nineteenth century, the miners were not. A number of developments in quick succession in mid-May made this amply clear.

The sentence of life imprisonment given by the High Court to two young miners on May 16 was met with a walk-out by the Welsh miners on the next day. The two miners had been charged with murdering a cab driver carrying scab labour at the height of the tension during the year-long strike.

On the same day there were other developments on both sides of the class fence that revealed the continuing tensions. Two mines were closed down, on the one hand, making a few thousand workers redundant; on the other, the pit superintendents' union voted by a majority of 60 per cent for industrial action beginning with a ban on overtime.

The unfavourable outcome of the long miners' strike has not so far resulted in the loss of "the muscle power of the British trade unions", as expected by the management bosses and the Tory politicians. On May 17, London metro rail workers decided to go on a day's cease-

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work on May 20 in defiance of a court injunction.

Losing some part of its self-assurance displayed after the withdrawal of the miners' strike, the Tory government is trying to augment its armoury against the workers and other recalcitrant forces. On May 17, the British Home Secretary outlined new proposals for putting further curbs on picketing, demonstrations and other forms of mass action.

While Margaret Thatcher continues to maintain the posture of an Iron Lady, events are exposing the clay at her pedestal. An opinion poll conducted by *Daily Telegraph* has revealed that the popularity of the Tory party has slumped to the third place, after the Labour Party and the Liberal-Social Democratic Alliance, in that order. Within the Tory citadel itself, the pressure group, formed and led by the sacked former Foreign Secretary, Francis Pym, epitomises the lossening of Thatcher's grip on the party itself, as much as the party's grip on the voters.

## BUSINESS

# Cotton Conundrums

THE recent public exchanges on the cotton situation between the textile industry on the one hand and interests representing cotton growers and traders on the other are, if nothing else, a good example of selective use of statistics. The textile industry has been arguing that there has been a sharp rise in the prices of cotton, reflecting a shortage of the fibre, and has on that basis sought to make out a case for import of as much as half a million bales. Growers and traders have been arguing with equal fervour that prices of cotton have in fact fallen steeply in response to a bumper crop in 1984-85 and that the government should permit export of a larger quantity of cotton than the two lakh bales released for export so far. To establish their thesis of rise in cotton prices, spokesmen of the textile industry have been pointing to the current level of prices compared to the lowest levels touched in January-February at the peak of the cotton marketing season. Those speaking for growers and traders have, on the other hand, sought to compare currrent prices of cotton with the high levels prevailing towards the very end of the last season, before cotton from the 1984-85 had begun to be marketed. So if the argument proves anything at all it is that despite the presence of the Cotton Corporation of India and the cotton marketing organisations set up by the governments of the cotton growing states, prices of cotton continue to exhibit quite marked seasonal fluctuations, so that successful speculation in cotton still remains to a considerable extent a *sine quo non* of profitable working of textile mills.

In respect of the size of the 1984-85 cotton crop and the general availability position of cotton, however, it is apparent that the textile industry is getting the worst of the argument. At the meeting of the Cotton Advisory Board in Bombay last week, while there was understandably still no agreement on the size of the 1984-85 output (despite it having been fully marketed), it could not be denied that the crop had been of a record order. Compared to the estimated production of 65.8 lakh bales of cotton in 1983-84, even the representatives of the textile industry had to admit that the 1984-85 crop could not have been less than 90 lakh bales, though the East India Cotton Association claims to have arrived at a 'final estimate' of 95 to 96 lakh bales.

This is not, however, the end of the argument about the availability of cotton to the textile industry, for there is once again no agreement on the size of the stocks of cotton carried over from the previous season—that is, the stocks at the end of August 1984. The industry claims that these were no larger than 16 lakh bales, while the cotton trade puts them at a minimum of 21 lakh bales. The trade has in fact accused the textile industry of deliberately withholding information about consumption of cotton by the mills and the level of stocks with them.

But why blame the industry? What is the elephantine bureaucracy of the Government of India's Textile Commissioner upto? The latest issue of the official *Monthly Abstract of Statistics*, published by the Central Statistical Organisation, contains in the section on 'stocks of raw materials and manufactured goods' information on stocks of raw cotton upto December 1983 only. The source of the data on cotton stocks is mentioned as the Textile Commissioner, indicating that data for the subsequent months have not been provided by that august body. Is this a case of just bureaucratic sloth or is the Textile Commissioner lending a helping hand to the stratagems of the mill-owners?

## *Sugar*

### Seeking Alibis

IN 1980-81, when the price of open market sugar shot up to Rs 15 per kg, the industry was subjected to severe public criticism and scrutiny. In the coming months, the price of sugar is bound to surge again to very high levels, unless at least an additional half million tonnes of the sweetener is imported and, more importantly, distributed effectively. But this time the private sector in the industry appears to be keen on shielding itself from criticism, and that too in advance. The Indian Sugar Mills Association, the lobby of the private mills, has been issuing press advertisements blaming faulty implementation of the sugar policy for the likely price rise.

ISMA's charge does seem to be partially true. Production in the 1984-85 sugar year, which began in October, has dropped for the second consecutive year, and is estimated to be around six million tonnes. This output and the carryover stock of 2.3 million tonnes barely covers the expected demand of about 7.6 million tonnes during the year. There are signs that the coming year's sugarcane harvest—and therefore the crystallisation of sugar—is also not going to be much larger because of inadequate winter rains. Hence a strong environment of scarcity prevails for the commodity.

The situation in respect of the availability of sugar in the open market is worse. In terms of the formal policy, 65 per cent of the output of each mill is handed over to the government as levy quota, while the rest is sold in the open market. The Lok Sabha election of December 1984 and the state assembly polls of March 1985, apparently led the Union government to change the allocation ratio. Any slight reduction in open market supplies, due to policy or some bottleneck, immediately leads to a spurt in the price. One such jump occurred some weeks before the parliamentary poll, so unnerving the government that it threatened penal action against some of the mills. The government has also been ordering much larger releases of free sale sugar than the amount sold through the public distribution system in its attempt to contain the open market price. For instance, in the current month, a release of

0.36 million tonnes as free sale and 0.31 million tonnes as levy sale has been ordered. The ISMA advertisements mention that as much as 75 per cent of the free sale quota of this sugar year had been already released in the first half, i e, by March end. The demand for free sale sugar is bound to rise during the festival season, August-November. Some more quantities of sugar would need to be imported, in addition to the one million tonnes already contracted for, to ease the supply situation. In 1980-81, however, sizeable imports did not dampen the price because they were mostly cornered by bulk consumers, who are probably speculators too.

The ISMA in its zeal to avoid one kind of criticism is weakening some of its other claims though. Its advertisements also claim that the industry has run into losses for three consecutive years largely because of having to subsidise levy sale sugar. But the government ordering the release of a much larger quantity of free sale sugar should have financially benefited the mills. Both the unit value realisation and total returns must be higher because of the larger free sale releases in a situation of scarcity.

## *Industry*

### Take-over with Junk Bonds

HOW are take-over bids worked out? One would imagine that a party planning to take over a company first tries to corner, as stealthily as possible, a good proportion of such a company's voting stock through market operations. Once a party has cornered a certain proportion of the company's stock, it makes an open bid for the company's shares. Usually the open bid is far above the ruling price of the company's shares.

The take-over game is an old one and is played all over. In the US, however, an interesting aspect of recent take-over bids—as distinguished from actual take-overs, and this distinction is important to bear in mind—is that for the credibility of their open bids, the parties making the bids conjure up with the help of financial houses schemes of financing the purchases of shares at the fancy prices offered in such open take-over bids. To take a concrete case, recently a relatively small broadcasting company which had made a name in cable television, Turner Broadcasting, made a bid for the second largest private communication network, Columbia Broadcasting Station, generally known as CBS, by offering to buy the CBS shares at $ 175 apiece as against the going market price of close to $ 110. At this price, Turner Broadcasting ought to be ready to pay up $ 5.4 billion.

What it has offered to do is to give the holders of CBS shares a package consisting partly no doubt of shares in Turner Brodcasting but largely of what have come to be termed as 'junk bonds'. These bonds are high yield IOUs to be issued by the company when it is taken over and merged on the strength of its assets. In this particular case, the shareholders of CBS are being offered in exchange for their existing shares such bonds which though high-yielding are based on the assets of the CBS and these assets naturally cannot be higher than they were before the take-over, if the liabilities created through the bonds meant to pay the inflated share prices are set off against whatever assets the company held.

Often the bidders don't succeed in their take-over attempts. Often they don't even mean their bids seriously, because there is gain to be made from just making the bid. Once you succeed in establishing the credibility of your bid, those currently in control will try to buy you out and you make a handsome gain. Indeed there are persons in the US who seem to specialise in just such bids and make millions in the process. But who carries the burden of these take-over bids? None other than the company under attack, regardless of whether the bid succeeds or it does not.

When all this is allowed to happen in the name of efficiency, isn't one entitled to ask what exactly is meant by efficiency?

## LETTERS TO EDITOR

### Terrorising the Civil Rights Movement

AT 10 a m on May 16 K Balagopal, general secretary, APCLC, was assaulted by Akhil Bharatiya Vidyarthi Parishad (ABVP) hoodlums at Jagityal bus stand. Shankar, an advocate from Laxsettipeta, who was accompanying him was also injured.

Balagopal and Shankar had gone to meet Revenue Divisional Officer (RDO), Jagityal, in connection with the magisterial enquiry in progress on the 'encounter' killings at Kondapur. On April 11 five alleged Naxalites were killed in an 'encounter' at Kondapur, Siricilla taluq, Karimnagar district. Both APCLC investigations and independent press reports have established that the five persons were killed in a cold blooded manner and that no 'encounter' took place. Subsequently the AP government ordered a magisterial enquiry into the incident and RDO, Jagityal, was assigned the job. But the enquiry turned out to be as stage-managed as the encounter itself. Hundreds of armed police surrounded the area and prevented even the press, leave alone the people, from attending it. None of the forty 'elders of the area' who spoke to the magistrate spoke about the encounter, while two of the parents of the deceased who spoke to both to the APCLC team and to the press were prevented from attending the enquiry.

It may not be out of place to mention here that there has been a sudden spurt in 'encounter' killings in Andhra Pradesh. Since January so far 14 alleged Naxalites have been killed in six 'encounters'. In addition, eight people have been killed in police custody, one of which is a case of a political activist, while three people have been killed in unprovoked police firing. This makes a total of 25 arbitrary killing by the law enforcing authorities in a span of four and half months.

It is against this background that Balagopal and Shankar went to meet the RDO, Jagityal. They returned to the bus stand around 10 a m. While they were standing at the bus stand, they were attacked by a group of known ABVP hoodlums with steel chains and sticks. That the ABVP has become a kind of private army of the police, especially in Karimnagar district, is by now a well recorded fact. On January 12 Gopi Rajanna, a young APCLC advocate, was killed by them. Although APCLC has submitted a list of persons who killed him, so far no action was taken against them.

In the assault, Balagopal received head injuries and was also hit in abdomen. Shankar received minor injuries. Both of them managed to reach a hospital. Later a complaint was also lodged with the police. Presently Balagopal is in Warangal and is out of danger.

Threats, intimidation, arrests, illegal detention, false cases and physical assaults are part of a mounting attack on civil right activists in Andhra Pradesh. This attempt to terrorise and silence the civil rights movement is in fact an attempt to suppress the spread of information about assaults on democratic rights of ordinary people.

M KODANDARAMA REDDY
Joint Secretary,
APCLC, Hyderabad

## CPI(M) Never Blames Its Cadres

I WAS surprised to go through the piece of comment entitled "The CPI(M): Blaming the Cadres" (April 27).

Firstly, I never used words like 'step-motherly' or 'discrimination' in my writings and speeches. I meticulously use the word 'injustice' of the Central Congress(I) government towards the State of West Bengal. This they do on political grounds. We are vehemently in opposition to the Congress(I) rulers at the Centre and their anti-people political and economic policies. And the rulers at Delhi too do not want the democratic process we have unleashed in the political, economic and social life of our state. This is the cause of their injustice regarding allotment of financial share, setting up of industries, etc, in West Bengal.

Secondly, I never said that the cadres are to be blamed for our adverse results in Lok Sabha elections on certain areas. I said: it is due to the failure of the leadership at the state, district, zonal and local level to educate properly the cadres who have to politically reply to the Congress attacks. Rather I defended our cadres by refuting the view that our party and the cadres are getting 'isolated' from the people. I said: our cadres do not live in the skies, they live among the people and they and the party are not isolated from the people, but they are not equipped to properly answer the political questions.

Thirdly, I have been associated with the party leadership since 1931, at all the phases and during all the turns and twists. Our party has never been in the habit of "passing the buck, so to say, to the cadres lower down—an old tradition of the Indian Communist movement". Our party never says: Leadership is always politically correct and all the failures of the party are due to the shortcomings of the cadres. We never hesitated to make self-criticism openly whenever we had gone wrong. Criticism and self-criticism is the main principle which we pursue for the development of our party. Your correspondent has quoted something from Ajoy Ghosh in 1952. We have to check it up. It might have been quoted out of context. The fact is: our party always tries to develop the cadres ideologically and politically and this system of party education should not be put in a distorted form.

Lastly, I have been advised to undertake a deep introspection. The writer should know that after thorough discussion our party at the Central as well as the state level has adopted the Lok Sabha election review and we are going ahead with the tasks that followed from it.

SAROJ MUKHERJEE

West Bengal State Committee,
CPI(M), Calcutta.

## Sahebganj Massacre of the Poor

THE following is the report of Uma Shankar Shukla, Secretary, MCC, and Shiba Mahto, MLA, JMM, who visited the place where 15 adivasis were killed in police firing near Sahebganj on April 19. Though the report does not indicate how Father Anthony Murmu was killed after arrest, other evidence indicates how he was beaten to death in custody and then shot to make out that he had died in police firing, being in the mob. This is the worst part of the whole dastardly crime and warrants nothing short of immediate arrest of the total police party there under 302 IPC, as in the case of the murder of Bhim Singh in Rajasthan.

Village Banji is situated ten kilometres from Sahebganj. There is no transport to this village. The only bus that used to go to Banji bazaar was of the State Transport Corporation and that too is off the road these days. Not even a rickshaw goes to this village now. An atmosphere of terror and distrust is prevailing in the entire area. Any discussion of Banji incident silences the people.

We contacted the Deputy Commissioner of Sahebganj district, Bhagambar Prasad, and questioned him about the incident of April 19. He replied that the government had ordered a judicial enquiry and that he himself had formed a peace committee in Banji village. He also informed us that the Opposition leader Karpoori Thakur had gone to Banji and had not returned yet. When we explained to him our difficulty in transport he provided us with a jeep to go to the village. At 8.15 am we started for Banji, Sahebganj.

At Banji Santhal we went to the house of the late ex-MP Father Anthony Murmu and met his wife Bibiana Baskey and their four-year old son Clement Murmu. The villagers also had collected there and Karpoori Thakur was conducting his inquiry. As we reached he had closed his inquiry and was returning. We also met the village pradhan Raven Murmu and had talks with other people in the village. The pervading atmosphere is one of terror and distrust. From the inquiry we came to know that on April 19 at 8 O'clock in the morning some tribals from Banji Santhal had gone to Banji to bring firewood. While they were returning some goondas of the Mahajans fired at them thrice though nobody was wounded. The news of the firing spread among the villagers and they were agitated. The people of Banji Santhal collected the tribals of the area by beating the drums. The crowd got together and decided that a delegation under the leadership of Father Anthony Murmu, ex-MP, would meet the SDO and the DSP, camping at the government rest house to find out why tribals were fired at.

Five persons, Father Anthony Murmu, Babulal Soren, Madan Manjhi, Jeta Murmu and Badka Murmu went ahead to meet the SDO and the crowd followed them. The police took Father Murmu and Madan Manjhi into custody and opened fire on the crowd in which fifteen people died and nineteen were seriously wounded.

The tribals are smouldering under the exploitation of the Mahajans. There is a huge tank near Banji bazaar. It is the tradition among the tribals of the area to go fishing in this tank every year after the Holi festival. But for the past three-four years the government has auctioned out this tank to non-tribals whose sole aim is profit-making. Thus traditional rights of the tribals are being snatched from them. This year one Moti Bhagat, a timber contractor, has the tank on auction. On March 25 last a quarrel broke out between the tribals and the contractor on the question of fishing rights and on the same day the body of Matku Murmu of village Saboya was found floating in the tank. This incident triggered off tension and anger in the entire tribal area. The tribals suspected the hand of the contractor in the death of Matku Murmu.

On the question of collecting firewood, flowers and fruits, etc, also there exists constant tension between the tribals and the forest department. People report that the police and the authorities have been bribed by the Mahajans and at their instance wanted to teach the tribals a lesson and fired on them killing fifteen and wounding nineteen.

The dead body of Father Anthony Murmu was not handed over to his wife but to a cousin of his who is a government employee in Bhagalpur. The news of Father Murmu's death was communicated to his wife only on April 21.

The main question is not tribals *versus* non-tribals but is a question of Mahajan and the police *versus* oppressed people. Vested interests along with the authorities are trying to paint it otherwise. The tribals and all justice loving people demand that just punishment be meted out to the guilty police officials.

Dhanbad. A K ROY

# Today's Congressiahs

### Romesh Thapar

WHEN Rajiv Gandhi moved into his mother's office, he inherited a lumpenised, criminalised party and little else. All the computer antics during the parliamentary and assembly elections were not able to make much difference to the composition of this party and its election candidates. And only the other day, at the first AICC meeting since the traumas of last year, the members mobbed their 'leader' in such fashion that he had to abandon his lunch and flee. No charisma was involved. Arun Singh, his political aide, had to flee too.

This incident captures the spirit of the Congressiah today. He is an incurable psychophant, interested only in the politics of making money at whatever level offered to him. Meanwhile, the mounting resentment among party dadas against Rajiv Gandhi, widely expressed in private, is significantly around his 'inaccessibility' —whatever that might meant!—and this is contrasted with his mother's ability to dabble in political gossip and to intrigue actively and skilfully among the factions manoeuvring for her favours.

Rajiv Gandhi's hold on the party remains tentative, uncertain. He has no stomach for pressurising and dragooning, but he also lacks the capacity to resist pressures which are, more often than not, contrary and confusing. At the AICC, the call for political and economic change was considerably modified. We are, alas, back to empty chatter about 'socialist paths' and the 'leading role' of the public sector. All this certainly means that there is some accessibility, and of the wooden-headed kind.

The inability of the Congressiahs to think beyond the unrewarding ideological cliches of the past and to move towards the disciplines and perspectives of a just society for India, where the rich just cannot indulge themselves and where the poor are helped to become productive, is sharply highlighted in the AICC's listless and cynical ramblings on economic policy. As expected, the whole complicated issue was seen as a 'rightist' thrust encircled by a 'leftist' pincer movement. Where these elements are now, goodness knows. Maybe, our editors of the national press will tell us one day.

The confusion in the mind of today's Congressiah, including the 'leader', is best seen in the preparations to begin a year-long celebration of the centenary of the freedom struggle and of the Indian National Congress that led the people. This event has been literally grabbed by the Congressiahs of today who have nothing in common with those who forged the movement for freedom.

Everything got off to a wrong start. There was no proper consultation among a variety of people once associated closely with the morchas that fought for freedom. To invite them belatedly for the inauguration of the festivities (carefully and consciously synchronised with the birthday of none other than Motilal Nehru!) is to ask for the rebuff that was delivered. Rajiv Gandhi was insensitive, to say the least, and particularly after his rather shoddy and unforgivable attacks on the patriotism of so many distinguished members of the Opposition who were building the Indian National Congress before he was born.

It is a commentary on the servile condition of the so-called 'national' press that no one had the savvy to urge in the early stages a more dignified observance of the centenary on a non-party level. To say so now is meaningless. The Congress(I)—put whatever clothing on it, khadi or polyester, white cap or black—is not any more seen as the vanguard of the freedom struggle by 50 per cent of the people who voted against it, and perhaps even by a fair percentage of those who voted for it in the absence of any other viable all-India alternative. All the lyrical praise of the Congress Party cannot dissolve these truths.

And these truths will have to be digested before some degree of health is restored to our democratic functioning, or else every collision will become destructive. The Gujarat holocaust is the latest example. It was triggered, let it not be forgotten, by the Congress(I). It was exploited certainly by the BJP and the RSS. To dismiss it as another example of Opposition disruption is to invite ridicule, despite the easy PR play of Akashvani and Doordarshan. We have cause to be deeply worried by the implications of such dishonest politicking.

At this level of provocation, the ruling party may well spark the kind of angers which convince the Opposition formations to stage parallel and competing anniversary demonstrations around the centenary in all the capitals of the subcontinent. There is ample muscle and clout available to do this in the regions surrounding the backward, Hindi-speaking heartlands, and to give the rickety Congress machine a rude shaking. Let us always remember that our parties are masters of irrelevant politicking because they are fearful of tackling the real problems which are paralysing our polity.

Rajiv Gandhi is taking a long time to learn that as Prime Minister he is not a mere Congress leader, that there is more to rulership in our complex, contrary land than making speeches which speak hopefully of change and progress. Even the ghost-writers are showing signs of exhaustion. That is why various phrases have to be interpreted and re-interpreted by various official spokesmen. However, the Congressiah of today doesn't care what is said to him so long as he is permitted his criminalities. That is Rajiv Gandhi's crisis—to establish control over this creature or to replace him/her with persons who think about their land. Makhanlal Fohtedar in the Rajya Sabha is no answer. He must search wider for potential Congressmen made in the mould of the founding fathers. That should keep him busy.

And so, from day to day, the euphoria around Rajiv Gandhi is losing its assertive presence. It is still felt that he needs more time, but already there is anxiety about whether he knows what to do, and whether the correctives so far announced will work. Unless he can get a firm grip over his party and his policies, he will not be able to deal effectively with the many unresolved problems of the sub-continent now surfacing all together. Political drift usually creates this kind of complication, but for the Indian polity it is extremely dangerous. New caste and ethnic tensions are threatening.

Surely, at this juncture, Rajiv Gandhi and those around him cannot possibly rest content with the thought that their Congress is 'the political Ganga of the nation'. The Ganga is dirty and polluted. Indeed, only the other day, an unsuspecting tourist boating past the historic ghats at Varanasi, dipped her hand into this filthy river and came out with a hand! The Congress hand . . .

Amusing? Not really. In the *kedgeree* that is the Congress today, there is every reason to suspect the quiet crystallisation of another 'Syndicate'. It is not like the one confronted by Indira Gandhi. More motley, but disruptive of this easily factionalised party. And more active, because the 'leader' is unclear about how to lead.

*May 10.*

# STATISTICS

| **Index Numbers of Wholesale Prices** (1970-71 = 100) | Weights | Latest Week (27-4-85) | Variation (Per Cent) Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85++ | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| All ommodities | 1000 | 349.2 | 1.3 | 7.5 | 1.3 | 7.2 | 9.2 | 2.6 | 9.3 |
| Primary Articles | 417 | 325.0 | 0.4 | 4.9 | 0.4 | 5.1 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 301.1 | 0.6 | 7.2 | 0.6 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 312.4 | −0.1 | 3.4 | −0.1 | 3.7 | 15.7 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 555.6 | 1.9 | 9.5 | 1.9 | 7.3 | 6.7 | 7.5 | 20.7 |
| Manufactured Products | 499 | 334.5 | 1.9 | 9.1 | 1.9 | 8.9 | 8.3 | 0.6 | 5.2 |

| **Cost of Living Index** | Base | Latest Month | Variation (Per Cent) Over Last Month | Over Last Year | Over March 1984 | In 83-84 | In 82-83 | In 81-82 | In 80-81 |
|---|---|---|---|---|---|---|---|---|---|
| For Industrial Workers | 1960 = 100 | $585^{2}$ | −0.5 | 4.3 | 4.8 | 12.6 | 7.8 | 12.5 | 11.4 |
| For Urban Non-Manual Employees | 1960 = 100 | $538^{1}$ | 0.2 | 6.8 | 6.5 | 10.3 | 8.0 | 11.9 | 11.8 |
| For Agricultural Labourers | July 60 to June 61 = 100 | $523^{1}$ | 0.2 | — | 1.8 | 11.4 | 5.2 | 12.4 | 9.7 |

| **Money and Banking** | Unit | Latest Week (26-4-85) | Variation Rs Crore (Per Cent in Brackets) Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85++ | In 83-84++ | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| Money Supply ($M_3$) | Rs Crore | 1,02,351 | 1,871<br>(1.9) | 15,018<br>(17.2) | 1,871<br>(1.9) | 14,651<br>(17.1) | 13,031<br>(17.9) | 10,442<br>(16.7) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 51,169 | 4,152 | 8,664 | 4,152 | 6,509 | 5,757 | 4,734 | 4,965 |
| Bank Credit to Commercial Sector | Rs Crore | 69,695 | 648 | 9,429 | 648 | 9,320 | 8,830 | 8,797 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 2,991 | 124 | 1,569 | 124 | 1,419 | − 104 | − 895 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 72,398 | 1,212<br>(1.7) | 11,384<br>(18.7) | 1,212<br>(1.7) | 10,590<br>(17.5) | 9,451<br>(17.8) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets** | Rs Crore | 7,085 | 124 | 1,620 | 124 | 1,463<br>(26.7) | 1,233<br>(28.9) | 911<br>(27.2) | − 1,468<br>(− 30.4) |

| **Index Numbers of Industrial Production** (1970 = 100) | Weights | Latest Month | Average of Months* 1984 | 1983 | Variation (Per Cent) In 1984++ | In 1983++ | In 1982 | In 1981 | In 1980 |
|---|---|---|---|---|---|---|---|---|---|
| General Index | 100.00 | $206.6^{12}$ | 191.6 | 179.7 | 6.6 | 4.8 | 4.2 | 9.3 | 0.8 |
| Basic Industries | 32.28 | $239.6^{10}$ | 237.5 | 210.7 | 12.7 | 5.5 | 7.9 | 14.6 | − 1.0 |
| Capital Goods Industries | 15.25 | $197.1^{10}$ | 206.7 | 183.3 | 12.8 | 3.3 | − 1.2 | 7.6 | 4.6 |
| Intermediate Goods Industries | 20.95 | $163.4^{10}$ | 161.8 | 158.5 | 2.1 | 7.7 | 2.2 | 3.7 | 0.8 |
| Consumer Goods Industries | 31.52 | $146.5^{10}$ | 156.4 | 156.6 | −0.2 | 0.5 | 5.6 | 8.2 | 0.4 |
| Durable Goods | 3.41 | $191.8^{10}$ | 189.0 | 167.1 | 13.1 | 0.1 | 3.6 | −0.1 | 3.5 |
| Non-Durable Goods | 28.11 | $147.5^{10}$ | 153.2 | 155.4 | − 1.4 | − 0.1 | 6.5 | 9.3 | — |

| **Foreign Trade** | Unit | Latest Month (Jan 85) | Cumulative for* 1984-85+ | 1983-84+ | 1983-84 | 1982-83 | 1981-82 | 1980-81 | 1979-80 |
|---|---|---|---|---|---|---|---|---|---|
| Exports | Rs Crore | 994 | 9,258 | 8,131 | 9,866<br>(11.7) | 8,834<br>(13.2) | 7,803<br>(16.3) | 6,711<br>(3.9) | 6,459<br>(12.8) |
| Imports | Rs Crore | 1,977 | 13,122 | 12,625 | 15,763<br>(9.8) | 14,360<br>(5.0) | 13,671<br>(9.2) | 12,524<br>(40.6) | 8,908<br>(30.7) |
| Balances of Trade | Rs Crore | − 983 | − 3,864 | − 4,494 | − 5,897 | − 5,526 | − 5,868 | − 5,813 | − 2,449 |

| **Employment Exchange Statistics** | Unit | Latest Month (Nov 84) | Cumulative for* 1984 | 1983 | 1983 | 1982 | 1981 | 1980 | 1979 |
|---|---|---|---|---|---|---|---|---|---|
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,649 | 23,649 | 21,707 | 21,953<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) | 14,334<br>(13.1) |
| Number of Registrations | Thousand | 447 | 5,991 | 6,019 | 6,555<br>(11.8) | 5,862<br>(− 6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) | 6,132<br>(15.1) |
| Number of Vacancies Notified | Thousand | 51 | 686 | 784 | 828<br>(1.0) | 820<br>(− 8.4) | 895<br>(6.6) | 840<br>(− 4.1) | 876<br>(5.8) |
| Number of Placements | Thousand | 30 | 376 | 456 | 486<br>(2.5) | 474<br>(− 6.1) | 505<br>(5.2) | 480<br>(2.6) | 468<br>(2.6) |

* For current year upto latest month for which data are available and for corresponding period of last year.

** Excluding gold and SDRs.

+ Variation in current year upto latest month for which data are available over corresponding period of last year.

+ + Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript[1] indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

13 JUN 1985
C.F.T.R.I., MYSORE

# The Relationship That Was

### GPD

RAJIV GANDHI's trip to Moscow has an obvious significance. It is his first trip abroad as Prime Minister. At one time it looked as if the Soviets had scored a major diplomatic point by making sure that the new Prime Minister of India travels to Moscow before he goes anywhere else. Since the visit to the US was bound to be on his agenda, the Soviets could have asked for nothing better than Rajiv Gandhi agreeing to go to Moscow first. The Soviets also tried to consolidate their advantage in New Delhi by promptly and quickly responding positively to the appeal issued by the non-aligned (from New Delhi) on the question of peace and weapons and so on. Responding positively to appeals issued from New Delhi should be one of the easiest things to do. Most of them are finely worded, but of little practical significance. Even so the Soviets response mattered. In short, the stage was set for Rajiv Gandhi's successful visit to the Soviet Union. It looked as if a near-euphoric stage in Indo-Soviet relations was about to be reached.

All that seems to be an ancient story today. Rajiv Gandhi's government is barely six months old. But it seems to be almost a decade ago that the Soviets enjoyed the advantage that they did. Within a brief period of about three years of Rajiv Gandhi's appearance on the political scene, he and his men have taken India on to a path which it had never traversed before. It is doubtful if the Soviet Union had foreseen a major shift in India's foreign and, more importantly, foreign economic policies. For the first time Soviet policy-makers must have realised that the context of Indo-Soviet relations has changed. It is going to change even further.

The overworked cliche of Indian foreign policy rhetoric is the 'tilt' that Indian foreign policy is supposed to have always exhibited. Indira Gandhi had coined her own counter-cliche. She had claimed that there was no tilt in India's foreign policy. It stood erect, right in the centre. The business of tilt was never meaningful. Consequently Indira Gandhi's assassination was not meaningful either. The debate on 'tilt' was a bit like the debate on 'genuine non-alignment'. We as a people get so lost in making short, crisp formulations on everything, let alone foreign policy, that in our eyes words *become* reality rather than being used to describe it. Indian foreign policy is easily the worst victim of this pastime of our national elite. A part of the reason for this is our reluctance to see the interrelationships between foreign policy and foreign economic policy. This must be the first time that the close relation between budget and foreign policy is being slowly perceived. There is a new economic policy. There has to be a new foreign policy. Some adjustments would be necessary. When the Soviet Union invited Rajiv Gandhi the changing context of India's foreign policy had not become explicit. The budget showed that the Nehru era had ended. There will still be many Nehru-like elements in our domestic and foreign policies. But they would be more in the nature of survivals of history. India is no Egypt, not yet that is, where the change has to be total and sudden. Nor is it necessary for India to translate change as break. But the change is unmistakably there. For the first time, an Indian Prime Minister goes to Moscow in much the same way as he would to any other capital in the world.

The assassination of Indira Gandhi, the rising terrorism and the clear western support to that terrorism have not produced in Delhi the kind of effect it would have even in a much less independent Latin American country. Whether one attributes this to the sophistication of our elite or to the success of destabilisation policies being relentlessly pursued by a consortium of powers, the fact remains that the Indian elite is not an angry elite. The people are. The elite is not. That no significant anti-west demonstrations have taken place in India since October would tell a story the full implications of which are not yet clear. But whatever they are, they cannot be much to the liking of the Soviet Union. The FBI stories on the arrest of some terrorists and the prompt vote of thanks proposed by the Government of India are perhaps the best examples of black humour in international politics. It seems to have escaped our policy-makers that the FBI disclosures tell a story which has disastrous implications. It tells a story of a leadership caught in a helpless, humiliating situation. More likely the latter. If this is so then what appears to have escaped our policy-makers turns out to be self-imposed ignorance as a defence mechanism. At no stage in our history was India's foreign policy in such a pathetic state. This is the changed context of the Indian Prime Minister's Moscow visit. An era is drawing to a close.

This does not mean that any disasters are imminent. We shall more likely have them on the domestic front than in international affairs. One thing seems very clear though: for nearly four decades the relationship with the Soviet Union was in many ways a primary relationship in India's foreign policy world; it seems likely that it would lose that status now. It would be an important relationship but one of the four or five important relationships, not the least among them being the Indo-American relationship.

## APPOINTMENT

**Institute of Development Studies, Jaipur**

The Institute of Development Studies, Jaipur, proposes to recruit additional research staff, trained basically in Social Science, preferably interdisciplinary in approach and with some understanding of the role that Science and Technology can play in the processes of development with particular reference to Rajasthan.

Applications are invited by 30th June, 1985, in the prescribed form available from the Institute's office (B-118, Mangal Marg, Bapu Nagar, Jaipur - 302015) on prepayment of Rs. 4/- (Rs. 4/- extra in case required by post) for the posts of Fellow (Rs. 1200-50-1300-60-1900) and Associate Fellow (Rs. 700-40-1100-50-1600) with usual benefits of P.F., gratuity, medical, etc. admissible as per University of Rajasthan rules.

**Director**

# No Remedies against Police Torture?

### AG Noorani

HOW long will the Indian legal system remain without any worthwhile remedies against the practice of torture by the custodians of law and order against the hapless citizen? The existing remedies are worse than useless—the civil suit for damages which entails payment of heavy court fees, endless delays and quibbles over notice; the criminal prosecution which is about as difficult and almost as slow.

All this in a country where not a day passes without the press reporting police barbarity in some parts of the country or the other. The *Hindustan Times* of May 13 carries a report from Bhopal which says that a young undertrial who died in Damoh jail recently "was reported to have been beaten up by the police after he was picked up from the bus stand and taken to the police station on vague charges under Section 109 Cr PC. The post-mortem report did not specify the cause of death".

Such reports are fairly common these days. The *Indian Express* of May 3 published a report from Amritsar of a former MLA, Harbans Singh, seeking permission from the government to launch criminal prosecution against police officials for the alleged torture of his two sons. This is a result of the sanction provisions in Section 197 of the Code of Criminal Procedure!

One would have thought that since such abuses are the norm, the legal fraternity would have mounted a campaign for effective remedies against them. In view of the conditions in our country a legal remedy to be worthwhile must be inexpensive, speedy, and adequate, both in its punitive and compensative aspects. It must not only punish the wrongdoer but also compensate the victim. The wrongdoer as well as his employer, the State, must be made to pay. After all, the State does tacitly approve of torture. Had not Zail Singh endorsed the use of third degree methods in the course of a press interview in January 1981 when he was Union Home Minister? That apart, it is State employment and State power which enables the perpetuation of wrong.

Even in a country like Britain where public awareness is much greater and legal remedies more effective—both suits and prosecutions are easier to launch than in India—a special remedy has been provided by statute to deal with complaints against the police.

The Police and Criminal Evidence Act, 1984, establishes the Police Complaints Authority. It consists of a Chairman and not less than eight other members. It can set up regional offices as well. Ordinarily complaints against the police are investigated by the Commissioner of Police of the Metropolis or the police authority for the force's area. But they are now bound to refer to the Police Complaints Authority "any complaint alleging that the conduct complained of resulted in the death of or a serious injury to some other person". Other referrable complaints are also mentioned in the Act. In plain words, complaints of torture resulting in death or serious injury must be referred to the PCA. This is in addition to the PCA's power to direct the police authorities to submit to them any complaint not referred to them. The widest scope for reference of complaints by the police authorities is provided in the Act.

The PCA supervises the investigation of the complaint and can direct reference to the matter to the Director of Public Prosecutions. It will submit at the end of each calendar year a report to the Secretary of State for Home which will be laid before Parliament.

The Police Complaints Board set up by the Police Act, 1976, is abolished and the Act is repealed by the Act of 1984. These institutions are not to be copied but studied for suitable adaptation in our conditions. For one thing we do not have an independent Director of Public Prosecutions. Why, no one even talks of a Lok Pal, the national Ombudsman. The Lok Ayuktas in the states are not exactly shining examples of success. Their very existence is little known.

It is the principle of independent examination of complaints against the police which is important. A panel of independent persons of which a retired IGP is also a member can be set up to receive and supervise the investigation of complaints of torture by the police. Its very establishment will deter the police.

As for the familiar plea that false and vexatious complaints will be filed, it will be open to the panel to insist on sworn statements and prosecute for perjury those who lodge false complaints. Additionally the panel can itself impose a fine on the vexatious and dishonest complainant.

Which brings one to the heart of the matter—the powers of the Police Complaints Authority. Why not empower it to inflict punishment on the policemen it finds guilty instead of referring the matter to the courts for another go?

It is the speed and accessibility of the body which matter most besides, of course, its independence and integrity. Ours is a poor country. The people who suffer most at the hands of the police are the poor and the uneducated. A Police Complaints Authority will be successful or worthwhile only insofar as it answers their needs. And that is a test not for this institution alone.

APPOINTMENTS

**WANTED**

A reliable company of north India requires the services of some experienced sales representative to sell their household and domestic article of daily need. Salary Rs. 1,000 plus commission and other benefits extra. A self stamped envelop must be accompanied. Apply in English or Hindi only to:

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# Entertainment Electronics Bonanza

**Hansavivek**

*PEICO ELECTRONICS AND ELECTRICALS* has recorded an impressive recovery in its financial performance from the previous year's setback. Its gross profit has jumped from Rs 8.24 crore to Rs 15.55 crore following increase in turnover from Rs 164.85 crore to Rs 209.49 crore, reflecting a sizeable increase in margins. Net profit is also considerably higher at Rs 4.64 crore against Rs 1.72 crore despite higher provisions for depreciation and taxation. Dividend has been stepped up four points to 20 per cent and is covered 1.07 times; half of last year's distribution was short-earned.

The company has further accelerated the programme of modernisation of its various factories. The lighting division introduced low pressure sodium vapour lamps, energy effective 26 mm slimline TLD fluorescent lamps, low wattage high pressure SON sodium vapour lamps as well as coloured compatulux reflector lamps. The availability of lamps and lamp components from the Kalwa factory near Bombay was adversely affected due to disturbed industrial relations. The company had to increase procurement of lamps to meet consumer demand. The letter of intent for the manufacture of 15 million glass shells at the Kalwa factory was converted into an industrial licence. Preparations for its implementation are in hand. In the field of projects, the company received orders from several major thermal power stations and also a contract for the prestigious Calcutta Metro Railway for design, supply and installation of lighting systems. The company made an entry into the television market with the introduction of three models of black and white television receivers in 12″, 14″ and 20″ screen sizes. It has now finalised plans for extending the range and improving volumes. A high performance cassette deck was added to the range, while successful entry in the car audio and stereo audio recorder was made. In pursuance of the long-term growth objective, a new audio complex is being put up in the Salt Lake area of Calcutta.

The company also successfully completed its export obligation in radio receivers. It has received a letter of intent for the manufacture of an additional one million audio products (radios-recorders-combinations) covering both the Pune and Calcutta factories. The letter of intent carries with it an export obligation. The company has received an industrial licence for the manufacture of one million micromotors which together with the tape deck mechanism are being implemented at the new Salt Lake factory. It has also secured letters of intent for magnetic heads, hard ferrites, loudspeaker cones and component parts of loudspeakers, ceramic capacitors, as well as coloured television receivers. Steps to implement these various letters of intent are well in hand. The company has obtained industrial licence for the manufacture of ultrasound diagnostic instruments and letters of intent for x-ray diagnostic systems, liquid nitrogen plants, high speed character printers, mini floppy disc drives and electronic keyboards. Besides, a number of the company's applications are pending with the government for grant of licences to produce electronic PABX, electronic telephone instruments, teleprinters, modems, analytical instruments as well as laservision systems. The company has been preparing itself to handle in a professional way its entry in the field of data systems, particularly in the areas covering testing, installation, service and software. To strengthen its commercial organisation, the company opened a branch office at Chandigarh and inaugurated three new show shops at Madras, Bombay and Chandigarh to enable consumers to examine and see demonstrations of the wide range of the company's products. Webel Telecommunication Industries, in which the company holds 40 per cent share capital, made a profit of Rs 40 lakh for the year ended March 1984 and declared a dividend of 10 per cent.

*ZUARI AGRO CHEMICALS* is further diversifying its activities into cement and shipping. It expects to receive a letter of intent for setting up a one million tonnes per annum cement plant at Mandalgarh in Rajasthan. A detailed feasibility report based on the results of limestone prospecting in Mandalgarh is being prepared. The company's efforts to acquire a bulk carrier for the transportation of phosphoric acid consumed by it and other Indian fertiliser manufacturers have made good pro-

**The Week's Companies** *(Rs Lakh)*

| | | Peico Electronics | | Zuari Agro | | Mafatlal Dyes | |
|---|---|---|---|---|---|---|---|
| | | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 |
| Paid-up Capital | | 2160 | 2160 | 1655 | 1655 | 252 | 252 |
| Reserves | | 3796 | 3752 | 3381 | 2542 | 566 | 506 |
| Borrowings | | 6933 | 4413 | 3505 | 2762 | 469 | 234 |
| *of which* Term borrowings | | 2249 | 1530 | 1338 | 1528 | — | — |
| Gross fixed assets | | 8791 | 8001 | 9724 | 7351 | 194 | 211 |
| Net fixed assets | | 5373 | 5042 | 4495 | 3214 | 96 | 106 |
| Investments | | 148 | 145 | 30 | — | 21 | 18 |
| Current liabilities | | 6163 | 4781 | 1825 | 1377 | 943 | 1583 |
| Current assets | | 13529 | 9920 | 5831 | 5116 | 2114 | 2451 |
| Stocks | | 5753 | 4616 | 3313 | 1840 | 662 | 405 |
| Book debts | | 5268 | 4031 | 735 | 1151 | 969 | 1168 |
| Net sales | | 20949 | 16485 | 15143 | 13758 | 3521 | 9115 |
| Other income | | 174 | 157 | 232 | 111 | 207 | 152 |
| Raw material costs | | 11910 | 9291 | 5934 | 5601 | 3078 | 8452 |
| Wages | | 3459 | 2980 | 343 | 275 | 124 | 183 |
| Interest | | 869 | 765 | 414 | 430 | 60 | 55 |
| Gross profit (+)/loss (−) | | 1555 | 824 | 2190 | 1581 | 246 | 315 |
| Depreciation provision | | 551 | 482 | 704 | 697 | 11 | 11 |
| Tax provision | | 540 | 170 | 437 | 390 | 137 | 201 |
| Net profit (+)/loss (−) | | 464 | 172 | 1049 | 494 | 98 | 104 |
| Investment allowance reserve | | 95 | 113 | 370 | 100 | 1 | — |
| Transfer to reserves | | — | — | 360 | 106 | 54 | 61 |
| Dividend | | | | | | | |
| Amount | P | — | — | 39 | 39 | — | — |
| | E | 432 | 346 | 280 | 249 | 43 | 43 |
| Rate (per cent) | P | — | — | 9.5 | 9.5 | — | — |
| | E | 20 | 16 | 22.50 | 20 | 17 | 17 |
| Cover (times) | | 1.07 | 0.50 | 3.63 | 1.82 | 2.28 | 2.42 |
| *Ratios* (per cent) | | | | | | | |
| Gross profit/sales | | 7.42 | 5.00 | 14.46 | 11.49 | 6.99 | 3.46 |
| Net profit/capital employed | | 7.78 | 2.91 | 20.63 | 11.77 | 11.98 | 13.72 |
| Inventories/sales | | 27.46 | 28.00 | 21.87 | 13.37 | 18.80 | 4.44 |
| Wages/sales | | 16.51 | 18.08 | 2.26 | 1.99 | 3.52 | 2.01 |

gress. Subject to government's approval, it plans to purchase one phosphoric acid carrier of a suitable tonnage during this year. The company is also exploring the possibility of entering high technology areas for the manufacture of electronic telecommunications equipment. Meanwhile, the company commissioned recently its di ammonium phosphate project. The completion of the project in record time has enabled the company to double its production of vitally needed phosphatic fertilisers. The company has got a letter of intent to put up a 1,350 tonnes per day ammonia plant and 2,250 tonnes per day urea plant based on off-shore gas at Sawai Madhopur in Rajasthan. Work on this Rs 750 crore fertiliser project has already been initiated.

The company has produced good results for 1984. The plant performance was significantly better than the previous year with capacity utilisation of ammonia and urea plants reaching 90 per cent and 94 per cent compared to 83 per cent and 86 per cent, respectively, in 1983. The capacity utilisation of the NPK plant in terms of tonnage at 106 per cent was marginally lower than in the previous year due to industrial relations problem in respect of contract labour towards the year end. With sales amounting to Rs 151.43 crore against Rs 137.58 crore of 1983, the company earned a gross profit of Rs 21.90 crore against Rs 15.81 crore, reflecting a notable increase in profit margins. Net profit has more than doubled to Rs 10.49 crore (Rs 4.94 crore). Dividend has been stepped up by 2.5 per cent to 22.5 per cent and is still covered 3.63 times by earnings as against 1.82 times previously. The company's shareholders in their meetings held in March last have approved to extend the due date of redemption of 4,12,490 cumulative redeemable preference shares to July 10, 1992 or thereafter but not later than July 10, 1995 and also to increase the rate of dividend payable thereon from 9.5 per cent per annum to 15 per cent per annum, or such higher rates as may be fixed by the Central government from time to time.

*MAFATLAL DYES AND CHEMICALS* has earned a lower gross profit of Rs 246 lakh in 1984 against Rs 315 lakh in the previous year following a drop in turnover from Rs 91.15 crore to Rs 35.21 crore. These figures show that margins have increased. Net profit is lower at Rs 98 lakh against Rs 104 lakh, but dividend is maintained at 17 per cent which is covered 2.28 times as against 2.42 times previously. This outcome is to be viewed against the background of important changes which took place in the company's business. Unlike in the previous year, the company did not market during 1984 high density polyethylene, refrigerants and propellants and certain dyestuffs, as the manufacturers of these products had terminated their marketing arrangements with the company. The arrangements for booking indent orders for certain goods manufactured by Hoechst of West Germany and its associate companies also stood terminated. The company undertook extensive marketing of dyestuffs, pigments and optical brighteners manufactured by Indian Dyestuff Industries (IDI). Total sales of IDI products amounted to Rs 25.27 crore. Production of synthetic resin dispersions was 3,524 tonnes, reflecting an increase of 11 per cent over the previous year. Sales at Rs 9.87 crore showed an increase of about 15 per cent. The company continued to act as an indenting agent for 'FUTURA' polyester staple fibre manufactured by Indian Organic Chemicals. Indent orders booked during 1984 amounted to Rs 5.77 crore. A year ago, the directors had expected the company to achieve an ex-stock turnover of Rs 30 crore, whereas the actual ex-stock turnover in 1984 has exceeded Rs 38 crore. In view of the anticipated reduction in business, the company took appropriate steps to reduce establishment expenses wherever possible. Considering the ex-stock turnover of over Rs 38 crore, the profit before tax of Rs 235 lakh can be considered to be satisfactory. Profit after tax at Rs 98 lakh showed a marginal decline of about 5 per cent over that of the previous year. Stringent monetary conditions, high rates of interest, continuing inflation and recessionary conditions in the textile industry have exerted considerable pressure on the company's finances. Nevertheless, the financial position is quite satisfactory.

*BHARAT HEAVY ELECTRICALS (BHEL)* achieved an impressive performance during 1984-85, with a turnover of Rs 1,542 crore against Rs 1,325 crore in the previous year, and profit reaching the Rs 100-crore mark, according to preliminary figures. The company received its biggest-ever turnkey contract valued at Rs 470 crore for three units of 210 MW each at the Kolaghat thermal power plant in West Bengal. With this, BHEL's order book stands at over Rs 5,000 crore. BHEL thermal sets exceeded the generation targets for the year fixed by the Central Electricity Authority and generated 61,900 million units against the target of 60,700 million units, representing a 25 per cent increase over the previous year. BHEL's 210 MW thermal set at Vijayawada-II operated uninterruptedly with 100 per cent availability for over four months at a stretch. Over a dozen more such sets operated with 100 per cent availability for periods exceeding 60 days. A Rs 3.8 crore heavy equipment repair plant is being set up near Varanasi to provide prompt repairs and spares in the eastern and north-eastern regions.

BHEL joined the select band of top four power equipment manufacturers in the world by developing a new ignition system known as 'Direct Ignition of Pulverised Coal'. This system will result in a 90 per cent saving of fuel-oil in coal based thermal power plants. Installation of this system in existing boilers will result in fuel savings of about Rs 400 crore per year. A five MW Magneto Hydro Dynamics (MHD) experimental test facility reached final stages of commissioning at Tiruchi. This is a new and more efficient method of generation of power. R and D expenditure of Rs 39 crore is planned for 1985-86, which works out to 2.2 per cent of the turnover. The company manufactured 12 oil drilling rigs in the year. Orders worth Rs 100 crore were received from ONGC and OIL for 13 rigs and 100 sets of well-head and X-Mas Tree valves used in drilling operations. India's first underground Metro Train has been equipped with BHEL traction equipment. A proposal for introduction of BHEL Trolley Bus in Delhi is under examination of the government. The Rs 100 crore turnkey power plant set up by BHEL in Libya was finally handed over after four years of successful operation and maintenance. A 132 KV substation in Phillipines, a 66 MW turnkey hydro project at Tenom Pangi (Malaysia) and a 121 MW hydrogenerator for Bhumibol (Thailand) were also handed over to the customers. New contracts were bagged for maintenance of boilers in Malaysia, consultancy for setting up a piping plant in Algeria and manufacturing facilities for mini-micro hydel sets in Nepal. The company secured an entry into the USSR market by bagging a Rs 5 crore contract for Cone Crushers and Haulage Winches. Three plants of BHEL received the coveted International 'Sword of Honour', for safety, awarded by the British Safety Council. Two plants of BHEL were the recepients of national awards for best performance in productivity. A Rs 5 crore Pollution Control Research Institute is being set up at Hardwar with UNDP assistance to develop new technologies for prevention of air, water, noise, and solid waste pollution. Setting up of 100 integrated rural energy projects valued at Rs 7 crore for installation of solar, wind and bio-gas systems in remote areas has been entrusted to BHEL by the Department of Non-Conventional Energy Sources. Six such projects have been completed.

## IMPORT POLICY

# Search for Instant Growth

### Arun Goyal

THE three-year import policy announced in April this year continues the liberalisation trend which began eight years ago when the Janata government came to power at the Centre. The first wave started in 1978-79 following the Alexander Committee's report and a comfortable exchange reserves position as a result of remittances of Indian workers in Gulf countries. The IMF loan conditionalities forced the next major liberalisation in the 1982-83 policy. The Open General Licence (OGL) lists for both capital goods and raw materials were expanded with the backing of the IMF's Extended Fund Facility. Unlike the earlier waves, the third major liberalisation, announced in the 1985-86 policy, lacks a favourable context.

The outlook for balance of payments is bleak. The inflow of remittances from Indian workers abroad is decelerating, the strong dollar takes funds out of the country since imports exceed exports by a factor of 1.6. Prospects of self-sufficiency in oil are poor with insignificant additions to reserves from exploration operations. Last, the SDR 3.9 bn loan from the IMF is nearing maturity.

The policy-makers must have chosen the high risk policy of liberalisation in the hope of some immediate gain to the economy. This decision follows the 1985-86 Budget and its record uncovered deficit. Imports are made easier with the scrapping of automatic licensing (this category covered the raw material needs of industrial Actual Users) and the shifting of 778 new items to the OGL list (see Table 1). The Automatic Permissible list of 512 items to cover imports against the automatic licences has also been dropped from the policy book and 91 per cent of the items have been moved to the OGL list. Apart from the shifting of electronic components and sub-systems from the canalised list into OGL, a number of automotive and electronics industry components have been put on OGL for the first time.

The scrapping of Automatic Licensing removes some of the administrative hurdles in importing. The value of imports may not go up very much since the Automatic Licence was almost as liberal as the Open General Licence. The liberalisations for the automotive and electronics industry are important since they mark the continuation of the government's policy to 'encourage' these industries through concessions in import licensing and customs tariffs to achieve modernisation and cost reduction. In practice, the policy has led to CKD and SKD imports for assembly into finished goods. In the automotive industry, assembly type production has reached down to even subsystems such as fuel injection pumps.

The intention to liberalise procedures through abolition of Automatic Licensing has been welcomed by industry associations in press statements. Privately, however, leaders of industry claim that the import policy continues to be restrictive in implementation and interpretation. Total lack of co-ordination between the DGTD and the licensing and customs departments is said to hamstring operations. Short of a major structural change, the policy cannot be liberalised in practical terms. Computers are quoted as an example. The OGL imports allowed in this year's policy will not come to much because the configuration specified is such that few will find it profitable to effect imports. Moreover, the customs duties have been hiked to 200 per cent in the new Budget. There is no point opening one door and simultaneously closing the next one.

The more significant liberalisation has been in the Capital Goods list (Table 2). Another 208 items have been added to OGL bringing the total to 959. In the last four years, as many as 656 items have been put on the OGL list, an increase of 191 per cent. Quite a few of the additions this year are microprocessor-based equipment, called CNC (computerised numerically controlled) machines. The machine tools list has been doubled. Super fast spinning machines, known as open end spinning machines, have joined the OGL list along with air jet and water jet looms. The jute industry has been opened to capital goods import for the first time with 24 major machinery items on OGL. Similarly, 25 types of packaging machinery are on OGL. Other industries freshly opened to imports include oil field services and writing instruments machinery.

The impact of these changes is bound to be significant. The development of an indigenous capital goods industry was always a not very lucrative proposition for Indian businessmen, given the initial limited size of the market and the problems of technology transfer and the procedural bottlenecks created by licensing. In the face of liberal imports and the customs duty concessions, which usually follow such liberalisations, the task will become even more daunting. The case of garment machinery is an example

TABLE 1

**Raw Materials, etc, Controlled Lists**

| | IA2A | IA2B | IA3A | 3B | 4A,B,C | IA5A | IA5B |
|---|---|---|---|---|---|---|---|
| 84-85 policy | 5 | 134 | 577 | 24 | 512 | 73 | 90 |
| Additions | 1 | 21 | 57 | 36 | — | — | 2 |
| Deletions | — | 1 | 28 | — | 512 | 22 | 4 |
| 85-88 policy | 6 | 154 | 606 | 60 | — | 51 | 88 |

**Open General Licence Lists**

| | IA06 | IA06L1 | IA06L2 | IA06L3 | L4 | L5 | L6 | IA06L8P1 | IA06L8P2 | P3 |
|---|---|---|---|---|---|---|---|---|---|---|
| 84-85 policy | 52 | 74 | 47 | 97 | 66 | 6 | 134 | 136 | 66 | 41 |
| Additions | 7 | — | 2 | 3 | — | — | — | 736 | 37 | 16 |
| Deletions | — | — | — | 2 | — | — | — | 1 | 4 | 9 |
| 85-88 policy | 59 | 74 | 49 | 98 | 66 | 6 | 134 | 871 | 99 | 48 |

**Export Based Import Lists**

| | IA17 | IA19An2 | IA19An5 | IA21 |
|---|---|---|---|---|
| 84-85 policy | 305 | 20 | 83 | 21 |
| Additions | 3 | 20 | 9 | — |
| Deletions | — | — | — | 2 |
| 85-88 policy | 308 | 40 | 92 | 19 |

I: Import Policy, A: Appendix.

*Source:* Background Paper for BIG's 1985-88 Import Policy and Customs Seminar.

TABLE 2: MOVEMENT IN IMPORT POLICY FOR CAPITAL GOODS UNDER OGL

| | 81-82 Policy | 82-83 Policy | 83-84 Policy | 84-85 Policy | 85-88 Policy |
|---|---|---|---|---|---|
| Total before policy | 343 | 569 | 669 | 343 | 761 |
| Additions/deletions | 226 | 100 | 92 | 418 | (+)208<br>(−) 10 |
| Total policy | 569 | 669 | 761 | 761 | 959 |

*Source:* Same as for Table 1.

TABLE 3: CUSTOMS REVENUE

*(Rs in crore)*

| Main Items | 81-82 (Actuals) | 82-83 (Actuals) | 83-84 (Actuals) | 84-85 (RE) | 85-86 (BE) |
|---|---|---|---|---|---|
| (1) Fruits, dried and fresh | 33.31<br>( 0.8) | 49.34<br>( 1.0) | 50.60<br>( 0.9) | 51.81<br>( 0.8) | 56.00<br>( 0.7) |
| (2) Chemicals | 342.98<br>( 8.4) | 367.97<br>( 7.5) | 477.29<br>( 8.8) | 733.67<br>(10.6) | 825.00<br>(10.3) |
| (3) Pharmaceuticals | 54.28<br>( 1.3) | 60.00<br>( 1.2) | 63.79<br>( 1.2) | 87.00<br>( 1.3) | 95.00<br>( 1.2) |
| (4) Resins, Plasters | 178.07<br>( 4.3) | 226.01<br>( 4.6) | 231.32<br>( 4.3) | 279.75<br>( 4.0) | 320.00<br>( 4.0) |
| (5) Rubber | 58.49<br>( 1.4) | 74.18<br>( 1.5) | 79.30<br>( 1.5) | 105.37<br>( 1.5) | 120.00<br>( 1.5) |
| (6) Man-made fibre yarn | 216.85<br>( 5.3) | 245.98<br>( 5.0) | 140.78<br>( 2.6) | 107.40<br>( 1.5) | 115.00<br>( 1.4) |
| (7) Man-mad fibre/filament tow | 102.88<br>( 2.5) | 145.43<br>( 2.9) | 104.83<br>( 1.9) | 75.16<br>( 1.1) | 90.00<br>( 1.1) |
| (8) Iron and steel | 608.42<br>(14.8) | 573.93<br>(11.6) | 543.95<br>(10.0) | 765.00<br>(11.0) | 825.00<br>(10.3) |
| (9) Machinery | 1095.44<br>(26.7) | 1497.70<br>(30.4) | 1729.18<br>(31.9) | 2085.30<br>(30.1) | 2350.00<br>(29.4) |
| Others | 1413.85<br>(34.4) | 1689.09<br>(34.3) | 2007.28<br>(37.0) | 2647.48<br>(38.2) | 3200.00<br>(40.0) |
| Total | 4104.57 | 4929.63 | 5428.32 | 6937.58 | 7996.00 |

*Note:* Figures in brackets are percentages of total customs revenue.
*Source:* Budget Papers, 1981-82 to 1985-86.

where OGL imports in the name of export promotion have created a situation such that with Rs 800 crore worth garment exports, the country manufactures machinery of the domestic sewing machine type only. The foreign exchange outflow from capital goods import is also significant. Table 3 shows that even after concessions in import duties every year, the customs revenue from this head has nearly doubled.

The public sector has been severely hit by the new policy. The electronics companies, especially the semi-conductors complex near Chandigarh, will find themselves out-priced by competition from abroad. A number of other corporations which survived on profits from canalisation will go into the red. Capital goods manufacturers will face more competition from imports. Imports against capital goods licensing procedures have been liberalised with the Chief Controller of Imports and Exports (CCI and E) acquiring powers to sanction applications upto Rs one crore (Rs 50 lakh earlier). DGTD approval is required now only in cases above Rs one crore. The customs duties too, specially on project imports, have undergone major reduction. SAIL, the canalising agency in the earlier policy, will face more competition since the new agency, MMTC, is interested in imports by its charter. Even the powerful DOE (Department of Electronics) has been cut to size. Its role as a super decision-making authority on every action of both government and industry has been reduced significantly.

### EXPORT-BASED IMPORTS

The second part of the import policy covers export-based imports. Import licences are given to various categories of exporters to fulfil their needs of raw material for export production. In the absence of a direct link between export production and actual exports, the licences have acquired transferability and premiums, with or without official sanction. The new import policy has extended this structure with a few modifications. The transferable REP licence which was designed to replenish the import content of exports, continues without significant change in regard to the prescribed percentage or to the shopping list. These licences have lost much of the premiums since the bulk of the shopping list covers the erstwhile automatic licensing items, 91 per cent of which are now on OGL. REP licences are now largely useful as instruments of easy imports since any bearer can use them to import the items indicated in them; OGL imports usually require the fulfilment of the 'actual user' condition. The lists for customs duty-free import against export obligation has been extended further. The procedures to acquire such licences have been standardised and decentralised.

The new Pass Book Scheme has been designed to avoid the malpractices associated with duty-free imports of raw material against export obligation. The Pass Book, it is claimed, will not leak duty exempted material into the domestic economy and is the final answer to the needs of the manufacturer-exporter for duty-free imports for export production. Its details are to be announced towards the end of the year. The Pass Book will be the seventh type of export based on import licence and may well add to the confusion in this type of licensing.

Export Houses and Trading Houses are sore at the Chief Controller of Imports and Exports (CCI and E) for giving them a raw deal. The minimum turnover for registration of small scale Export Houses has been raised from Rs 50 lakh to Rs 75 lakh. Moreover, the concept of net foreign exchange earnings has been introduced in computing growth rates for the purpose of renewal of Export House registration. The net foreign exchange earning criterion has already been in use for the additional licences available to Export Houses to meet the needs of their so-called supporting manufacturers. With the scrapping of the Automatic Permissible list, which was used for import against additional licences, there is little premium on the licences. Export Houses feel that they have been placed below Actual Users in the allocation of licensing privileges.

The hundred per cent export schemes have been linked together and movement between and among the Free Trade Zones and the 100 per cent export oriented units is now permitted. Their product range has been extended to cover gold jewellery also. A new category covering units exporting hundred per cent of production but not registered under the first two schemes has been introduced. This category will be given flexibility in using REP licences to import any item needed by them for export production.

The special facilities available to Non-Resident Indians (NRI) have been cut following the takeover bids of Swraj Paul. Now the clauses will apply only to NRI returning home for permanent settlement; NRI or persons of Indian origin wishing to just invest in India without returning home are specifically excluded.

The only significant impact of the new import policy will be in the electronics, automotive and the capital goods industries. The import bill will rise in the face of poor exchange reserves. In the absence of innovation, the policy administration will remain chaotic and directionless. Much is being made of the so-called long-term orientation and stability. The truth is that licensing policies and lists are still on an annual basis and amendments continue to average about one every four days. The only difference will be that the three-volume policy book will now be printed only once in three years. The number of schemes in various stages of disuse or abuse continues to multiply. Wordings and implementation continue to be complex with vested interests and touts playing a major role. Co-ordination between government departments is insignificant. The saying goes that the import policy is framed by DGTD, announced by CCI and E and implemented by the Customs. Information flow, specially on clarifications, is both slow and insufficient. The new policy is the old policy of the last eight years of liberalisation without clarity and orientation. What is different is that this time the country may not have its own funds to pay for all the imports generated.

## ANDHRA PRADESH

# Myth of Minimum Wages for Agricultural Labour

### M Shatrugna

ADDRESSING a May Day rally of workers in Dhanbad, Prime Minister Rajiv Gandhi announced the institution of five "worker's" awards in recognition of the service rendered by the working class to the nation. Not to be outdone in public display of love for the workers, Chief Minister N T Rama Rao also announced the institution of state awards 'Karmika Ratna', 'Shramika Ratna', etc. While awards and recognition are welcome, such public rituals should not divert the attention of the people from the deplorable state of the working class. The majority of workers are not organised, especially in the rural areas. Barring states like Kerala where the agricultural workers' movement has taken deep roots, by and large they are not organised in the rest of the country. For them the implementation of the so-called minimum wages has become the most immediate and urgent need. While the living and working conditions of workers in the urban area are bad with problems of pollution, insanitation, near absence of basic amenities like drinking water, toilets, etc, the problems faced by the rural proletariat is much worse. With runaway prices of essential commodities, inflation and non-implementation of the minimum wages Act, their very survival has become difficult.

Let us look at some statistics. According to the 1981 census, the rural population in Andhra Pradesh is 409.85 lakh and the urban population 125. 65 lakh. Out of this, the total scheduled caste population stands at 79.62 lakh and the scheduled tribe population at 31.76 lakh. Among them a majority in the rural areas and a near-majority in urban areas live below the poverty line. Most of these people have a low status both class-wise and caste-wise. According to a study conducted by R Radhakrishna, Director, Centre for Economic and Social Studies (CESS), Hyderabad, in the rural areas of Andhra, 218 lakh persons (87 lakh in coastal Andhra, 44 lakh in Rayalaseema and 86 lakh in Telengana) were living below the poverty line in 1977-78. The numbers must have gone up further since then. In terms of households, it is estimated that in rural Andhra Pradesh, 44 lakh households (18 lakh in Coastal Andhra, eight lakh in Rayalaseema and 18 lakh in Telengana) are below the poverty line. The proportion of the poor is estimated to be 49 per cent in Coastal Andhra and around 60 per cent in Rayalaseema and Telengana. According to Radhakrishna, "... the variation in poverty across rural classes is more pronounced than across the broad regions; the proportion of poor is 69 per cent for agricultural labourers; 44 per cent for cultivators; 47 per cent for 'self employed' non-agricultural class; and 34 per cent for 'employed' non-agricultural class. Out of the estimated 218 lakh rural poor, a staggering 103 lakh belong to the agricultural labour class and 67 lakh to the cultivators class; thus agricultural classes make up more than two-thirds of the poor ... In general, poverty magnitudes are higher for agricultural labourers both in developed as well as in less developed districts. On the other hand, development appears to have made a dent on the poverty levels among cultivators and the self-employed non-agricultural class." Radhakrishna further says that "Inter-district comparisons of the incidence of poverty reveals that development in general reduces the incidence of poverty among cultivators and self-employed class and it does not make much dent on the poverty levels of agricultural labourers who constitute the hard core of the poor".

One of the chief reasons for this state of affairs is that the people do not have enough purchasing power with which to buy their daily needs. This means they do not have regular income-generating sources to look after themselves. The rural poor with no property whatsoever have to depend on their labour power only to sustain themselves. What are their employment opportunities? Barring agricultural operations they do not have any major sources of employment. Also agricultural operations can give them only seasonal employment. Generally it is accepted that an agricultural labourer does not have work for more than 130 days in a year. The rest of the time he is either underemployed or is attending to such jobs as do not given him two square meals a day. The growing indebtedness of the rural poor is an index of his economic condition.

Many studies show that even during periods of work the agricultural worker does not get paid minimum wages. Though men and women are supposed to get equal wages for the same type of work, women get paid less than men. The so-called minimum wages as prescribed at present are outdated and do not have much relevance to the present price structure. Minimum wage rates can be calculated on the basis of energy consumption in the form of food. One of the scientific methods of determining the basic needs of a person is on the basis of what is called the balanced diet calorie intake. The National Institute of Nutrition, Hyderabad, an affiliate of the Indian Council of Medical Research under the Government of India, has done pioneering work in calculating and computing the calorie intakes for different sections of the community. In fact, it is the only recognised Institute in the country in that area of work. Hence we can take NIN calculations as official. According to the NIN data, the computed cost of least cost balanced diet suggested by ICMR providing 2,700 K calories (at prevailing prices) works out to be Rs 4.07 per day for a 'moderate worker' (see Table 1).

An average Indian family consisting of an adult male, adult female, one pre-school child, one school-going child and an aged dependant needs a total calorie intake of 9,930/K cal/day to keep above the poverty line, according to ICMR standards. The cost of this calorie intake including fuel, etc, works out to be Rs 24.45 per day at current prices. Now this diet recommendation is for moderate workers, like Class IV employees in the urban areas. Therefore in order to meet the ICMR recommended diet, an urban 'moderate worker' should have a minimum wage of at least Rs 24.45 per day. But what is the present rate? It is around Rs 10 per day.

TABLE 2: RECOMMENDED FAMILY CALORIE INTAKE FOR AGRICULTURAL WORKERS

| | Energy Allowances (K cal/day) | |
|---|---|---|
| | Moderate Worker | Agricultural Worker |
| Adult male | 2,700 | 3,350 |
| Adult female | 2,200 | 2,800 |
| Pre-school child | 1,200 | 1,200 |
| School-age child | 2,050 | 2,050 |
| Aged dependant | 1,760 | 1,760 |
| | 9,930 | 11,160 |

TABLE 1: SUGGESTED BALANCED DIET FOR ADULT MALES (MODERATE WORKER)

| Food Stuffs | Cost/Kg (Rs) | Recommended Balanced Diet (gms) | Cost (Rs) |
|---|---|---|---|
| Cereals | 3.00 | 520 | 1.50 |
| Pulses | 8.00 | 50 | 0.40 |
| Leafy vegetables | 3.50 | 40 | 0.14 |
| Other vegetables | 3.50 | 70 | 0.25 |
| Roots and Tubers | 2.00 | 60 | 0.12 |
| Milk | 4.00 | 200 | 0.80 |
| Fats and oils | 16.00 | 45 | 0.72 |
| Sugar and jaggery | 4.00 | 35 | 0.14 |
| Total cost of diet | | | 4.07 |

For the agricultural worker, the recommended 'family' calorie intake is 11,160 K calories per day (see Table 2). The cost of food, etc, for this energy requirement is Rs 27.47 per day. Therefore the annual income for this category of households should be Rs 10,026.55. But according to the government, unlike in an urban area, husband and wife are supposed to be employed in the rural area. But this generally is not the case. Increasingly there are more woman-headed families. Even according to the government formula, a man and woman should earn Rs 5,013.27 each per annum to fulfil the ICMR criterion. Further, an agricultural worker should either earn this amount in the 130 days he is gainfully employed or earn the same amount in a job that gives him employment throughout the year. In the 130 days work norm, the daily minimum wage would have to be Rs 38.56 at current prices. At present he does not get even one-fourth of the above amount.

When the problem is so serious and gigantic it is surprising that the opposition political parties in the state who swear by the working class do not think it important to agitate for the implementation of the present minimum wages Act, let alone fight for upward revision of the minimum wages based on the NIN calculations. It is also interesting that when certain political groups run by the Ryothu Cooli Sanghams organise the rural poor on such basic issues, their activities are met with the armed might of the state apparatus, though the present government in the state came to power twice within 28 months in the name of the poor.

### WORLD ENVIRONMENT DAY

## Facade and Reality of Environment Protection

**Bharat Dogra**

DEVELOPMENT may be defined as the use of natural resources for the satisfaction of human needs. This is a general, value-free definition of development, and there can be several kinds of development. Environmental consciousness in development planning may be described as the exercise of caution in development planning to ensure, firstly, that the natural resources, including air, are protected for safe and adequate use by future generations and, secondly, that development projects do not jeopardise the lives of people working on them or living near them.

Clearly, the need for such environmental consciousness exists under all socio-economic systems. The need, however, is the greatest in highly inegalitarian and oppressive systems (such as the one that exists in India today) because under such systems a relatively small number of individuals (or commercial organisations) acquire highly concentrated power to use natural resources to maximise their profits, irrespective of the havoc this pursuit may cause to a large number of people in this and the next generation. Such ruthless plunder of natural resources, apart from the destruction and pauperisation it causes immediately, will leave the country so exhausted of the base of prosperity that the welfare tasks of a people's government that may emerge at a future date would become extremely hard to achieve.

Thus it is clear that environmental consciousness in development planning is extremely important in India today. Unfortunately, despite all the talk about environment that one hears, it cannot be said that such consciousness exists in influential circles of the government, the experts, the press, etc. What exists is merely the pretence of such consciousness, often surfacing in totally distorted views on environmental protection.

To give an example, let us take up the plea for scientific land-use planning wherein it is said, not only for India but for several Third World countries, that over-cultivation should be avoided and marginalised farm land should be brought under afforestation schemes. Nothing wrong in this, or course, except that when such statements are made in isolation from the existing realities of inequalities in land-ownership, they tend to acquire a sinister meaning. In a village where the bulk of good cultivable land is occupied by a relatively small number (say, 10 to 20 per cent) of the families, the poor families may be able to have access, if at all, only to the marginalised land to grow a little grain. Under such conditions programmes for scientific land-use planning, before they can start doing any good, will first of all rob the poorest of what little land they have. It is well known that generally it is the marginalised land that has been distributed among the poor under the land redistribution programme in India.

Some other observers of the environment scene, however, are more careful. While asking for better land-use planning, they also look at the inequalities and ask for implementation of land reform laws. Even they, however, do not bother to ask how limited the scope of land-reforms all along has been and how blatantly even this limited scope has been thwarted with the collusion of the elected legislatures and the administration. Therefore, these observers can merely make a pious, convenient-to-themselves plea to implement land reforms. Even this much of consciousness is confined to only a small number of the environment enthusiasts. I cannot forget how at a prestigious seminar on environmental issues the senior-most member had objected to my bringing in the question of land-reforms in a discussion on environment and insisted that the relationship, if any, between the two issues should be proved.

Is it mere lack of perception which comes in the way of a more meaningful discussion of environmental issues? Questions based on the total failure of land redistribution in the post-independence period will raise questions of the class-character of the government, and of finding alternative paths if the scope of egalitarian distribution of land in the present system is so limited. This is where the easy money, the lucrative projects, the convenient jobs of the environment establishment start drying up, and this probably explains why the discussion is generally only skin-deep.

All over the country the members of the ruling classes—the industrialists, the big landowners, the mining lease-holders and forest contractors, the tractor-owners, etc—have been using up natural resources in the most ruthless way with total disregard for the people living around or for the conservation of resources for future generations, and generally nothing is done to punish them for this crime. However, in isolated places here and there some action to prevent this ruin is taken. This is sometimes the result of elitist notions of some influential people (for instance, the affection which the Prime Minister's family is known to have for Dehradun and Mussoorie), sometimes it is the result of the efforts of some people in search of fame and awards, etc, and yes sometimes it is also the result of the tireless efforts of some genuinely concerned and courageous people, specially the affected villagers. At some places some official or law court gives orders to stop some ecologically destructive activities and this gets headlines in the press. It is a moot point whether ecologically destructive practices stop even in such places, or whether they continue illegally, sometimes even more indiscriminately.

It also needs to be considered that if the entire structure of property relations and the prevailing systems of corruption, repression of people's struggles, etc, is such as to result in ecological ruin, how can the framing of technologically impressive prestige projects, such as the ones for saving the Ganga or the Himalayas, succeed?

Who exactly are the people and agencies pouring in money to spread such distorted and shallow views on the protection of environment? What are their motives? Discussion on such issues will not be irrelevant for those genuinely committed to promoting ecological consciousness in development planning. The latter know only too well that the environmental movement can only be a part of the wider struggle for fighting inequalities and injustice so that natural resources are used in an egalitarian way for the benefit of all in this and future generations.

# Failure of Western Economic Summit

**Siri**

MUCH hope was pinned on this year's economic summit of the seven most powerful industrial countries—the US, Japan, West Germany, Britain, France, Canada and Italy—in Bonn on May 2-4. It was hoped that they would reach a firm agreement to initiate a new round of multilateral trade negotiations under the auspices of GATT; that they would address themselves to the question of persistent misalignment in exchange rates; and, above all, they would see the need for a co-ordinated reflation, to revive the flagging growth of their economies. Yet the Summit concluded with a bland economic statement, giving little encouragement to all those who hoped for a major policy initiative.

### BACKGROUND TO PRESENT CRISIS

To understand the full magnitude of failure of the Bonn Summit, one should go back to the first oil price rise in 1973 and the course of events since then. Before the first oil price rise, the industrial countries had an export surplus, the oil exporting countries were roughly in balance, and the non-oil developing countries had enjoyed a deficit. The industrial countries were functioning at near full employment levels, and the developing countries were able to generate growth rates of above six per cent per year.

The first oil price rise, however, resulted in considerable surpluses for OPEC countries; the industrial countries were not too keen to bear the counterpart deficits, one reason being that it would have resulted in considerable weakness and uncertainties in regard to key currencies. In the end, the banks played a significant intermediating role by on-lending OPEC deposits to some developing countries—mostly middle income countries—which are either blessed with rich natural resources including oil (e g, Mexico, Brazil, Venezuela, Argentina, Nigeria, Indonesia) or are building up a good base in exports (e g, South Korea). The counterpart deficits to OPEC surpluses thus came to be borne by the developing countries. The industrial countries did deflate their economies, but the deflation in the world economy as a whole would have been more significant if the developing countries had not run the considerable trade deficits.

The events following the second oil price rise in 1979, however, had been far more dramatic. The industrial countries, which were horrified by the prospect of a renewed inflation, responded by adopting very restrictive fiscal and monetary policies. 'Driving out inflation from the system' became the chief policy objective. Interest rates soared; output and world trade suffered. The developing countries which had borrowed heavily in the past on the basis of a continuation in the growth of their exports were suddenly in a squeeze: on the one hand, their export earnings collapsed; and, on the other, their debt service payments increased as interest rates went up. These signs of trouble led to a cessation of commercial flows, so that the opportunities for a roll over of debt—a practice on which they had come to rely in the preceding few years—diminished. Many of the indebted developing countries had to undertake to generate large trade surpluses as part of debt reschedulings, a task which they perforce embarked on by deflating their economies severely. The debt crisis further added to the deflationary bias in the world economy. The OPEC countries had by this time began to see their surpluses diminish to near zero levels.

### RECENT REVIVAL OF GROWTH

The spiralling US budget deficit—arising out of tax cuts on the one hand and increased defence expenditure on the other—has, however, begun to have an expansionary effect on the US economy from mid-1983 onwards. The US economy began to grow at an exceptional rate; in 1984, its GDP grew by nearly seven per cent. The large fiscal deficits in conjunction with a very tight monetary policy—adopted as part of the 'anti-inflation' strategy—kept interest rates high, and drove up the value of the dollar. The trade deficits of the US began to rise rapidly, reaching some $ 125 bn by 1984. Part of the counterpart surpluses to the US deficit was found in the developing country surpluses, who were perforce earning them. But a significant part was also reflected in the surpluses of Japan and West Germany, which together enjoyed a surplus of over $ 50 bn in 1984. In effect, industrial countries began to enjoy an inflow of savings from developing countries; and among industrial countries, the US became a substantial importer of savings, and Japan and West Germany became substantial exporters of savings.

The situation could have continued along these lines, if the US could have continued to grow at the same rate, sustaining a large trade deficit. By the beginning of 1985, however, it was clear that the very factors which had brought about the exceptional growth in the US in the past two years are likely to bring about a slow down in its growth: (i) the large budget deficits, coupled with high interest rates, meant that the proportion of interest payments in US budget expenditure has gone up considerably, and the expansionary stimulus of the budget deficit has declined; (ii) the trade deficits, which are partly due to the increased strength of the dollar, have become deflationary; (iii) the high rates of interest have also pushed up consumer debt. Further, investment in housing and such durable investments which tend to be sensitive to interest rates began to slow down. As a result of all these factors, a significant slow down in the US growth was projected. In the first quarter of 1985, quick estimates suggest that the US growth may have decelarated to 1.3 per cent (annual rate). Even if the economy were to pick up growth in the rest of the year, most forecasters do not expect a growth rate exceeding 3½ per cent.

### PROBLEMS BEFORE BONN SUMMIT

By the time of the May Bonn Summit, it was clear that:

(i) the US economy has become a net importer of savings, and under most projections it would remain a net importer of savings for some time to come;

(ii) for the US to continue to attract savings on the scale required, it cannot allow too precipitate a fall in the value of the dollar; on the other hand, the large trade deficit, which is partly due to the appreciation in the value of the dollar, is pulling down its own growth.

(iii) Japan has emerged as a country with a structural excess of savings over its own investment—a feature which is reflected in its large trade surpluses;

(iv) the indebted developing countries have become, perforce, generators of large trade surpluses; the OPEC countries, on the other, have moved to near zero trade balances; and

(v) the contractionary fiscal stance outside the US meant that there is no obvious way by which the slack in world economic growth arising from the slow down in US growth will be taken up by growth elsewhere.

### DISAPPOINTING OUTCOME

Faced with these problems, the Bonn Summit came out with little which suggests that industrial country growth will be revived. This is especially galling because unemployment rose to above 31 million persons in all OECD countries together, and in some it has reached an intensity comparable to that of the 1930s. Trade conflicts have also taken an ugly turn, with major industrial countries accusing each other of unfair practices and threatening to take unilateral action. Indeed, the economic communique, for the first time, devotes a paragraph for each one of the participating countries' intentions—but in sum it adds up to little by way of a major policy initiative.

(i) The emphasis is still on controlling budget deficits and fighting inflation. It was hoped, before the Summit, that the US would put pressure on the Europeans and Japan to reflate. US Secretary of State Schultz said as much in a major speech at Princeton University on April 11. The two countries which are in a strong position to reflate are Japan and West Germany; they both enjoy sizeable trade surpluses, and low inflation rates; unemployment in West Germany has been rising and is currently above nine per cent of labour force. Yet the communique says that West Germany will "continue to reduce the claims of the public sector on the economy, the budget deficit and the burden of taxation"; and that Japan "considers it essential to persevere with its policy of budgetary discipline . . .". In other words, no major step towards reflation.

The explanation offered was that when it was last decided to reflate at the Bonn Summit in 1978, it led to a resurgence of inflation; therefore, all industrial countries are shying away from a similar course of action. But surely, the present weakness in the oil market, and in commodity prices in general, shows that the situation is qualitatively different from that in 1978. It is also rather surprising that West Germany and Japan do not wish to reflate on their own; the government in West Germany must be getting worried at the high and rising level of unemployment; and Japan must be getting worried at the rising trade surpluses, which are likely to invite retaliatory action.

The explanation in the case of Japan, that it has already got a comparatively large public debt, and therefore cannot afford to allow its budget deficit to rise, poses a problem to the international economy in view of the substantial excess of private savings over private investment there. If Japan does not absorb the excess of private savings in a corresponding budget deficit, then the only alternatives are: (i) the excess savings have to be exported abroad, which implies that it will continue to have a trade surplus, and others should be prepared to bear the counterpart deficits; or (ii) it should give away a part of its savings as foreign aid. Indeed, suggestions have been made that Japan should adopt policies that encourage private consumption and reduce private savings, by reducing the tax incentives for saving; and that it should provide much larger foreign aid—suggestions which are very Keynesian indeed!

But the reluctance of West Germany and Japan to reflate still calls for an explanation. Some cynics have gone as far as to suggest that: (a) neither of the countries wishes to give a stronger foothold to imports *via* reflation, for, once imports start flowing in, it will be difficult to reverse the flow later on; and, (b) Japan is not keen to encourage a high consumption society, as it sees its high savings propensity as providing a competitive advantage. It does not wish to turn itself into another America, where savings propensity is low. In other words, the major powers are playing a complicated game, where they are unwilling to accommodate each other in the interests of global growth.

(ii) The unwillingness to undertake a coordinated reflation also leaves the problem of developing country surpluses unresolved. So far, the major developing country debtors have succeeded in generating trade surpluses largely because of the stimulus provided by US growth. The Latin American countries, for example, managed to generate some $ 30 billion trade surplus in 1984. If the surplus countries are not willing to reflate, and if US growth slows down and US consciously adopts policies towards reducing its trade deficit (e g, by allowing the dollar to depreciate, or by imposing a surchage on imports), then the question of counterpart deficits to developing country surpluses arises. The projected level of official and private investment flows to developing countries will be insufficient to meet the finance needed to meet debt service payments; bank lending, which is reduced to a trickle, is not projected to rise to any significant level. The developing country debtors, therefore, would be required to earn trade surpluses, but it is not clear who would bear the counterpart deficits.

(iii) The high dollar rates of interest are recognised as a major problem and the industrial countries have been urging on the US to cut its budget deficit as a way of bringing down the interest rates. Many Europeans believe that they were locked into keeping their own interest rates high, to protect the value of their currencies—even though West Germany and Japan have both maintained comparatively low rates of interest by maintaining an accommodating monetary policy in conjunction with a contractionary fiscal policy. There is no doubt that the large budget deficits in the US *in combination with a tight monetary policy* have resulted in an upward pressure on interest rates and the value of the dollar. The deregulation in financial markets, which had the effect of increased competition in capturing private savings had been a major factor as well. The need to raise finance by the developing country debtors—either *via* roll over loans or *via* rescheduling of debt—must also have introduced a tightness in credit markets. The fact that the banks can demand substantial margins over the LIBOR, for example, indicates an element of inelasticity in the market—the developing country borrowers have no choice but accede to pay whatever interest is demanded of them in a manner reminiscent of the poor peasant in India paying high rates of interest on his consumption loans!

All these factors have worked towards keeping interest rates high. For the interest rates to decline, therefore, we need an improvement in the US budget deficits, along with a more accommodating monetary policy in the US and an improvement in the debt situation. The chances of an accommodating monetary policy in the US are remote; the Bonn Summit has made it clear that the policies adopted since the second oil price rise in the fight against inflation must be continued. But the industrial countries are keen on seeing a reduction in US budget deficits, and the communique states that "the President of the United States considers it essential to achieve a rapid and appreciable cut in public expenditure and thus a substantial reduction in the budget deficit".

It is not clear, however, that the US will succeed in achieving substantial reductions in budget deficits. As Peter G Peterson, a former Secretary of Commerce in the US Administration, has argued in the 1984 per Jacobsson Lecture, the prospects for a reduction in US budget deficit remain bleak; even under some fairly optimistic assumptions regarding US growth (3 to 3½ per cent for the rest of the decade) and interest rates (short term interest rates fall to 9 per cent), the annual US budget deficit could rise from $ 185 billion in 1985 to over $ 230 billion by 1989. For the US, it might also prove difficult to grow out of the budget deficit. To reach a deficit of $ 30 billion by 1989, the US would need to combine real growth rates of just under 6 per cent for seven consecutive years, unemployment would have to fall to 2 per cent, inflation to 3.5 per cent and interest rates to 5 per cent. Clearly, an impossible scenario!

The chances are, therefore, that under most plausible scenarios, the US budget deficit will remain substantial and it will remain a net importer of savings. The chances of achieving a reduction in interest rates remains rather remote; this will continue to raise the financing needs of debtors, in turn reinforcing the upward pressure on interest rates.

(iv) The US sees a further round of trade liberalisation as the great way out of its dilemma. It is much irked by its imbalance in trade with Japan, and by the insularity of Europe in regard to agriculture. The call for a new round of multilateral trade negotiations under the auspices of GATT has received support—tacitly or otherwise—from all the participants except President Mitterand who has refused to clinch things by agreeing to a date for initiating the new round. The communique says: "we strongly endorse the agreement reached by the OECD Ministerial Council that a new GATT round should begin as soon as possible. Most of us think that this should be in 1986". Mitterand has reportedly not agreed to a date for the new round because he thought that the right forum to decide that is the GATT itself, where developing countries can also have a say. But the real reason seems to be his unwillingness to open up the European Community's Common Agricultural Policy for negotiation.

If the industrial countries fail to make progress in including agriculture for negotiations and if they continue to impose restrictions in products of interest to developing countries, such as textiles, leather, footwear, steel, etc, then, the scope for liberalisation of trade will be vastly restricted. Industrial countries seem to be united in trying to get services included in the agenda, in the belief that they have a vast market in developing countries in that area. The developing countries have been resisting a call for a new round, which seems to be concerned mainly with the interests of industrial countries—and in the absence of a commitment by them to re-examine the restrictive practices against them embodied in such agreements as the Multi Fibre Arrangement.

(v) The Bonn Summit has also shelved the question of discussions on monetary reform. For long, it has been clear that with the advent of floating rates, it is not only the day to day fluctuations in exchange rates that have become a problem, but also the tendency towards a persistent misalignment in exchange rates. At the heart of it all lay the problem of whether the major industrial countries are willing to subject themselves to a multilateral surveillance of their policies. The IMF is entrusted with this role, but it has little power against the major countries.

Developing countries have long emphasised the importance of multilateral surveillance, and the need to institute mechanisms for an orderly growth of world liquidity. The IMF, however, barely does more than 'police' adjustment in developing countries at present, following the debt crisis. Attempts to enhance its surveillance role in industrial countries have repeatedly met with failure. Recently, the US has given the impression that it is prepared to listen, but the Bonn Summit has shelved these questions by noting: "It is also essential to improve the functioning of the international monetary system. We take note that the Finance Ministers of the Group of Ten (industrial countries), at their meeting in June (1985), intend to complete their current work on ways to improve the functioning of the monetary system and to put forward proposals, to be discussed at the next meeting of the Interim Committee of the International Monetary Fund in Seoul in October, with a view to making the international monetary system more stable and more effective." In other words, 'wait, we do not yet have any positive ideas on the matter, it is still under study'!

### DEVELOPING COUNTRY PROBLEMS

The Bonn Summit does recognise that "sustained growth in world trade, lower interest rates, open markets and continued financing in amounts and on terms appropriate to each individual case are essential to enable developing countries to achieve sound growth and overcome their economic and financial difficulties", but it does little by way of suggesting some concrete steps to alleviate the problems of developing countries. It does call for increased ODA, and recommends longer term rescheduling of commercial as well as official debt; but all the indications are that ODA has been stagnant, and major industrial countries are increasingly adopting a bilateral approach in pursuit of their economic and strategic interests; they have also proved to be remarkably unforthcoming in rescheduling official debt—which particularly falls on low income countries—on a multi-year basis. The only practical suggestion the Bonn Summit has come up with is that the participants "emphasise the need to examine the establishment of a research network on dry zone grains".

It is not far wrong to say that in the present crisis, the industrial countries see an opportunity to increase their leverage in the formulation of policy in developing countries, and in pursuit of building an economic and political environment conducive to their interests. The industrial countries have done little to promote increased financial flows—but at the same time the power of the institutions such as the IMF and World Bank, in imposing conditionality on developing countries, has enormously increased.

### CONCLUDING REMARKS

It is often said that it is not 'logic' or 'good sense' which provides the impetus for major reforms but the perception by a major power that its vital interests are at stake. The realisation in the US that its growth is sharply slowing down and that the ballooning trade deficit is costing jobs has made the US certainly more responsive to the need for international economic action. It has become a firm advocate of trade negotiations, and it is very likely that, following the Bonn Summit, preparations for negotiations will take a firm shape. But it is disappointing that very little further progress has been made. The announcement by Baker, the new US Secretary of the Treasury, at the OECD Ministerial Meeting in April, that the US would be willing to host a monetary conference does indicate that it is becoming more open to discussions on international monetary reform; there are also some indications that the US is prepared to see an increased role for the IMF in its surveillance function. But they remain distant ideas, and the Bonn Summit has given no indication that it has advanced matters further. The idea of a coordinated reflation, voiced in Schultz's speech, was also put aside. Meanwhile the developing countries remain powerless to influence the course of events.

What is very disturbing is the impression that the industrial country leaders have not appreciated the need for a major adjustment in their own policies, if we have to get around the problems posed by the structural trade surpluses of some industrial countries and indebted developing countries, high interest rates resulting from the imbalance between fiscal and monetary policies in the United States, and increasing tendency towards protectionism. In the absence of a resolution to these problems, industrial country growth is likely to falter, trade conflicts are likely to intensify, default by developing country debtors becomes more probable and low income countries are likely to suffer further intolerable cuts in their living standards. Perhaps, economic and political conditions need to worsen further, before the industrial countries wake up to the need for reform.

# Biology and Gender Bias

## Some Issues in Discrimination against Women at the Workplace

**Vimal Balasubrahmanyan**

OVER 30 years ago, the Constitution of India had proclaimed certain far-reaching concepts to ensure equality of the sexes. This was long before the various ILO and UN conventions to promote equality and prevent sex discrimination were adopted by the nations of the world. And yet, the continued deeply-entrenched existence of sex-discrimination at the Indian workplace reflects what Justice Krishna Iyer described as "the distance between Constitution in the Book and Law in Action".

What does the Constitution guarantee? Article 14 ensures equality before the law. Article 15 prohibits discrimination on basis of sex. Article 16 guarantees equality of opportunity in matters relating to employment. Article 39 guarantees equal pay for equal work. Article 42 says it is the duty of the state to provide for maternity relief.

All this gives an impression that equality and protection from sex discrimination have been handed on a plate to Indian women without their even demanding it—leave alone fighting for it. What, on the other hand, is the reality?

I shall first cite three recent court cases which reveal the tip of the iceberg of gender bias. Next I shall give some examples of sex discrimination which have *not* been taken to court and which provoke the question: why do women continue to enduse such bias in employment? And finally, I shall give some facts which show that prevalent patriarchal attitudes are so deep-rooted and so totally at variance with the radical constitutional norms that something substantially more than legal battles is called for to achieve fundamental change in the work environment.

First, the three court cases. In 1979, C B Muthamma, India's first woman IFS officer, filed a writ petition in the Supreme Court on the ground that two IFS service rules violated Articles 14 and 16. One rule required female employees to take permission before marrying. It also gave the government the right to ask any married woman officer to resign if it was felt that her family responsibilities would interfere with her efficiency. The second rule totally denied employment to married women. As soon as the petition was filed, the government itself repealed the two obnoxious rules and Justice Krishna Iyer, before whom the case came up, said he was "dismissing the petition but not the problem". He directed that Muthamma's seniority should be reviewed because in the meantime some of her juniors had been promoted over her. And he urged the Union government to overhaul all service rules and delete all discriminatory clauses without waiting for "ad hoc inspiration from writ petitions".

The second case is the much publicised petition of the air-hostesses of Air India and Indian Airlines in 1981. They were fighting against discriminatory service conditions and demanding parity with male cabin crew. They won some gains but lost on several crucial issues—which means that this legal battle is not yet over. The air-hostesses won the right to continue in service beyond age 35 upto age 45. The rule which made them resign on first pregnancy was struck down as unconstitutional. However, their demand to retire at 58 like male cabin crew was rejected and the rule which required them to remain single for the first four years of service was also upheld. Many progressives had at the time expressed surprise that these biased rules were retained—but of that more later.

The third case was in 1983 when the Kerala High Court held that denial of jobs to women in class IV government service was discriminatory and unconstitutional. The court directed the state government to consider the two women petitioners for the next two immediate vacancies and also alerted both state and Union governments to initiate affirmative action against sex discrimination.

These are three important precedent-setting court rulings and one would have imagined that following these initiatives the Supreme Court and the High Courts would have been simply flooded with petitions from other women employees similarly victimised by gender bias. That this has *not* happened suggests two things: one, most women workers are unaware of the constitutional provisions and unaware that they can take such issues to court. Two, even if they have become aware, it has not been easy for them to get involved in lengthy legal battles. Nor do such issues find priority with male-dominated trade unions.

Even in the advanced EEC countries which have stronger legislation and more streamlined procedures to deal with complaints on gender bias, such discrimination on the basis of sex is far from being wiped out. A recent ILO report on this topic offers two reasons: one, few women use the law to fight back, and, two, rising unemployment and fear of dismissal prevents many of them from pursuing such complaints.

I shall give three recent examples where service and recruitment rules are patently discriminatory and yet these have not been challenged in court, to the best of my knowledge.

Last year, there was much media coverage on married women house surgeons of Lady Hardinge Medical College who were required to take pregnancy tests at the time of appointment. They were offered jobs only if they were *not* pregnant. After six months they had to repeat the test, and if pregnant, were told *to abort or quit*. These women had protested against this rule to the hospital authorities, the Health Minister and even the Prime Minister. But they have so far not petitioned the court.

The second example is a news item from the *Hindustan Times* in 1981 which reported that a Home Science College in Coimbatore has a standing order for married women lecturers—"Have your baby in the vacation". One lecturer had to undergo an abortion because the delivery date would not coincide with the vacation and the college would not give her maternity leave. This rule too has so far not been challenged in court.

The third example is even more devious. It is an advertisement issued by the Directorate of Advertising and Visual Publicity (DAVP) of the Government of India for a midwifery course in Delhi's Safdarjung Hospital. The notice specifically excludes married women, and women with children, by offering the course only to 'unmarried women' or 'widows without encumbrances'. This too remains an unchallenged criterion.

I have specifically chosen examples which show how women employees and job applicants are literally penalised for their biological function of child bearing and the social role of motherhood. The assumption being that children, to quote the DAVP advertisement, are an 'encumbrance', interfering with the efficiency of women. The rules are also specifically aimed at avoiding payment of maternity benefits as required by the law. Two of the examples are of government departments which, more than anyone else, ought to be setting the standards for upholding constitutional norms. (I am not dealing here with violations of the Maternity Benefits Act and the ploys used by employers to prevent women from qualifying for benefits under the Act. Also, there is no scope in a short paper like this to discuss the many other equally pernicious areas of gender bias which cover access to professional training, concentration of women in certain low paid jobs, discrimination through sex-segregation of jobs, loopholes in the Equal Remuneration Act, how protective legislation is used to deny jobs to women, etc.)

Coming back to the framework of this paper, the third issue which I wish to raise is that prevailing sexist attitudes are so deeply entrenched that legal remedies alone will obviously not be enough.

In the very first chapter of its 1975 report, the Committee on the Status of Women in India had recalled how in 1970, when Charan Singh was UP Chief Minister, the state government had written to the Centre that women should *not* be appointed to the IAS and that if this was not possible, at least women officials should not be sent to Uttar Pradesh. In the Army Medical Service, until 1972, women had to quit on marriage. At the time the committee was preparing its report, neither doctors nor nurses were entitled to paid maternity leave. The committee also noted that despite the constitutional directives, there were instances in Tamil Nadu and Madhya Pradesh where the state government itself had fixed unequal wage rates for male and female agricultural sowers. When such are the attitudes in government circles sexist norms in the private sector need hardly be elaborated upon.

Further, it appears that according to the current judicial interpretation, the constitutional norms are *not* binding on the private sector. In his 1982 lectures on "Gender Justice", Justice Krishna Iyer had drawn pointed attention to what he called the 'conservative' attitude of the courts in this regard which have ruled that the private sector can "lawfully discriminate against women". The Supreme Court, he said, had been liberal in interpreting the word 'state' to cover public sector undertakings and it was time that private units were compelled to abide by Articles 14 and 16.

In the Kerala case, which I mentioned earlier, Justice Potti had flayed the state government for denying class IV jobs to women and he had said that it was *not* for a male-dominated legislature or a male-dominated bureaucratic machinery to decide whether women may be allowed to do certain jobs or not. The Muthamma and the Kerala rulings are a welcome sign of a change in judicial attitudes—certainly a sign that there are some judges at least who reject old-fashioned views on women and employment.

These rulings certainly come a long way from the occasion in the early 70s when the Supreme Court upheld a rule excluding women lawyers from applying for a short service commission in the army judicial service. In another case, quoted by Vimal Ranadive of CITU, girls working in several drug multinationals had challenged the rule which terminated their services as soon as they married. As far as I am aware, this was under the Industrial Disputes Act, and the Bombay High Court had *upheld* the rule. The Supreme Court, however, struck down the rule "in the interests of social justice". But it did *not* order reinstatement of those already sacked under the rule.

Incidentally, Article 11 of the UN Convention for Eliminating All Discrimination against Women specifically prohibits dismissal on grounds of marital status, pregnancy or maternity. It came into force in 1981, and as of March 1983, 47 nations had ratified the convention. India is *not* one of these.

One of the most serious and disturbing features of this whole issue is the reactionary attitude of the government itself. When the air-hostesses' case was filed, two women MPs, Margaret Alva and Ambika Soni, had initiated a debate in the Rajya Sabha and demanded that all discriminatory service conditions be removed. The then Civil Aviation minister, far from using this as an opportunity to promise a review of the offending rules and ensure justice, went out of his way to defend the existing conditions and deny that they were discriminatory. He had gone to the extent of making a statement that air-hostesses could very well have their babies after retiring at 35, and saying that it was a question whether an air hostess would attend to her professional duty or her child. It is shocking that a minister can give such replies with impunity in this time and age. This was in 1981, six years after the International Women's Year was celebrated with much fanfare and 34 years after the Constitution had been formally adopted.

Even the highest court's judgment in this case had evoked considerable surprise. A Supreme Court advocate writing in *India Today* had earlier suggested that the air-hostesses' case was so strong that it was a foregone conclusion that the Court would take this opportunity to "teach the Maharajah some modernity". Commenting later, the journal regretted that the Court let slip an opportunity to articulate what it described as a 'unisex' view of the Constitution. It was all the more disappointing because the Court had in recent times pronounced so many progressive landmark judgments in favour of deprived sections. Even Indira Gandhi had at that time expressed a sexist and traditional view by declaring that 45 "is too old" for an air-hostess, thereby equating their work qualification with youthful beauty—a criterion which the Supreme Court itself had rejected in strong language, while passing severe strictures on the airlines management for defending such sexist norms.

In both the Muthamma and air-hostesses' cases much amazement had been expressed by commentators that it had taken *three decades* for women employees to challenge their blatantly biased service conditions. In fact one of the arguments of the airlines management was that a rule left unquestioned for so long automatically acquired immunity from legal challenge!

Again, when the Lady Hardinge doctors' case figured prominently in the press, the Health Minister, in answer to a question in Parliament, had tabled the following reply: "Pregnancy is not a bar for Lady Hardinge doctors except in the case of first year married junior residents". Thus instead of trying to set right an injustice brought to his notice, the minister offered a highly unsatisfactory reply which neither explains nor justifies the discrimination against the junior women doctors.

It may be added here, that according to an ILO compilation of maternity legislation, although many countries have made dismissal during maternity leave illegal, very few have abolished dismissal during *pregnancy*. The Lady Hardinge rule is a clear instance of the authorities wriggling out of payment of maternity benefits by the simple strategy of refusing to employ junior doctors who are pregnant.

To this I may add a little tailpiece from the *International Socialist Review* (March 1974). At one point of time in the US, employers were going so far as to require female job applicants to take pregnancy tests before being hired. A laboratory engaged in doing pregnancy slide tests ran a series of advertisements in major papers and journals with copy that went like this: "Before the company hires her, make sure she is not pregnant. Make pregnancy testing a routine part of your pre-employment physical. And find the pregnant before your company gets involved in costly training programmes as well as health and sick pay coverage."

QED about sums it up. The only saving grace is that the Health Minister did not quote this item and defend the Lady Hardinge rule as a "sophisticated management technique", for "cost-efficient hospital administration"! Though that, of course, is what it really is. Most discriminatory practices against women employees boil down to a method of saving money for the employers.

To conclude, women must first become fully aware of their legal, constitutional and human rights at the work place. They must work to get these incorporated into, and protected by their service conditions. And they must demand an appropriate machinery for redressal when these rights are violated. And side by side with all these safeguards, equally important—though probably far more difficult—is the intensive education of people, both men and women, at all levels of policy planning and decision-making, to remove old-fashioned, sexist notions of women and their work.

[Paper read at a seminar on "Women and Employment" on March 31, organised by Mahila Abhyudaya Samastha and ICSSR in Hyderabad.]

# Promoting Equitable and Balanced Development

## Potential of Secondary Cities

**Meera Bapat**

**Secondary Cities in Developing Countries: Policies for Diffusing Urbanisation** by Dennis A Rondinelli; Sage Library of Social Research, Vol 145, Sage Publications, Baverli Hills, 1983; pp 288, $ 28.00.

THIS book is a reorganised version of a study commissioned by the United States Agency for International Development to review the literature on urbanisation in developing countries and on the potential of middle sized cities to contribute to national development. It draws on a number of sources of data which include government documents, policy statements of international aid agencies, primary and secondary data and case histories of cities from a diverse range of Third World countries from China to South Korea, Thailand to Tanzania and Brazil to Cuba.

The author notes that after the 'urban bias' in favour of investment in large metropolitan areas of foreign aid and national development policies in the 1950s and 1960s, the 1970s have been increasing poverty in rural areas and growing disparities in living conditions and levels of development between urban and rural areas of the Third World countries. "The increasingly severe social, economic, physical and political problems associated with rapid growth of the metropolitan areas, together with the worsening poverty in rural areas, impel planners and policy-makers to search for new approaches to spatial development."

### 'BACK-WASH' EFFECT

Attention is now being focused on the relationship between urban and rural development. Policy analysts in international agencies now argue that a more balanced pattern of urbanisation may play the potentially positive role in promoting equitable development. An underlying assumption of the new approach is that "a system of functionally efficient intermediate cities linked to larger and smaller urban centres and to a network of rural service and market towns can make an important contribution to achieving economic growth and an equitable distribution of its benefits in both capitalist and socialist societies".

It is true that 'balanced development' is an elusive term but it implies a lessening or prevention of locational disparities in income and wealth. It must lead to progressive reduction in the differences in levels of living and opportunity between countryside and city. Further, there cannot be, *a priori*, a universally optimal pattern of settlement. Its desirability has to be judged in relation to national policy objectives and development goals. The policy may seek interregional equity or rapid industrialisation or equitable economic growth in which both rural and urban populations can benefit from development; and accordingly the most appropriate spatial pattern would be different.

Advocates for developing secondary cities believe that the appropriate spatial structure for promoting economic growth with social equity is a more diffuse pattern of urbanisation. Their arguments have evolved, on the one hand, from a reaction against the supposed 'trickle-down' effects of the high returns on concentrated investment in the largest metropolitan areas and dissatisfaction with optimal city size theories and prescriptions of rank-size distribution. On the other, they question the efficacy of theories of widespread distribution of national investment in rural areas to stimulate 'bottom-up' development.

The author quotes a study based on a number of developing countries which shows that the growth of large metropolitan areas has produced a 'back-wash' effect which drains rural hinterlands of their capital, labour and materials. Advocates of balanced urbanisation, therefore, argue that trickle-down processes cannot be made effective without "a well articulated and integrated system of settlements through which innovation and economic stimuli can be diffused". In a situation of scarcity of resources that most developing countries face, dispersing investment widely fails to produce the critical mass needed to generate economic and social change. To prevent or reverse polarisation and stimulate rural economies development of secondary cities can play a crucial role by promoting a more diffuse pattern of urbanisation.

### WHAT ARE SECONDARY CITIES?

In arriving at a definition of secondary cities, the author notes that the range of cities that constitutes secondary cities varies among different countries depending on their patterns of settlements, levels of development and economic structures. Most analysts expect secondary cities to perform central place functions —they must serve people living outside their boundaries. Other suggest that their functions must also be interactive; they should "connect, transfer and disseminate, and they should serve as channels for the flow of goods and services, mediate social relationships, and diffuse modernisation influences". Population size is a readily available and useful initial criterion for defining secondary cities, since a large body of empirical evidence shows positive correlation between city size and functional complexity. The author suggests a range of city sizes that can constitute secondary cities, from at least 100,000 people upto but not including the largest city in the country.

Secondary cities tend to have a combination of rural and urban socio-economic characteristics. They have relatively more heterogeneous population as compared to rural areas and small towns; their economies are dominated by commerce and services and their industrial sector is composed of small scale industries; they tend to have a small share of the nation's manufacturing and employment; small secondary cities tend to have larger proposition of their labour force engaged in agriculture and related employment while cities over a million population have relatively high proportion of employment in manufacturing. Variation in the economic structure of secondary cities can be explained partly by their economies of scale.

Based on several case studies of cities from a variety of countries, the author presents a number of functions that secondary cities perform and which are important for regional and national development. He, however, cautious that the case studies reviewed do not allow a universal generalisation about the potential of secondary cities; what is presented are common characteristics which can be considered hypotheses which must be tested in the context of individual countries before policies are formulated.

Secondary cities perform a mix of rural and urban functions. Because of their sufficiently large population they can offer economies of scale for conveniently locating various public services and facilities and also for establishing small scale enterprises. They act as centres of distribution of consumer goods and services and also as agricultural supply centres. They can absorb significant numbers of migrants. A crucial function they perform as regional centres of transportation and communication, is to link their residents and those of their hinterlands to larger cities and other regions of the country. Communication networks are vital not only for the growth of secondary cities themselves but also for the creation of other secondary cities and growth of market centres and for stimulating agricultural production in their hinterlands. Secondary cities can be effective centres of social transformation by accommodating social heterogeneity and organisations to help socialise rural people into city life. They can also offer opportunities for social and economic mobility.

All secondary cities do not perform all of the functions and some do not perform them well; generally they perform a weak role in the national development. One of the common reasons is that due to deliberate policies of governments to invest in metropolitan centres, "these cities have received a disproportionately low share of national investments in infrastructure, services, industry and other activities compared to the largest city".

### STRATEGIES FOR SECONDARY CITIES

In devising strategies to strengthen secondary cities, it is important to distinguish between 'developmental' cities and those that are 'exploitational' so that developmental functions can be built upon. From available case-studies, the author provides insights into those factors which facilitate widespread development of the region. One of the important factors is the degree of support from the national government for internal growth and development of the city to ensure that resources are not drained away to support the development of metropolitan centres or the national economy. What is equally important is the linking of economic activities within the city to the city's hinterland through mutually beneficial processes of exchange to serve the needs of the rural people and promote higher productivity and greater distribution of income for the rural population. Other factors are related to the degree to which local elites and leaders identify their own success with that of the region, how far they are innovative themselves and successfull in bringing external resources to the city and how far they promote social and behavioural changes. Further, for secondary cities to be developmental, economic activities have to be organised in a manner that creates income for local residents and promotes internal demand for goods and services that can be produced and distributed locally.

The author points out yet again that each country must evolve its own strategy for the development of secondary cities, "to meet its own national economic objectives within its own resource constraints, and at pace with its own economic, administrative and technological capacities". International assistance organisations can help in finding appropriate ways to strengthen economic and service delivery capacities of secondary cities. There are two areas in which assistance can be given: in formulating national urbanisation strategies for developing well-integrated systems of secondary cities and in helping city governments to solve the complex problems of managing urban growth. Given the constraints on resources the objective of promoting more balanced urbanisation and greater social equity in the distribution of benefits can only be approached incrementally. This may involve unequal distribution and investment of resources among cities and regions in the country.

A national strategy for developing secondary cities will require simultaneous action on various fronts. In the existing secondary cities basic social services and municipal facilities will have to be extended to support productive activities and improve human resources. Their physical structure will have to be improved to make them efficient and conducive for productive economic activities. Their economic base and employment structure will have to be strengthened and the planning, administration, and financing of urban development management will have to be reorganised. It will also be necessary to stimulate the growth and diversification of small towns and market centres to improve the geographic distribution of secondary cities in the country. Further, an essential part of this strategy will have to be to strengthen the physical, economic, social and political linkages among secondary cities and between them and smaller and larger settlements so that they perform developmental functions more effectively and benefits of economic development spread widely.

### COMPLEMENTARY POLICIES

All this is not enough, the author warns, to promote secondary cities as catalysts for regional development. What is also required is the formulation of "complementary social and economic policies that are conducive to widespread urban growth. Current patterns of urbanisation often reflect and are influenced by non-spatial development decisions. Policies on import substitution, trade regulations, foreign investments, migration control, monetary regulations, tax, wage and price laws, land reform, and the structure of government organisation may all, indirectly, affect the spatial pattern of economic development within a country and determine the degree to which secondary cities can compete with primate cities or national capitals." In addition to laying down policies to deal with the above, it is equally important to restrict or slow down the growth of primate cities in order to encourage the development of secondary cities.

The author further adds that part of the strategy for developing secondary cities must also deal with a number of common problems which arise with greater concentration of people and economic diversification. Underlying any strategy, there "must be a set of strong policies for increasing the income and purchasing power of the large numbers of poor people living in intermediate urban centres". Towards this end, "improving the living conditions of the poor, expanding their skills, raising their levels of educational attainment, improving their health and raising their incomes must be viewed as long term investment in the internal economies of secondary cities". The author then discusses measures to deal with such problems as rising land costs, housing shortage and proliferation of squatter settlements, poor quality of basic municipal services particularly in poor neighbourhoods, strain on transportation services, difficulties in expanding secondary and tertiary sector employment and municipal finance.

As the author makes clear in the preface, we still know relatively little about the potential of secondary cities for development and his study attempts to establish the beginning and the direction of a long road. Its purpose is to raise questions and intensify the debate over the role of secondary cities. This it does admirably.

The book draws conclusions from a number of case studies of cities from a range of developing countries which are different in their population sizes, political economies, levels of urbanisation and industrialisation, rates of economic growth, and degrees of poverty and disparity between rural and urban areas. It is difficult to reach consistent conclusions from examples from such a big range of different contexts.

The author points out at the outset that one of the strongest reasons for increased interest in the development of secondary cities is the unrelenting growth of largest metropolitan centres and the social and economic inequities associated with spatial polarisation. The author states that according to many development theorists rural impoverishment results directly from the growth of the largest city. It must, however, be noted that there are others who believe that the political alliance (as in India) between the rural oligarchy and industrial bourgeoisie is itself inimical to growth and that the rural poor, urban working class and fixed income groups have to bear the brunt of the resulting economic costs of the alliance. In this situation, is it likely that secondary cities would effectively play the role of catalysts for rural and regional development?

# The Union Budget, 1985-86

## An Appraisal

**K Sundaram**
**Suresh D Tendulkar**
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*The Union Budget for 1985-86 signals a distinct break with the past on three counts: (a) it implies a shift in the ex-ante composition of investment away from the public sector and towards private corporate sector; (b) the incentives offered in the Budget are neutral as regards the choice between consumption and savings; and (c) the fiscal concessions aim at transferring the transactions from the so-called black or the unaccounted segment to the white or accounted segment of the economy. These are all indicative of a significant change in the perceptions of the policy-makers regarding the mainsprings of the Indian growth process.*

*This paper attempts to examine these changed perceptions in the context of the long-term implications of the policy initiatives in the Budget for the Seventh Plan. Second, it seeks to assess the short-term price consequences of the Budget proposals.*

### I

### Introduction

THE Central government Budget for the year 1985-86 deserves a serious discussion for at least three sets of reasons. To start with, the Finance Minister has promised 'the formulation of a long-term fiscal policy coterminous with the (Seventh Five Year) Plan' of which the present Budget can be regarded as a precursor. A stable policy environment, it may be noted, is particularly important for influencing the long-term decisions of the private economic agent. Secondly, the long-term policy-initiatives have been taken *before* the finalisation of the details of the Seventh Plan. It is the Seventh Plan that has to adjust to these policy initiatives in terms of the size and composition of plan investment. Thirdly, the Budget signals a distinct break with the past on three counts: (a) it implies a distinct shift in the *ex ante* composition of investment away from the public sector and towards private corporate sector, (b) the incentives offered in the Budget are neutral as regards the choice between consumption and savings, and (c) the fiscal concessions aim at transferring the transactions from the so-called black or the unaccounted segment to the white or accounted segment of the economy. These are indicative of a significant change in the perceptions of the policy-makers regarding the mainsprings of the Indian growth process.

This paper has two objectives. First, it attempts to examine these perceptions in the context of the long-term implications of the policy initiatives in the Budget for the Seventh Plan. Secondly, it seeks to assess the short-term price consequences of the Budget proposals. An increase in prices consequent upon the Budget erodes real incomes. This erosion in varying degrees, is offset by the direct tax concessions. The net effect spells out the overall distributive impact of the Budget.

With these objectives, Section II starts by summarising the relevant features of the 1985-86 Budget before discussing the implications of the Budget for the public sector plan (Section III). An inevitable reduction in the size of the public sector plan leads to a discussion of the relative importance of the private sector which could respond to the stimulii offered in the Budget (Section IV). This is followed by an elaboration of the constraints that may operate on the economic growth process visualised in the Budget (Section V). The implications of the Budget for the poor are examined in Section VI. This completes the discussion of the long-term implications of the policy-initiatives in the Budget. Short-term price consequences of the Budget are investigated in Sections VII to IX. The announcement effects and the cost-push effects of the Budget are discussed in Section VII. An estimate of the money-supply expansion consequent on the Budget is presented in Section VIII. This is followed by an assessment of the effect of money-supply expansion on prices.

### II

### Major Features of 1985-86 Budget

As a backdrop for the analysis of the long-term implications, we sketch the relevant features of the stable fiscal environment outlined in the Budget.

The Finance Minister has sought to rationalise and simplify the structure of direct taxes along with a downward revision in the rates of income, wealth and corporate taxes and abolition of Estate Duty.[1] The expectation underlying these measures of rationalisation is that this would not only induce better tax compliance but also bring about a shift of transactions from the so-called 'black' or unaccounted to the accounted segment of the economy.

Apart from the rationalisation of direct taxes, the Budget highlights the severe erosion of the 'budgetary resources for the Plan'. Non-Plan expenditure is admitted to have been increasing at a rate substantially faster than the growth of current revenues. Thus the total non-plan expenditure is estimated to increase by more than 10 per cent in 1985-86 over the 1984-85 Revised Estimates. This may be compared with an increase of a little over 7.5 per cent in gross tax-revenue at the existing levels of taxation. Consequently, the balance of current revenues over non-plan expenditure declines sharply from Rs 2,500 crore in 1984-85 (Revised) to a little over Rs 700 crore in 1985-86 (Budget).

Another feature of the Budget is the remarkably modest nature of the effort at additional resource mobilisation especially for a post-election Budget. Apart from Rs 464 crore sought to be mobilised through the railway Budget, the additional resource mobilisation in the Union Budget, net of concessions, would be Rs 500 crore. This last may be compared with the Budget estimate of Market Borrowings of Rs 5,100 crore and deficit financing of Rs 3,348 crore.

A consequence of the first three features noted above is the severe resource constraint facing the Seventh Plan. As the Finance Minister has emphasised, "as we enter the Seventh Plan, the resource constraint has become acute, both at the Centre and the states" (Para 11). It is to a consideration of this question that we now turn.

## III

## Budget and Public Sector Plan

It may be recalled that the Approach to the Seventh Plan postulated a total Plan outlay of Rs 320,000 crore and a public sector outlay of Rs 180,000 crore at *assumed* 1984-85 prices projected at the time of the formulation of the Approach document in mid-1984. It may also be mentioned that the size of the public sector outlay was reaffirmed after the new government came to power in January 1985. It is reported that the annual rate of inflation assumed in the Approach document was of the order of five per cent per annum for each of the years 1983-84 and 1984-85. However the actual rate of inflation has turned out to be 12 per cent for 1983-84 (average of 12 months) and estimated to be eight per cent for 1984-85 on the same basis. Consequently, the maintenance of the same public sector plan in physical terms as postulated in the Approach document at the realised 1984-85 prices would require a higher public sector outlay—one guesstimate places it at around Rs 190,000 crore.

Moreover, the total size of the Seventh Plan and of the public sector outlay was predicted on a gross domestic savings rate of 26 per cent of GDP through the plan period. The realised gross domestic savings rate in the first four years of the Sixth Plan did not, in any of these years, exceed 23 per cent.[2] While strongly emphasising the resource constraint, the Budget speech of the Finance Minister is singularly free from the usual exhortations on the need to step up the rate of savings in the economy. Further, the fiscal package announced in the Budget seeks to raise the disposable income in general and does not influence the choice of the individuals and other tax-entities between savings and current consumption. If anything, the package appears to aim at raising the effective demand for certain consumer durables whose capacity expansion in the private sector is being consciously encouraged.[3] If this is to be a stable feature of the fiscal policy over the Seventh Plan, we cannot expect the gross domestic savings rate to rise from the realised level of around 23 per cent.

The public sector plan outlay can be maintained in real terms in the face of a lower than anticipated rate of domestic savings if much more reliance is placed on external finance and/or if private sector investment is crowded out by transferring private savings to the public sector through non-fiscal/non-tax instruments (as fiscal concessions in the Budget are expected to be stable over the plan period).

As regards external finance, we have the Finance Minister's own assessment that the 'availability of external resources for development' has not only dwindled but that their terms have also become 'distinctly harder'. Commercial borrowings are also termed 'expensive'. Given this perception and given the fact that public sector infrastructural investments typically carry a low rate of return even under ideal circumstances, a larger dependence on external finance for maintaining the public sector outlay can be ruled out on current reckoning.

Turning to the possibility of crowding out private investment, we have to consider the corporate and non-corporate components separately. The prospect of squeezing private corporate investment is quite inconsistent with the philosophy of the Budget and the fiscal concessions already announced and those "to be introduced in a phased manner". The crowding out of non-corporate private investment cannot be ruled out but it would be inconsistentt with the policy of encouraging the modern small scale sector and the new brand of "small" entrepreneurs.

Even though the crowding out of private investment is inconsistent with the philosophy of the Budget (and ruling out tax instruments for resource mobilisation) other instruments of resource mobilisation such as deficit financing and increases in the administered prices of public sector's products and services, may in effect have the consequence of crowding out private investment. As regards deficit financing, whatever be the ability of the economy to absorb the extent of deficit financing in this year's Budget without inflationary consequences (more on this later), it is surely obvious that raising deficit financing to a status on par with taxation as a major source of plan-finance cannot but carry with it dangers of a major inflationary spiral.

Raising the administered prices of public sector products and services is one of the ways of raising additional internal resources from the public sector enterprises. The failure of these enterprises tc generate surpluses can be traced to a variety of factors of which the major ones include overstaffing and other managerial and organisational constraints, out-dated technology and pricing policies. Given the managerial, organisational and technological constraints, the exhortations of the Finance Minister for "better utilisation of existing capacity and higher returns on past investment" (Part A, para 13) are no more than rhetoric. Raising the administered prices remains the only relevant medium term alternative. Over the past several years, raising the administered prices, often outside the Budget, has become a major instrument for resource mobilisation by the public sector.

In assessing the policy alternative of raising administered prices, two features of the public sector may be noted. First, products and services produced by the public sector enterprises mostly constitute universal intermediate inputs into a large variety of economic activities. Secondly, intra-public-sector transactions in these

TABLE 1

| Year<br>(1) | RBI's Own A/c Purchase (net) (Rs in Crore)<br>(2) | Total Market Borrowings (Rs in Crore)<br>(3) | (2) ÷ (3) × 100<br>(4) |
|---|---|---|---|
| 1979-80 | 415.3 | 1926.8 | 21.56 |
| 1980-81 | 1229.7 | 2751.2 | 44.70 |
| 1981-82 | 1267.6 | 2918.2 | 43.49 |
| 1982-83 | 1207.7 | 3780.0 | 31.97 |

TABLE 2: FORECASTING OF ALTERNATIVE ESTIMATES OF GROSS VALUE ADDED IN AGRICULTURE AND ALLIED SERVICES

| Year<br>(1) | Output of Foodgrains (Million Tonnes)<br>(2) | Index of Foodgrains Output<br>(3) | Gross Value Added in Agriculture and Allied Activities (Rs Crore at 1970-71 prices)<br>(4) |
|---|---|---|---|
| 1983-84 (Actual) | 151.5 | 160.1 | 22449 |
| 1984-85 A | 150.5 | 159.0 | 22310 |
| B | 148.5 | 156.9 | 22046 |
| C | 145.0 | 153.2 | 21579 |
| 1985-86 | Same level as in 1984-85. | | |

goods and services are sizeable. Consequently, any increase in the prices of these goods and services has the effect of raising the material input costs throughout the economy including the public sector enterprises themselves. These increased costs, if absorbed without price increases, would adversely affect the rate of return on capital and hence profitability. Alternatively, if these increased costs are passed-on to users/consumers in the form of higher prices, they would lead to spiralling prices. This cost-push based price spiral can be accentuated by cost-push impulses following from the rise in factor costs consequent upon the price increase (e g increased dearness allowance). To top it all, the cost-push based price spiral can trigger price-expectations which fuel the inflationary process on the demand side. Also, with its uncertain consequences for the size and composition of real investment, what is it that remains 'planned' in this scenario?

If additional external finance, cutting-down of the private sector component of the Plan and inflationary financing of public sector outlay are all ruled out, the only alternative is to cut the size of the public sector plan. This is a direct consequence of the philosophy of the Budget and no prior discussions in this regard appear to have taken place between the Planning Commission and the Ministry of Finance.

TABLE 3: PREDICTORS FOR EQUATION (2)

*(Rs Crore)*

| Year | Gross Value Added in Agriculture and Allied Activities at 1970-71 Prices | Gross Domestic Capital Formation in Public Sector at 1970-71 Prices |
|---|---|---|
| 1982-83 (Actual) | 20596 | 6019 |
| 1983-84 (Actual) | 22449 | 6008 |
| 1984-85 A | 22310 | 6368 |
| B | 22046 | 6368 |
| C | 21579 | 6368 |

*Source*: Table 2 for variants A, B, C for 1984-85.

TABLE 4: FORECAST OF GROSS VALUE ADDED IN MANUFACTURING AT 1970-71 PRICES BASED ON EQUATION (1)

*(Rs Crore)*

| Year | Gross Value Added |
|---|---|
| 1983-84 | 8684 |
| 1984-85 | 9146 |
| 1985-86 A | 9334 |
| B | 9267 |
| C | 9149 |

Reports suggest that the public sector outlay may be revised downwards to Rs 167,000 crore at the realised prices which are higher than assumed in the Approach document. This is about 12 per cent lower than the guesstimate of Rs 190,000 crore mentioned earlier. Consequently, the physical content of the public sector plan as visualised in the original Approach document cannot be maintained except possibly through lowering the capital output ratios by higher capacity utilisation. The latter alternative has indeed been aired recently without indicating the nature of excess capacity, the reasons for underutilisation as also the constraints on better utilisation. At any rate, nothing has happened since the formulation of the Approach document to believe in a sudden emergence of this alternative. If this knowledge was available earlier it should have been taken into account in assessing the requirements of investment in the Approach document itself. Any attempt to maintain the same physical plan with lower outlay carry with it the real danger that the new projects included in the Approach document are initiated without enough resources to see them through to completion. This would inevitably lead to time and cost over-runs and lower overall productivity of investments.

Whether public sector outlay is Rs 167,000 crore or Rs 190,000 crore is, by itself, not particularly important. Public sector investment should not be raised to the status of being an end in itself. It is an instrument for promoting the Plan objectives of growth and poverty reduction. Given the close inter-connections between infrastructural services and private economic activity, and given the under-investment in major sectors such as railways, power, coal, irrigation and flood-control since the mid-sixties and given that these investments account for the bulk of public sector investment, a rational cut-down in the physical content of the public sector plan would not be an easy exercise. It may be readily conceded that there exist substitution possibilities in the short-run among alternative energy sources as also between rail and road transport. However, the infrastructural services, being non-tradable, may pose a bottleneck in the next few years for the expansion of the private-sector economic activity itself which is sought to be encouraged by the present Budget.

Given that the infrastructure sector can potentially be a major constraint on the growth process, the modest step-up of six per cent in the Central Plan outlay as a whole and increases of under 10 per cent in the outlays on coal, and lignite, and irrigation and flood control appears utterly inadequate. For, with a double-digit inflation in terms of wholesale price index predicted for the fiscal year and the tendency noted over the past several years for the prices of investment goods to rise faster, outlay increases of under ten per cent would in all likelihood mean a *lower* real investment in 1985-86. Particularly disturbing is the case of railways where the nominal investments have just been maintained at the 1984-85 levels, which would imply a significant reduction in real investments, in a situation which calls for a massive investment in the sector. It is only in the power sector that we see a welcome step-up in real investments with a 33 per cent step-up in the public sector plan outlay.

## IV

## Budget and Private Sector

An inevitable reduction in the physical plan of the public sector during the Seventh Plan is indicative of a significant change in the perception of the policy makers. The received wisdom upto now had been based on the implicit or explicit judgment that the complementarity between the public and the private sector investment in a dynamic context far outweighted the immediate impact of possible crowding out of private investment.[4] So that, the maintenance of certain public sector investment was deemed to be an essential catalyst to the growth process. The fiscal concessions granted to the corporate sector in this Budget, and further concessions promised for the future and the resulting reduction in the physical content of the public sector plan implies a significant change in perception. The changed perception seems to be that the extent of complementarity between the public and the private sector has been weakened and that the crowding out of private corporate investment needs to be minimised. A corollary of this judgment is that the Indian growth process can be sustained on the basis of private enterprise with only a supporting role being played by the public sector in providing infrastructural services. This judgment though not explicitly spelt-out offers a possible rationale for the policy-package.

A central premise of the fiscal concessions offered in the Budget is that it would stimulate a significant output and employment response, besides inducing better tax-compliance and a shift of transactions from the 'black' to the accounted segment of the economy. When reduced tax rates are expected to bring about a significant output response, the assumption is that the supply elasticities are potentially high but that the supply-response is being inhibited by the disincentive effect of exorbitant direct taxes.[5]

Before examining the question of whether or not the constraints on output expansion perceived by the Finance Minister are the only ones or even the binding ones, let us first get two points out of the way. First, if one accepts the premise that a lowering of tax rate would induce both individuals and corporations to *report* a larger proportion of their true outputs and incomes, this being the essence of the notion of better tax-compliance, then the increase in the *reported* or accounted (in contrast to unaccounted) outputs/incomes between say 1984-85 and 1985-86 would, to the extent of such better compliance, be purely illusory. An appropriate "discount" factor would have to be applied to the growth rate that might be recorded in the National Accounts.

The second point is even more important. This relates to the relative size of the tax-paying population who, on the stated assumptions, would be enthused by the tax-cuts to raise their outputs/incomes (and not merely *report* a larger proportion of their true outputs/incomes). The Finance Minister's speech refers to four million assessees out of which one million would go out of the tax net because of the raising of the exemption limit. Even as a proportion of the work force of 300 million or more this is a drop in the ocean. On the output side, we may take the total value added in the organised private sector outside agriculture and add to it the *total* value added in the legal, medical, business and health services (though the last item has a sizeable public sector component) as the segment potentially responding to the changes in the direct tax regime. Altogether, these accounted for less than 14 per cent of net Domestic Product in 1981-82—the latest year for which such details are available. While a faster growth in output and income would be welcome wherever it occurs, the fact that less than one-seventh of economic activity is potentially capable of responding to the stimulus provided by the direct tax-cut, must temper one's expectations of the overall growth impact of the fiscal concessions announced in the Budget.

## V

## Constraints on Growth Process

Even if one were to disregard the dimensions of the potential increase in growth resulting from the stimulus provided by the reduced rates of direct taxes, there still remains a question whether lack of demand or what we may call the size of the market, may not prove to be the most important factor constraining a broad-based and sustainable output expansion. Given the high cost, low-quality, domestic industrial structure and the marginal role of external markets, the size of the domestic market can be taken to be the decisive one. In this context the Budget, both directly and indirectly does offer a stimulus for domestic market expansion. Directly, the impact of the Budget would be to raise disposable incomes of at least some of the direct tax payers i e, those who are able to maintain their real incomes against erosion due to price rise consequent upon the Budget. This should stimulate demand at least for certain types of goods and services. Indirectly, and this could be potentially more important, by reducing the incentives to evade taxes and thereby possibly enlarging the proportion of white or accounted income it can switch demands. The demand switch could be out of what was previously black or unaccounted income from goods mostly with low supply elasticity (gold being the extreme example) towards goods with higher supply elasticities—mostly high technology, high quality consumer durables. Nevertheless, it is on the question of sustainability of demand that we would like to sound a note of caution.

It is certainly true that there exists today a sizeable pent-up demand for a variety of consumer durables, especially passenger cars, TV, videos and other electronic products which have a certain minimum acceptable quality. The long waiting list for Maruti cars or the premium commanded on 'foreign' consumer goods are indicative in this regard. A problem, however, arises when domestic production capacity is rapidly expanded on the strength of such pent-up demand. The pent-up demand, especially in the case of consumer durables, may turn out to be of a once-over kind with replacement demand from year to year being relatively much smaller in magnitude. Thus, one can certainly visualise a sharp increase in the production of a wide range of such consumer durables—especially if foreign tie-ups are permitted—for the coming few years on the strength of such pent-up demand. But the real question is whether the capacity created domestically can be fully utilised beyond the initial few years once the pent-up demand is satisfied. This resolves itself into two further questions. (a) Whether there will be adequate domestic demand on a sustained basis; and (b) whether it would be possible to break into the world markets in these products. There are serious doubts on both counts.

As regards prospects for exports, with a policy of passive acceptance of foreign technology—and there is no real push for technology adaptation and innovation—it is extremely doubtful whether we would be able to effectively compete in the international markets in these product lines. These doubts are further strengthened by the fact that we still have far too many producers each producing on a scale which prevents any meaningful realisation of the scale economies.

TABLE 5: GDP FOR 1984-85

*(Rs Crore at 1970-71 Prices)*

| Sector | Variants | | |
|---|---|---|---|
| | A | B | C |
| (1) Agriculture and Allied Activities | 22310 | 22046 | 21579 |
| (2) Manufacturing | 9146 | 9146 | 9146 |
| (3) Residual | 28791 | 28791 | 28791 |
| Total (1) + (2) + (3) | 60247 | 59983 | 59516 |
| Rate of Growth over 1983-84 (Per Cent) | 3.35 | 2.90 | 2.10 |

TABLE 6: GDP FOR 1985-86

*(Rs Crore at 1970-71 Prices)*

| Sector | Variants | | |
|---|---|---|---|
| | A | B | C |
| (1) Agriculture and Allied Activities | 22310 | 22046 | 21579 |
| (2) Manufacturing | 9334 | 9267 | 9149 |
| (3) Residual | 30518 | 30518 | 30518 |
| Total (1) + (2) + (3) | 62162 | 61831 | 61246 |
| Rate of Growth over 1984-85 (Per Cent) | 3.20 | 3.08 | 2.91 |

Apart from replacement demand, the level of sustainable new demand for these consumer durables depends, in turn, on the growth in incomes and on its size distribution. On the question of the growth in incomes, it is important to distinguish between growth in value of gross output and the growth in domestic value added. If the Maruti pattern becomes the dominant mode for the expansion of domestic output of these consumer durables, given its high import-content, the impact on domestic value added would be rather limited. Equally important is the size of the segment of the economy subjected to the growth stimulus arising from fiscal concessions. We have already seen that this segment is quite small.

It might be countered that we are neglecting the generation of secondary incomes in the workshops servicing these additions to the stocks of consumer durables. Given a large proportion of new consumer durables in the total stock, the demand for servicing may not be very significant for quite some time. In addition, those earning these incomes are unlikely to be able to afford these very consumer durables. It may also be suggested that we are neglecting the demand expansion that can originate in the growth in agricultural incomes at higher rates than realised in the past. Without going into the larger questions of the constraints on agricultural growth and whether the Budget can or does relax these constraints, the following statement can be stressed. Efforts at maintaining, as well as raising, the growth rates in agriculture would require the spread of growth impulses to newer areas—especially the Eastern region which is marked by the dominance of small and marginal farmers. And for a long time to come, they are unlikely to be in the market for the new consumer durables for which the domestic production capacity is being rapidly expanded with or without the import of foreign technology.

As for the size distribution of incomes, it may be possible to squeeze in a little extra demand for these consumer durables by making the size distribution of incomes more unequal. It must, however, be recognised that there is not much pay-off in that strategy. The basic limitation on the size of the domestic market for these consumer durables comes from the fact that even today our per capita income is extremely low. India is not Brazil: Brazil's per capita income is roughly eight times that of India.

The foregoing discussion has deliberately abstracted from the balance of payments considerations in order to highlight the limited size of the domestic market for the new consumer durables. Given their high import-content, the liberalisation of imports of capital goods and intermediates as also the prospect of a progressively rising import-bill of POL and products, the demand for imports may be expected to rise sharply. In the face of gloomy prospects for external finance and a rising debt-servicing burden, the balance of payments problems can be warded-off only if export expansion takes place on a considerably higher scale than in the past. While some acceleration in exports cannot be ruled out with the resumption of the growth—momentum in the OECD countries, whether this expansion would be adequate to meet the steeply rising import demand is an open question. Pressures on the balance of payments front may be expected to accentuate the problems of fuller utilisation of new capacity being created in the production of consumer durables.

A sizeable underutilisation of capacity in what are being today hailed as new growth points—arising mostly from the limited size of the market but also possibly from the foreign-exchange constraint—will not only prove a major deadweight that the economy will have to carry, but more importantly, may itself cause a reversal of the present policy-package.

## VI

## Budget and the Poor

It is against the backdrop of a mixture of limited hope about the growth-implications of the present policy-package in the immediate future and anxieties about the long-term sustainability of even the limited growth impacts of the Budget that we must consider the Plan objective of poverty reduction. One, of course, presumes that this still remains a Plan objective!

Obviously, the poor, howsoever defined, are no going to be among the direct beneficiaries of the tax-cuts announced in the Budget. Indirectly however, the poor can benefit, at least in principle, through additional employment-generation resulting from the policy-package presented in the Budget. In fact, the Finance Minister has claimed that "measures being taken now to stimulate the economy will have an important beneficial impact on the employment situation" (Part A, para 19). We have already seen that the private corporate commodity-production segment which is likely to be stimulated by the Budget account for less than a tenth of the value added in the economy. Given the relatively high degree of capital intensity in this segment, the employment consequences of any output expansion would be quite small in relation to the overall employment situation in which about eight million workers get added to the labour force every year. If, as indicated earlier, the Maruti pattern of output-expansion becomes the dominant pattern in the "high growth" segments, then the value added element, and within that, the employment component, would be even smaller.

As regards the direct expansion in service activities stimulated by the Budget, the Finance Minister has referred to "employment-oriented activities, such as, consultancy and advertising services and services for promotion of tourism". If this is all it amounts to, the so-called employment effect of the Budget can hardly be

TABLE 7: MONEY STOCK (NARROW MONEY – $M_1$) AT THE END OF THE PERIOD, GDP AT 1970-71 PRICES AND THE MONEY SUPPLY ADJUSTED FOR REAL GDP

*(Rs Crore)*

| Year (1) | $M_1$ (t) (2) | GDP (3) | $\frac{M_1(t) + M_1(t-1)}{GDP(t)}$ (4) | Rate of Growth Over Previous Year for Col (4) (Per Cent) (5) |
|---|---|---|---|---|
| 1983-84 | 31711 | 58294 | — | |
| 1984-85 A | 37637 | 60247 | 1.151061 | |
| 1984-85 B | 37637 | 59983 | 1.156128 | |
| 1984-85 C | 37637 | 59916 | 1.165199 | |
| 1985-86 A | 44357 | 62162 | 1.319037 | 14.6 |
| 1985-86 B | 44357 | 61831 | 1.326099 | 14.7 |
| 1985-86 C | 44357 | 61246 | 1.338765 | 14.9 |

*Note:* Column (4) presents 'money supply adjusted for real GDP'.

*Sources:* $M_1$ (t) for 1983-84 and 1984-85 are actuals.
$M_1$ (t) for 1985-86 is estimated as discussed in the text.
GDP figures for 1984-85 are from Table 4 and those for 1985-86 from Table 5.

of much consequence—especially for the poor.

Even the indirect employment effects —especially in servicing activities—related to the expanding outputs of the new brand of consumer durables—may be quite limited. This would be so not merely because the servicing requirements would be limited in the initial few years. Even at a later date, a widespread diffusion of the servicing activities tied to the expansion in these consumer durables would be critically dependent on easy and widespread availability of imported spares. Apart from this, there is the more important question whether the enlarged demand for servicing facilities translates into employment for larger number of people or fuller employment for those already at work with varying extent of slack in the shape of unutilised labour time and underutilised capital equipment. In any case, these activities require a level of training as a pre-requisite that would preclude all but a handful of the poor.

If the foregoing arguments are accepted, the favourable employment effects of the tax-cuts and the resultant stimulus to the economy can only be of marginal relevance to the mass of poor. On the other hand, the poor, who are unorganised and geographically dispersed, may be unable to maintain their real incomes in the face of the price-rise resulting from higher indirect taxes, higher administered prices and deficit financing. On balance, therefore, the poor would find themselves among the losers.

For any meaningful positive effects of the Budget on poverty, one has to turn to the expenditure side. Among the measures paraded as being 'for the poor', the two relating to the organised industrial workers, however welcome and necessary, can by no means be said to be for the poor. The simple reason for this is that the class of organised industrial workers do not, in general, belong to the core set of poor, defined in terms of certain normatively specified absolute minimum level of living. The two other measures are: (i) crop-insurance, and (ii) a social-security scheme to cover the risk of death by accident in respect of earning members of poor families. These schemes are welcome as far as they go. One is however intrigued by the omission of coarse grains from the coverage of crop-insurance. For, they account for a sizeable proportion of the cropped area of the small and marginal farmers, and in the arid and semi-arid areas. More importantly these insurance schemes can at best *prevent* someone from sinking below or further into poverty in the event of a disaster. They are not intended to be nor can they ever be a part of a package of programmes aimed at *raising* the income levels of the poor—either on a permanent basis or even as a temporary supplement, in *normal* times.

The Budget maintains, in nominal terms, the expenditure on special target-group oriented anti-poverty programmes such as IRDP, NREP and RLEGP—at the levels of the 1984-85 revised estimates. Given the likelihood of higher prices in 1985-86, the real size of these programmes will be lower. Recent discussions have highlighted the design and organisational deficiences which have limited the effectiveness of these special anti-poverty programmes in reducing poverty.[6] These deficiencies, while removable, necessarily require time for reform at the grassroots level. Therefore, the *size* of these programmes *per se* is less important than its effectiveness as an instrument of poverty reduction. The effectiveness of these special programmes has also been limited by their being designed in isolation from the general development programme.[7] If they continue to remain unintegrated with the general development programmes their size as well as impact on poverty would continue to the marginal. In such a situation one will have to look to the size and content of the general development programmes and therefore to the size and composition of the *plan as a whole*, for any major impact on poverty.

## VII

## Budget and Prices: Announcement and Cost-Push Effects

Analysis of the impact of the Budget for 1985-86 on the economy during the fiscal year 1985-86 will be primarily focused on the question of prices.

The focus on prices should occasion no surprise since the effects of the Budget on the real side of the economy *within* the fiscal year would be relatively less significant. Thus, the capacity creation impact of any of the capital expenditures proposed in the Budget can translate into higher real output only in the subsequent years. The presence of excess capacity and the extra demand generated by the Budget need not automatically translate into higher real output if there are other non-demand factors constraining capacity utilisation. Even the incentive effects of the tax-cuts, in terms of higher real outputs, apart from being confined to a small segment of the economy, are likely to manifest themselves significantly, if at all, only in the years beyond 1985-86. Here the distinction between real increase in outputs and incomes and an increase in the reporting of larger incomes (consequent on lowered incentives for under-reporting) become quite important.

The clearest example of the weak and tenuous nature of the link between the Budget for a year and the levels of real output in the same year is provided by the agricultural sector. The significant role of weather in shaping the performance of the agriculture sector is too well-known to need any elaboration. No doubt changes in prices of diesel and fertiliser—resulting from the budgetary decisions—would affect the use of these inputs. However, one would still assert the dominant influence of moisture availability in conditioning the use of both fertiliser and diesel.

In considering the impact of the Budget on prices during the fiscal year we focus on three issues:

(1) The role of budgetary imposts as a factor lending apparent legitimacy to the increase in prices that are warranted by the objective demand and supply situation and are merely *timed* to coincide with the budgetary announcements. This may be called, for want of a better expression, the *announcement effect*;

(2) The cost-push impact of the increases in indirect taxes as well as in administered prices especially on the intermediate goods; and

(3) The effect of deficit financing on prices.

We consider the first two in this section.

The announcement effect of the Budget and the cost-push effect need to be considered together. The former refers to the rise in prices of final consumption goods that takes place in the immediate post-Budget period in excess of the cost-push effect that can be legitimately attributed to the Budget and the effect of any increase in indirect taxes on the final consumption goods themselves. A clearest illustration is provided by the rise in prices of privately supplied milk that has taken place in Delhi in the post-Budget period —roughly 10 per cent—by reference either to general rise in costs, or more often, citing the increase in the price of petrol and the consequent increase in transport costs. The real reason, of course, is provided by the fact that with the price of the government-supplied milk being raised the private milkman makes the correct judgment that there would not be much of a cut in demand for his milk.

Note that in assessing the effect of a hike in the prices of universal intermediates (railway freight or electricity or POL products) it is not sufficient merely to consider the share of the input-in-question in the cost of the product and the increase in the price of that particular input or service. To illustrate, the effect of a 10 per cent hike in railway freight tariff on the cost of a commodity in which the direct cost of railway freight is only 10 per cent of the total costs, is *not* just one per cent. For, the hike in railway freight also tends to increase the costs of all other commodities entering into the production of the commodity in question as inputs and the prices of the inputs of these other commodities and so on. Therefore, the cost-push effect of a hike in prices of all intermediates such as electricity, coal, power, cement, steel, POL products can only be assessed in the framework of input-output analysis which takes into account the direct and indirect effects. Incidentally, whether the prices of these intermediates are directly increased or raised through an *ad valorem* tax on the same is immaterial as far as the cost-push effects of these price increases are concerned.

Consequent upon the railway and the general Budgets, there has been an increase in the prices of POL products, cement and railway freight. Iron and steel products, whose prices were raised a few weeks prior to the Budget, should also be included in the set of universal intermediates whose prices have been raised as part of the policy-package. Rise in the administered prices of other universal intermediates produced in the public sector, even within the fiscal year 1985-86, cannot be ruled out.

Apart from the above mentined universal intermediates, the prices of certain final consumption products such as vegetable oil, aerated water and cigarettes have been subjected to higher and indirect taxes, thus pushing up their prices. Depending on the weight of these final consumption commodities in the index of wholesale prices, the direct impact on the wholesale price index can be calculated. In addition, we have the case of hikes in railway-passenger tariffs which curiously has no weight in the wholesale price index, even though the loss in purchasing power of the consumers is real enough.

As regards the cost-push impact of an increase in the prices of the set of products and services whose prices are administratively fixed in general and of the universal intermediates in particular, we have a study in inter-industry framework by Gupta and Srinivasan.[8] They divide the input-output sectors into two broad categories—the goods and services whose prices are administered and the rest. The analysis assumes that while the cost-increases are fully passed on in the non-administered part of the economy, the cost increases in the administered sector are absorbed within the sector by squeezing the surplus accruing to capital. The effect of a rise in administered prices on costs and hence on prices while taking account of inter-industry linkages assumes away the possible increases in factor costs consequent upon the increase in prices by way of higher dearness allowance, etc.

Gupta and Srinivasan show that a rise in one single administered price at a time, does not have any significant impact on the wholesale price index. Thus even a hundred per cent increase in the price index of chemicals and fertiliser leads to only 5.5 per cent increase in the wholesale price index. In the case of other universal intermediates such as coal and lignite, cement, electricity, iron and steel and railways, the impact on the wholesale price index of doubling the price of each one of them, one at a time, is even lower.

However, they emphasise that when the set of administered prices go up in a package either simultaneously or within a short interval, the collective impact on the wholesale price index of all commodities could be and has been sizeable with an elasticity of nearly one (0.98). Their rough calculation shows that "if this secondary effect, i e a consequential increase in factor price, is taken into consideration then this estimated elasticity may even go up to 1.3".

## VIII

## Budget and Money Supply Expansion

We turn now to the implications of the Budget for the expansion in money supply.

To start with the revenue and expenditure forecasts presented in the Budget are taken as given. If the revenue receipts are smaller and the expenditures higher than forecast in the Budget, *ceteris paribus*, the size of the budgetary deficit and the consequential expansion in money supply would be larger than what we have indicated below.

The budgetary deficit, defined as the RBI's credit to the Central government against treasury bills is placed at Rs 3,348 crore. However, even from the limited point of view of indicating the addition to high powered money implied by the budgetary proposals,[9] this figure represents a considerable underestimate on at least three counts.

First, the purchase by the RBI of long-term government securities on its "Own Account" is indistinguishable from RBI lending against treasury bills—at least as regards its effect on high powered money. Second, if the past practice of states running up overdrafts with the RBI continues, there would, in effect, be additional deficit financing. Third, we have already seen that intra-public sector transactions are quite significant and that raising the prices of public sector products—representing the so-called Additional Resource Mobilisation—by affecting the costs of other public sector enterprises substantially reduces the net contribution of the public sector taken as a whole.

On the question of the purchase of long-term government securities on RBI's Own Account, the figures for the latest four years for which data on ownership of public debt is available, are shown in Table 1.

It is seen from Table 1 that the lowest proportion of Market Borrowings purchased by RBI on its 'Own Account' has been about 22 per cent. In the Central Budget for 1985-86, net Market Borrowings of the order of Rs 5,100 crore is envisaged. Even if we assume that the proportion of Central government's Market Borrowings that the RBI ends up purchasing on its 'Own Account' to be only 22 per cent, as against the average of a little over 39 per cent reported for the first three years of the Sixth Plan, the addition to high powered money on this account alone would be as much as Rs 1,122 crore. If this is accepted, the addition to high powered money arising from the Central government Budget would be at least Rs 4,470 crore, i e, roughly Rs 4,500 crore.

The states, unlike the Centre, cannot directly indulge in deficit financing of the excess of their expenditures over their revenue and capital receipts including loans from the Central government. But then there are the state governments' 'overdrafts' with the RBI.

Since the overdrafts have to be cleared before the end of the fiscal year, the state governments either have to cut-back on their plan outlays or, if they can persuade the Centre, get more loans from the Centre—over and above the levels allocated in the Central Budget. In practice, a bit of both takes place. To the extent additional loans from the Centre replace the states' overdrafts with the RBI, the Centre's capital disbursements will turn out to be larger than originally budgeted. So, unless capital disbursements on other heads, mostly public sector Plan Investments, are correspondingly cut, the Centre, in turn, has to borrow more—either by issue of treasury bills or long-term securities. A part of the latter might again end up with RBI itself. Thus, a part at least of the increased deficit financing in the Revised Estimates—as against the Budget Estimates—in effect represents a conversion of the state governments' overdrafts into Centre's deficit financing.

The presentation of the state Budgets and the process of finalisation of the Annual Plans of the states for 1985-86 is not yet complete. Any guess of the likely order of additional deficit financing emanating from the states could be quite off-the-mark. But there can be little doubt that this will be sizeable.

Finally, we come to the distinction between gross and net 'Additional Resource Mobilisation' (ARM). Consider a simple example. The recent hike in railway tariffs is expected to yield an additional revenue of Rs 464 crore during the fiscal year 1985-86. This represents the gross ARM undertaken in the railway Budget. However, the very hike in railway tariffs will, *via* the inter-industry linkages discussed earlier, raise the prices of some of the commodities and services bought by the railways which would thus push up its expenditure. To that extent the net ARM would be lower. More importantly, the increase in the price of diesel—consequent upon the general Budget—would directly raise the operating costs of the railways, besides indirectly pushing up the costs of other items used by the railways. Similar would be the impact of the rise in cement prices which would increase the cost of concrete sleepers used by the railways. These too, would reduce the net ARM. As the range of public sector products whose prices are raised increases, the indirect cost-push effects become more important. There is also a spill-over to the states: if the prices of coal, lignite and oil are raised, it reduces the net surplus of the state electricity boards. Gupta and Srinivasan show that:

> there is a difference of 10 per cent between the gross and net increase in the volume of saving in the electricity sector generated by a given increase in the electricity rates. This may be even an underestimation of the difference between net to gross saving since it excludes the likely consequential increases in the factor prices. In addition, there will be a corresponding negative saving in all other administered policy sectors, because of a consequential rise in their material input costs. Thus, taking into consideration all the inter-related effects, the real resource increase in the public sector as a whole in 'net' terms may be even less by 50 per cent of the 'gross' increase (p 1582).

The railway Budget proposes an additional resource mobilisation of Rs 464 crore (after adjusting for the concessions announced in the Minister's reply to the debate). If the net ARM is placed at 90 per cent of the gross ARM, the surplus of the railways sector will be less by about Rs 50 crore.

It has also been reported that the net effect of the concessions announced in the Finance Minister's reply to the debate may be to increase deficit financing by about Rs 100 crore—essentially flowing from the cut in imposts on kerosene and diesel.[10]

Putting all the relevant numbers together we find that the increase in high powered money resulting from the operations of the Central Budget would at least be Rs 4,620 crore.[11] If we add to this a conservative estimate of the additional deficit financing on account of states 'overdrafts' at Rs 180 crore, the total increase in high powered money is likely to be Rs 4,800 crore rather than Rs 3,348 crore reported in the Budget.

In order to estimate the increase in money supply consequent upon the increase in high powered money we need to apply the money multiplier. Using the $M_1$ definition of money stock, the ratio of $M_1$ to high powered money has been estimated at about 1.6.[12] Even if we use a more conservative money multiplier of 1.4, the increase in money supply would be of the order of Rs 6,720 crore.

The stock of money supply ($M_1$) as of March 1, 1985 is placed at Rs 37,637 crore. This would imply that the projected increase in money supply could be as high as 18 per cent, during the fiscal year 1985-86. This would be so despite our acceptance in toto of the revenue and expenditure forecasts in the Budget and the use of conservative estimates of the extent to which state overdrafts' turn into Central budgetary deficit and of the money multiplier.

As regards the revenue forecasts, it is extremely, doubtful whether the assumption of 'better tax-compliance' netting Rs 200 crore under income-tax would materialise.[13] On the expenditure side, at least one item of the budgetary forecast has already become invalid. Thus, the Budget makes a provision of Rs 300 crore for the full year for the payment of additional dearness allowance to the Central government staff. However, the interim-relief and additional dearness allowance sanctioned as April 26—barely 40 days from the introduction of the Budget—will cost as much as Rs 417 crore. Thus, we already have an additional deficit of Rs 117 crore on this account alone. However, we still have over 10 months to go in the fiscal year. In the past, an inflation rate of 10 to 12 per cent has meant the grant of anywhere between 4 to 5 installments, if not more, of additional dearness allowance. Our own price forecast for the coming year implies a double-digit rate of inflation. With each installment of additional dearness allowance costing upwards of Rs 90 crore, the excess of realised expenditure over the budgetary forecast on this item alone would be well over Rs 400 crore.

## IX

## Money Supply Expansion and Prices

What would be the impact of the expansion of money supply on prices? We first take up the impact on sectoral prices using the econometric relationships estimated by one of us.[14] The relationship explaining the wholesale prices of food articles uses the following predictors: (a) foodgrains availability per capita; (b) real disposable income per capita; (c) the money supply ($M_1$) at the end of the current and last year as a ratio of current year real GDP (referred hereafter as adjusted money supply); and (d) lagged index of prices of food articles.

Given the comfortable foodgrains stocks of over 25 million tonnes, one may safely assume that the foodgrains availability per capita can be maintained for a population growing at the rate of about two per cent per annum. This is possible even in the face of a dip in the foodgrains output in 1984-85, and a possible further dip that is predicted for 1985-86 by agricultural experts, by drawing down the stocks.

With the rate of growth of around 1.1 per cent in per capita real GDP in 1985-86 estimated by us, we may assume a rate of growth of 1.2 per cent in real disposable income per capita in view of the fiscal concessions given in the Budget.[15]

The Appendix to this paper gives the details of alternative estimates of GDP that we have forecast for 1984-85 and 1985-86. Notice that our high variant A indicates a growth rate of 3.35 per cent for 1984-85 compared to 4 per cent indicated in the government's "Economic Survey". Our estimate takes into account a dip in foodgrain output for 1984-85, announced on April 24, 1985, and the inter-relationship between the GDP originating the manufacturing on the one hand and on the other, the lagged public sector GDCF and GDP originating in agriculture and allied activities. This is given in the Appendix.

Using our forecasts of real GDP along with $M_1(t)$ variables, we get a growth rate in money supply adjusted for real GDP (given in col 5 of Table 7 in the Appendix) ranging between 14.6 to 14.9 per cent.

Using the short-run elasticities given by Krishnamurthy and the above estimates of predictors, the predicted rate of growth of index of wholesale prices of food articles ranges between 8 to 8.5 per cent in 1985-86 over 1984-85. Notice that this would be a lower bound since we have ignored the dynamic effects of past behaviour of the prices of food articles.

It is not easy to assess the impact of the rise in adjusted money supply on other sectoral prices in the same detailed fashion. However, in the study by Krishnamurthy, we also have estimates of the partial elasticities of sectoral prices with respect to the growth in the adjusted money supply, keeping other things such as sector-specific supply factors and cost-push factors constant. The index of wholesale prices for non-food articles has a (partial) elasticity of 0.75 while that for manufacturing and mining is 0.53 with respect to adjusted money supply. Given our forecast of a 15 per cent growth in adjusted money supply for 1985-86, we can obtain lower-bound estimates of the rise in the prices indices for non-food articles and manufacturing and mining by using the estimated partial elasticities. These turn out to be 11.25 per cent and 8 per cent respectively for non-food articles and manufacturing and mining.

Assuming a 10 per cent rise in the price index of fuel, power, light and lubricants, and using the weights in the wholesale price index, the rate of inflation would be about nine per cent. This is, however, very much a lower-bound estimate. For, it does not take account the cost-push and sector specific supply factors, the distinct possibility of the budgetary deficit being larger and last but not least the mutually inter-active relationship between Budget-deficits and price increases.[16] If we allow for these effects, there is no doubt that the rate of inflation, in terms of the wholesale price index, would certainly be at the two digit level.

As regards the elasticity of the GDP—deflator with respect to the growth in adjusted money supply, the short-run elasticity is estimated at 0.62 and the long-run elasticity is estimated to be one. This would imply that our forecast of the growth in adjusted money supply would have a short-run impact of nine per cent and a long-run impact of 15 per cent increase in the GDP deflator.

It may be stressed that while our forecasts of the price increases are predicated on our forecast of a 3.55 per cent growth in real GDP in 1984-85 and 3.2 per cent growth in real GDP in 1985-86, even a more optimistic assumption of a 4 per cent growth in real GDP in both 1984-85 and 1985-86 would not materially alter the inflation scenario. This would be especially the case once we allow for the possibility of the budgetary deficit being distinctly larger if only on account of the excess of realised expenditure on interim relief and dearness allowance over the budgetary forecast. In the final analysis, we may expect a rate of inflation of 10 per cent or more in 1985-86.

How does our assessment square with that of the Finance Minister? He has argued that since the economy had been able to 'absorb' a somewhat higher order of deficit in 1984-85, it would be able to do so during 1985-86 as well. It is worth considering what this 'absorption' meant. In this connection, we postulate that the rate of inflation in a given year is governed by the agricultural harvests of the previous and the current year as well as the growth rate of real GDP in the current and the previous year in conjunction with growth in money supply. Despite a comfortable supply position emanating from the bumper harvest of 1983-84 and a somewhat lower but still high harvest of 1984-85 and following on 8 per cent and 3.5 per cent growth rates of real GDP in 1983-84 and 1984-85, a 18 per cent increase in money supply generated an inflation rate of 8 per cent in 1984-85. Turning to the prospects for 1985-86, notice that following upon the slight dip in the output of foodgrains reported for 1984-85, agricultural experts anticipate an even lower foodgrains output in 1985-86. Also, our forecast of real GDP growth for 1984-85 and 1985-86 is only of the order 3.5 per cent per annum. Against this background and starting on a higher base of money supply, a further increase of at least 18 per cent is forecast by us for 1985-86. It should, therefore, be obvious that our forecast of a rate of inflation of 10 per cent or more for 1985-86 in no way contradicts the so-called 'absorption' of the 1984-85 budgetary deficit.

It would be a statement of the obvious that those outside the direct tax net and definitionally non-beneficiaries of the tax concessions would be the unmitigated sufferers of this inflation. Included in this dominant majority are the truly poor. As for the tiny set of income tax-payers, tax relief as a percentage of income-tax payable (including surcharge) at pre-Budget tax rates systematically declines with income. However, the tax relief as a percentage of pre-tax income almost systematically rises with pre-tax income level. Consequently, the extent of suffering of the tax-payers from inflation is being progressively compensated by tax relief with a rise in income level. The regressive impact of the 1985-86 Budget is thus self-evident.

## X

## Concluding Observations

We have argued that a stable fiscal environment promised in the Budget for 1985-86 implies a significant change in the perceptions of the policy-makers as regards the mainsprings of the Indian growth process. It implies a reduction in the physical content of the public sector plan during the Seventh Plan period, a much bigger role for the private corporate sector in promoting economic growth and a resulting weakening of the complementarity between the private sector economic activity and public sector investment (Sections III and IV). We have raised certain serious doubts about the broad-based nature and sustainability of the economic growth-process which is sought to be triggered by the new fiscal environment (Section V). The limited prospects for poverty alleviation emerging from the Budget proposals are outlined in Section VI.

The price consequences of the Budget are classified into two groups. Those due to the announcement effect and changes in administered prices (Section VII) and those due to money supply expansion planned in the Budget (Section VIII and IX), we conclude that at least a double-digit inflation appears inevitable with its regressive consequences.

## Appendix

### FORECASTING OF GDP MONEY SUPPLY VARIABLES FOR 1984-85 AND 1985-86

We have estimated the following regression relationships for the purpose of forecasting.

(1) $Y_1 = 2360.2756 + 129.689703\ x$

$r^2 = 0.9757$

where $Y_1$ = GDP originating in agriculture and allied services at 1970-71 prices

$x$ = index of production of foodgrains

period = 1964-65 to 1982-83

Elasticity at mean = 0.86

(2) $$Y_2 = \underset{(731.1862)}{-372.4112} + \underset{(0.130501)}{0.620319}\ x_1 + \underset{(0.066050)}{0.253177}\ x_2$$

Elasticities at mean level:

w r t $x_1 = 0.38$ $R^2 = 0.9450$

w r t $x_2 = 0.68$

where $y_2$ = GDP originating in manufacturing at 1970-71 prices at time t

$x_1$ = Gross domestic capital formation in the public sector at 1970-71 prices at time $(t-1)$

$x_2$ = GDP originating in agriculture and allied services at 1970-71 prices at $(t-1)$

period = 1965-66 to 1983-84.

Figures in brackets are standard errors.

Since the foodgrains output figures are available more readily, we use them in equation (1) to forecast the GDP originating in agriculture and allied activities. We use equation (2) to get the estimates of GDP originating in the manufacturing sector. Both the equations (1) and (2) are used to calculate the *increments* which are added to the level variable relating the earlier year to get the level for a given year. As regards the components of GDP excluding agriculture and allied services and manufacturing, we use the trend growth rate of six per cent per annum observed for the period 1973-74 to 1983-84.

Gross value added in agriculture and allied services for 1984-85 is based on three alternative estimates of the foodgrains output. A and B are official forecasts whereas C represents a non-official knowledgeable forecast. For 1985-86 we conservatively assume the foodgrains output to remain unchanged at realised 1984-85 level even though experts predict that there would be some dip compared to the 1984-85 level. This assumption of unchanged foodgrains output has the effect of keeping constant the GDP originating in agriculture in terms of the prediction equation used by us. The figures are given in Table 2.

As regards gross domestic capital formation in public sector at 1970-71 prices for the year 1984-85, we assume a six per cent increase over 1983-84. This is based on the Central Plan investment in a nominal term as an indicator and using the wholesale price deflator. Predictors for equation (2) are given in Table 3.

Table 4 presents the estimate of gross value added in manufacturing for 1984-85 and three alternative estimates for 1985-86 based on the predictors given in Table 3.

Tables 5 and 6 put together the alternative GDP estimates at 1970-71 prices for 1984-85 and 1985-86 respectively. Table 7 presents the estimates of money supply adjusted for real GDP which are used in the equations estimated by K Krishnamurty.

## Notes

[We are grateful to Badal Mukhopadhyay, J Krishnamurthy and S K Ray for helpful discussions. Usual disclaimers apply.]

1 This gives rise to an anomalous situation where, while the taxation of once-over transfer of assets on death has been abolished, that of transfers of assets during one's own life time continues in the form of a gift tax. A possible reason for the retention of the gift tax even after the estate duty has been abolished could be that it would help prevent partitioning of wealth among the family members in order to avoid payment of tax on the wealth itself and/or on the income from wealth. However, the scope for such partitioning already exists in the continuation of the Hindu Undivided Family (HUF) as a tax-entity which has received an even better deal than the individual in this Budget—relative to the pre-Budget tax treatment. The appropriate solution to the problem of partitioning of assets as a tax-avoidance strategy is not the retention of the gift tax but a more basic change towards treating the nuclear family as the relevant tax entity. See, K Sundaram and V Pandit, 'Direct Tax Reform: Family as Tax Entity and Other Issues', *Economic and Political Weekly*, Vol XIV, No 17, April 28, 1979.

Of course the basic issue of appropriateness or otherwise of the abolition of estate duty still remains. One cannot be blind to the rigidities and avoidable hardships caused by the existing estate duty. Equally, it is not merely a question of how much revenue it generates and one cannot ignore the basic justification for estate duty, namely, that it serves as an instrument for promotion of inter-generational equity. Balance of consideration would appear to favour a rationalisation—in terms of evaluation criteria, exemption limits and the rate structure—rather than an outright abolition of estate duty.

2 Neither the "Economic Survey 1984-85" nor the "Report on Currency and Finance 1983-84" hazard any guess about the gross domestic savings rate for 1984-85.

3 If and to the extent the capacity expansion in these consumer durables was not part of the total plan in the Approach to the Seventh Plan, the investible resources left for the public sector plan would be lower even if the resources visualised in the approach document are forthcoming.

4 See, K Krishnamurthy (assisted by P Saibaba and N A Kazmi), 'Inflation and Growth: A Model for India', in K Krishnamurthy and V Pandit, "Macro-econometric Modelling of the Indian Economy: Studies on Inflation and Growth", Hindustan Publishing Corporation, Delhi (1985), also published in the *Indian Economic Review*, Vol XIX, No 1, Jan-June 1984, esp, p 58.

5 Apart from the disincentive effects of high taxes, the Finance Minister has viewed the delays and rigidities in the system of direct controls as an important constraint on the growth process. The first steps in this regard include: (i) de-licensing of certain industries; (ii) raising the asset-limits of the MRTP companies; (iii) placing an expanded list of capital goods on OGL; and (IV) decentralisation of decision-making in respect of import and export licensing.

6 See, K Sundaram and S D Tendulkar, 'Integrated Rural Development Programme in India', *Social Action*, Vol 35, No 1, Jan-March 1985, pp 1-26. N Rath, 'Garibi Hatao, Can IRDP Do It?', *Economic and Political Weekly*, Vol XX, No 6, February 9, 1985. M L Dantwala, 'Garibi Hatao: Strategic Options', *Economic and Political Weekly*, Vol XX, No 11, March 16, 1985. I Hiraway, 'Garibi Hatao: Can IRDP Do It?', *Economic and Political Weekly*, Vol XX, No 13, March 30, 1985, pp 561-64.

7 See, K Sundaram and S D Tendulkar, "Poverty in India", Part I: 'General Policy Perspectives', Part II: 'Decentralisation for Rural Growth and Redistribution", *The Indian Express*, March 15 and 16, 1985.

8 See, S P Gupta and T G Srinivasan, 'Inflation and Role of Administered Prices', *Economic and Political Weekly*, Vol XIX, No 36, September 8, 1984, pp 1579-83.

9 It may be mentioned that in quantifying the impact of the Budget on high powered or reserve money we have focused exclusively on its effects on RBI's claims on the government sector. Among the other factors impinging upon the level of high powered money, we are ignoring the trend rise in RBI's claims on the commercial sector and the government's currency liabilities, both of which contribute positively to high powered or reserve money. As regards the net foreign exchange assets, it is no doubt true that drawing down of RBI's foreign exchange assets would tend to lower the level of high powered money. There is however no reference in the Budget to any major plans for drawing down the foreign exchange reserves. Similarly, the net non-monetary liabilities of the RBI, which enters with a negative sign in the identity defining high powered money, has tended to fluctuate. Our estimates of the impact of the Budget on high powered or reserve money is thus best treated as a *ceteris paribus* impact. However, our overall judgment would still be that the order of increase in high powered money indicated below indeed take place though one cannot precisely predict the way the other elements determining the level of high powered or reserve money would behave during the fiscal year 1985-86.

10 See the report in the *Financial Express*, March 27, 1985.

11 This estimate is made up of the following:

| | Rs crore |
|---|---|
| Budget deficit as presented in the Budget | : 3,348 |
| Share of 'RBI's' Own Account purchase of dated securities in proposed market borrowings | : 1,122 |
| Short-fall in 'ARM' proposed in railway Budget due to cost push effect | : 50 |
| Additional deficit financing due to concessions announced in Parliament | : 100 |
| | 4,620 |

12 See S B Gupta "Monetary Planning for India", Oxford University Press, Delhi (1979) and K Krishnamurthy, op cit, esp, p 43.

13 Similar doubts on this and other items of revenue forecast in the Budget have been raised by Mihir Rakshit. See, M Rakshit, 'The Budget and Plan Priorities', *Economic and Political Weekly*, Vol XX, No 16, April 26, 1985, pp 707-10.

14 See, K Krishnamurthy, op cit, pp 30-36.

15 Estimated regression equations relating private disposable income and GDP, both in real terms, suggests an elasticity of nearly one. In deriving our estimate of the rate of growth of real disposable income per capita we are only making a marginal addition to the forecast rate of growth of real GDP per capita, on account of tax concessions offered in the Budget, because these concessions impinge upon only a small segment of the economy.

16 See, K Krishnamurthy, op cit, pp 39-42.

# Some Emerging Trends in China's Domestic Policy

**T Karki Hussain**

*The all-powerful policy planning central committee of the Communist Party of China has now published the guidelines under the new strategy for the urban sector aimed at decentralised planning. The Chinese leadership, it would appear from this, feels emboldened to carry forward the offensive launched initially in 1978 by revising the role of the communes, into the sensitive areas of industry, commerce, science and culture. At the same time, there may be uncertain times ahead for China. Successful experiments with material incentives and decentralisation notwithstanding, the substantive dimensions of the modernisation process may unfold yet another set of dialectics to be tackled by Deng Xiao-ping's successors.*

## I

## Introduction

EVER since the founding of the People's Republic of China in 1949, the impact of the Chinese developments in terms of curiosity as well as comments has shown no signs of diminishing. It is no exaggeration to say that China's internal political process has been ceaselessly put to scrutiny both at microscopic and telescopic levels, without match in contemporary times. There have been other post-colonial, semi-feudal societies, similarly embarked on the road to modern nation-building. However, China emerges as basically different from all others, mainly due to the totality of its approach in all matters pertaining to social change. This was amply demonstrated by successive developments during the Maoist period which, through the twin-pronged strategy of class struggle and control over productive forces, brought about radical land reforms, unleashed mass campaigns, and universalised collectivisation drives in the form of the commune. All of these policies resulted in impressive achievements in the radicalisation of a class society along egalitarian lines in an unprecedented manner. A bye-product of the initial success, however, was the propagation of the Maoist claims of having overtaken the Soviet Union in the race to reach a transition to the socialist goal. The effervescence of such claims was subsequently highlighted by an induced erosion of the commune ethos which had laid a firm foundation of industrialisation at the grassroots, underpinning China's socialist economy and by its subsequent modification by the profit motive and market mechanism, almost tantamount to acknowledging the superiority of the capitalist system of management in the economic field, thereby giving an incorrect impression of abandoning the socialist process.

Admittedly, balanced development was an integral part of Maoist conception and earlier Chinese practice. From all available evidence, however, China under the leadership of Deng Xiao-ping has begun to project a new consciousness of realism by applying a different approach to the problems confronting the country in the fourth decade of its socialist revolution. Promotion of some private enterprise on the plea that some capitalism is good, and, non-alignment with a tilt towards the United States as a leading capitalist power may appear to be nothing short of heretical from China's own ideological perspective in the immediate past. However, the fact that the world continues to be mesmerised by the audacity of the present leadership, evidently, due to China's gigantic size or, perhaps, even the mystique surrounding it until 1976, distinguishes China even from some of the other socialist countries, such as Hungary and Yugoslavia, which had chronologically speaking initiated the trend towards the mellowing of dogmatic socialism by introducing some liberal domestic and external policies much earlier than China.

Indeed, from the charismatic revolutionary Mao Ze-dong to the controversial pragmatist Deng Xiao-ping, questions about China's policies both internal and external have been universally raised and the trends in its thinking intensely debated. The most recent example was the world reaction to a *People's Daily* editorial of December 7, 1984 questioning the dogmatic all-time, all-purpose validity of Marxism.[1] This was indeed a meaningful statement which has been variously interpreted as jettisoning ideology, adapting ideology to Chinese reality, using ideology for partisan purpose and so on. Given the climate of change in China today, each interpretation may have partial validity if we accept the premise that Dengism is supposed to stand for a reconsideration of a fundamentalist attitude and the consequences flowing from an apparently mechanical application of theory by substituting the dynamics of a comparatively liberal framework based on "seeking truth from facts and making practice the sole criterion of truth". Admittedly, half a decade or so is too short a period to make predictions whether Deng will succeed in realising the major objectives of his policies over a long term period even after he has physically disappeared from the scene. In other words, whether or not the successor to Deng would possibly stall or reverse the trends already gathering momentum on the Chinese scene! However, as with Maoism after Mao or with Stalinism after Stalin, survival of Dengism without Deng, basically in the context of the political dialectic rather than the personality factor, has become an important question for outsiders as well—ideologues and practitioners, communists and non-communists alike. It may, therefore, be a timely exercise to examine some of the trends which have evolved during the past few years.

The present paper seeks to place the post-Mao changes in the perspective of the change-over of leadership to another veteran, strictly belonging to the Maoist era, yet, radically different in his methodology. The resultant change and continuity are self-evident. Deng could not repudiate the fact that Maoism served the Chinese nation extremely well upto a point. From the inherited *impasse* to the new outlook, however, the abiding legitimacy of the reforms will increasingly require a combination of responses to deal with the contradictions, which in all likelihood already exist. Let us take a fleeting look at some of the aspects of the emerging new China.

## II

## Rise of Deng Xiao-ping

The death of Mao Ze-dong was a watershed in Chinese policies. The man who immediately rose to public view was Hua Guo-feng, a fellow-Hunanese along with Mao, and, holding the position of Minister of Public Security at the time of Mao's death. He came to symbolise ultimate power through the triple sources of chairmanship of the party, premiership of the government and chairmanship of the Military Affairs Committee. In view of subsequent developments, the Hua phase can at best be described as transitional or interim, for he did not emerge as representing any specific forces of significance in the Chinese government and the party and more or less appeared to be a caretaker in an interregnum. Deng Xiao-ping, who had been discredited during the Cultural Revolution and again briefly in 1976, began his resurrection and ascent shortly after the disappearance of Mao from the scene in 1976. Following his rehabilitation less than a year after Mao's demise, he began to counter Hua's leadership and his indeterminate legacy. By the time the Third Plenum of the 11th Party Congress came into full swing, Deng Xiao-ping had built a sufficiently strong case for having his views accepted by the Central Committee. By December 1978, the Plenum had decided to subdue ideological fervour and discourage the personality cult. The principal task was defined to be reform of the agricultural sector and overall economic reconstruction. Other equally momentous decisions were taken with regard to the polity including its various institutions which had come under severe pressure due to the ideological bias of Mao who allegedly had abdicated his own authority to the so-called "Gang of Four" in his last few years. Legal processes were restored and improved, education and culture were given a new direction, and a revised constitution was introduced in 1982. Meanwhile, Hua had faded into oblivion soon after the Plenum. He was eased out from membership of the Politburo and from 1982 onwards has not been notably visible, although he continues to be a member of the Central Committee. A revival of Maoist orthodoxy alone, if revitalised, may find a niche for him, but in the immediate context, the chances look feeble indeed.

Broadly speaking, some of the following trends can be described as having emerged since December 1978, making their mark in a manner that could not be imagined at that time:

(a) The third Plenum decided to reevaluate the achievements and failures of the Cultural Revolution unleashed earlier in 1966. In retrospect, it was concluded that the phase lasting a decade and more was a national disaster. Mao's role came under close scrutiny during this reassessment and subsequently he was judged to be greatly responsible for the failures linked with the Leap Forward and the Cultural Revolution Upheaval. Nevertheless, he was simultaneously given a place in the history of the Chinese revolution in sharp contrast to the de-Stalinisation at the 20th Party Congress of the Soviet Communist Party in 1956 when Khrushchev unequivocally denounced Stalin. On December 26, 1983, the 90th birth anniversary of Mao Ze-dong was commemorated with great fanfare but the ideology of Mao Ze-dong Thought was reinterpreted and selectively quoted for public consumption. An official publication of the CCP history in 8 volumes from 1921 to 1956—the years of Mao's struggle for gaining leadership and the peak of the success—has been recently published but not made available to foreigners so far. That Mao had been further devalued could be guaged by the virtual inattentiveness shown towards his 91st anniversary.[2] *The People's Daily* which in the previous year had printed 3,000 word front-page tribute to the Great Helmsman as Mao was fondly called, wrote only a brief, one sentence report on December 26, 1984.

(b) An emphasis on four modernisations, *viz*, agriculture, industry, science and technology, and defence within a restructured framework became a curtain-raiser to a radical departure from the prevailing Maoist percepts.

(c) Agricultural reform became the backbone of the new economic strategy as applicable to 80 per cent of China's one billion population. The role of the communes was revised and the farmers were allowed to cultivate land for personal use. The production responsibility system linked income to output.

(d) Following the success of reforms in the agricultural sector in the form of visibly growing improvement in the general standards, doubling of peasant incomes by 1983 and the achievement of a record harvest estimated at 400 million tons in 1984, a new set of urban changes has been initiated to complement and further galvanise rural progress. Under a party directive issued in October 1984, vital amendments are being sought in the hitherto centralised planning, and, greater autonomy given to factory managers who now would have to perform competitively in the market and be accountable for their results, in order to prolong their survival. Government patronage of the public sector, irrespective of the latter's functioning unique price and wage policy, heavy subsidies for food, clothing and rent are being adjusted in accordance with the directive described officially as "a scientific blueprint for modernisation".

Deng Xiao-ping, who in his capacity as the General Secretary of the party, had supported Mao's peer and rival, Liu Shao-qi on some basic reforms, specifically the latter's stress on party organisation and on an economic strategy linked to material incentives right from the fifties onwards, and hence found himself clashing with Mao occasionally but still surviving till the excessive leftism of the Cultural Revolution threw him out in the cold, has found in Zhao Zi-yang and Hu Yao-bang an ideal executor and a dependable propagandist of his ideology. Both of them, currently holding the positions of the Prime Minister, and the General Secretary of the party respectively are by themselves lightweight personalities, but are seen to be competently exercising their responsibilities to make a success of Deng's new strategy. To note, Zhao Zi-yang has reaffirmed China's basic commitment to socialism while asserting simultaneously that it would be difficult to build socialism without invigorating production as "socialism which is not based on the growth of the productive forces is meaningless".[3] Hu Yao-bang deals with the superstructure and has gone on record encouraging a total reformation in the field of arts and literature and in thinking and behaviour and has even gone to the length of defending the youth taking to bourgeois ways of dressing up colourfully and smartening up appearances, including stylish hair styles. The latest statement questioning the efficacy of Marxism in solving all problems is also attributed to Hu Yao-bang during a talk with the senior cadres of the Publicity and Propaganda Department of the Communist Party.[4]

It may be assumed that the policies enunciated by Mao's successors will take China's progress further if one accpets the premise that a greater reliance on market forces is necessarily good even in pure economic terms. Whether it will result in a quantum leap will essentially depend on a combination of fortuitous circumstances, including internal political stability and the external circumstances. To some extent, the latter, obviously, will be a direct consequence of China's accessibility as a market and as a producer *vis-a-vis* the outside world with which it has only recently forged links. As Mao said, if you want to know the taste of a pear, you must do so by eating it yourself. Deng while opposing Mao's idea of permanent upheavals went even further when he said that the colour of the cat was immaterial—the important thing was that it caught rats.[5] The emphasis on professional, scientific, technological upgrading as an essential element in modernisation is not considered as an end in itself but as a means of making available the fruits of progress for all. The mechanics of change include evaluation of party ideology, army politics, bureaucratic culture and personality cult, etc.

## III

## The Process in Evolution

The trends within society delineates the much subdued presence of the PLA and ideological interference of the kind the country was experiencing in cycles through the early fifties to mid-seventies. This does not mean, however, that political guidelines would be neglected or that the party would lose its monolithic omnipotence. Under the one party system that

China practises, it would be absurd to imagine that the levers of control would be relinquished by Deng Xiao-ping and his trustworthy team. Evidently, pragmatism makes allowance for flexible revisionism, where party politics is concerned. Any anti-party activity in the form of opposition to Deng Xiao-ping's pragmatic policies, by the far from extinct Maoists, tends to be thoroughly uprooted and discredited. Although Deng Xiao-ping has succeeded in overhauling the composition of the Central Committee and its Politburo as well as the Standing Committee of the National People's Congress by filling up places with like-minded party members, thereby creating an apparent harmonious relationship at the top, the same cannot be said about the middle and the lower ranks further down the hierarchy. And these are precisely the elements whom it would be difficult to dislodge.

Since last October, a three-year rectification campaign has been let on in order to purge or re-educate a vast majority of members, estimated at around 20 million, who joined the Communist Party during the Cultural Revolution period. So far, according to estimates, barely a million have been affected, which is akin to being merely the tip of the iceberg, because the number slated for expulsion was four million. A strong belief goes that the leftists whom Deng Xiao-ping wanted to oust but could not succeed in doing so have managed to moderate the scope of the purge which if unleashed in an uncompromising spirit would have produced an unsettling impact for which the country was ill-prepared. Eventually, however, loyalty to Maoism is not expected to remain immutable due to changing attitudes and weakening of old allegiances.

Paradoxically, the party's weakness is also its strength. Its membership, its training and discipline, its responsibility and its sense of unchallenged power should be kept in mind as the cadre forms the most important link not only between the command (leadership) and follow-up (people) elements but also remains a basic monitor overseeing the actual working of the social process along the given tract. Rectification movements in motion underscore the universal truth that they are simultaneously a product of the system and a condition for its survival. At the same time, they are suggestive of the urgent need of reorienting the consciousness of the cadre which during the Maoist era had been nurtured on the utopian, romantic and at times even adventurist ideas of permanent revolution and has to come to terms with new realities and new objectives. In the ultimate analysis, the cadre's own social understanding, the level and the extent of intellectual qualifications and commitments are pre-requisite for transmission of ideas to the people, working in the fields or factories and equally importantly, making the policies work. This is being done through a process of re-education as well as induction of new members, notably intellectuals, who had largely borne an enormous burden of class prejudice during Mao's life time.[5]

As is well known, the People's Liberation Army has always retained a special place in the history of the communist movement and the subsequent implementation of socialist policies throughout the country. To elucidate, during the period of the revolutionary struggle, the PLA also performed productive and ideological functions, apart from its professional fighting role. During the ascendency of the ambitious Defence Minister, Lin Biao, who was constitutionally nominated as successor to Mao in 1969, the PLA's political and ideological functions overshadowed its professional activities. During the turbulent years of the Cultural Revolution period, especially between 1966-68, when the civilian authorities failed to curb violence and disorder and the grip of the party was loosened due to factional infighting, the PLA stepped into the vacuum and began to exercise effective power in the management of the country. Subsequently, however, the party recouped its vitality and soon after the exit of the interim leader Hua Guo-feng, it became evident that the PLA would also fall within the proposed reform structure which aimed at reducing ideological, political interventions to the minimum and to professionalise the hitherto active neo-politicians in the army ranks.

Admittedly, the task of forcing the army back into the barraks is not easy, following its high profile throughout the Cultural Revolution period and its aftermath. However, the desire for professionalism as part of the modernisation package calls for an acceptance of the Dengist dictat. Perhaps, its indifferent performance during the brief war in early 1979 against Vietnam has created a favourable mental conditioning to undergo training, upgrade its expertise and generally improve its image. At the same time, depoliticisation of the country's 4.2 million strong military has remained an uncertain element in present Chinese developments. A sequel to the controversial December 7 editorial regarding Marxist inadequacies to deliver the goods was a PLA editorial in its restricted *Liberation Daily* in the ensuing week, stressing the need for party discipline amid the flexible reforms intended to motivate economic performance. According to the editorial, party unity was all important and therefore "flexibility cannot be applied to the party". Conversely, the above response could be meant as a calculated alert against impetuous proclamation of limitations of ideology without recognising its more stable features.

The opening out of the Chinese economy towards the world is being pursued through four windows—technology, skills, foreign investment and working with foreigners within China. In a guarded, experimental manner, the authorities are confining the process to four Special Economic Zones with a discernible increase in the degree of openness, which have received topmost attention in terms of infrastructural facilities being provided by the Chinese government in the absence of which the very objective of the zones would be null and void. For example, in the Shenzhen Free Trade Zone, situated to the north Hong Kong, in a span of four years, a veritable metamorphosis has occurred, radically altering the dreary bleak face of the small border town into a bustling, industrial township. Most of the land has been reclaimed and transport, communications, water, power, harbour, factories, residential quarters, public utilities, department stores, restaurants, and shops have been provided. More than 100 industrial units have been established, thirty of which have gone into production. Similarly, in response to the new economic policy, foreign investment has started coming into the country, which, while Mao-led specially in the wake of a rift with the Soviet Union, had stressed self-reliance in building and enlarging its industrial base. By the end of 1983, investment from outside worth US $14.6 billion notably from Japan, US, Western Europe, Hong Kong, etc, had been used to finance a number of joint ventures and co-operative projects. Some of the foreign investors have set up wholly foreign-owned companies.

The Chinese themselves are at pains to explain the changes in the economic strategy by describing the opening through the four windows as links with the industrially advanced countries in the special zones while simultaneously providing leaks in the form of advanced technical know-how to the country. At this initial stage of interaction, they are quite confident that in a measured way, the leaks will be generated into the rest of the country although in themselves the SEZ are a mere drop in the ocean of the Chinese economy. On the surface, it appears to be a sensible concept of providing the right mix of protectionism and competitiveness by allowing a certain percentage of the manufactured items into the Chinese domestic market and agreeing for the rest to be marketed by the operating multinationals and other partners. Evidently, there is intense competition for access to the Chinese market. However, the Chinese themselves have entered aggressively the competitive field of foreign trade in a big way, both in terms of diversification and quality. Available statistics for China's exports reveal the trends in its growing links with the outside world. Six years ago, China was placed 32nd in the international export field. By the year 1984, it had claimed to the 16th place. In the past, agricultural products used to account for more than 90 per cent of its exports. Currently, however, they form only 16 per cent of the same, the rest being machinery (43 per cent) and textiles, manufactured items and oil (41 per cent).

An essential component of the onward march of the modernisation drive is the continuity of its open door policy and expansion of economic and technical exchanges *vis-a-vis* the outside world. Hence the decision to enlarge the experiment further by opening up 14 more coastal cities and the Hainan island to the joint venture co-operative production process, which has as its core strategy absorption of foreign capital and import of advanced technology. That the liberalisation has paid dividends to some extent is beyond doubt. The Chinese are sure that there is no looking back, or with one step ahead, taking one step backward. In order to woo the wary foreign investors, the Chinese leaders have made explicit reassurances and asked them to be bolder in their dealings. At a three-day symposium held in Beijing in October 1984 on economic co-operation with the outside world, both Zhao Zi-yang and Deng Xiao-ping pledged that China's policy of opening to the outside world was long-term and immutable. They went on to add that changes would be made in the direction of further enlarging the opening. Other important leaders such as Gu Mu and Hu Qi Li, members of the State Council and of the Central Committee of the CPC respectively, mentioned the size of the internal market. According to them, in future ventures involving foreign investment and advanced technology would be allowed to sell part of their high-quality products in the Chinese market.[7] The leadership exudes confidence and is hopeful of progress in economic construction, expansion of purchasing power of the people, steady growth of the market demand of one billion consumers and consolidation of economic and technical exchanges with the rest of the world. The query whether the developments will prove the assertion to be realistic or inflated would remain in the realm of possibilities either way, looked at from the outside but the Chinese characteristically express no doubts that nothing succeeds like success. At this point of "boom", at least overtly they have refrained from worrying about excess or moving too fast.

While one could not be faulted for nursing some skepticism about the durability of the policies, of opening towards the world and internal liberalisation, intrinsically linked to the socio-economic areas without political liberalism, or feel that it could be a temporary phenomenon, an expedient device on the part of a successor regime, which finds it tactically necessary to note the failings of its predecessors, and discredit them, one perforce has to take note of the fact that the audacity of Deng Xiao-ping continues unabated and his reform has retained its momentum and innovativeness. Within less than six years, chronologically counting from the 3rd Plenum of the 11th Central Committee in December 1978 to the 3rd Plenum of the 12th Central Committee in October 1984, vital changes have been introduced in the countryside by revising the role of the commune and providing a responsibility system to the farmers, and, a major economic reform aiming at decentralisation in the urban sector is currently on cards. And backing Deng's heretic ideas, when compared to the Maoist legacy especially of the period of the Gang of Four's ascendancy, is the objective situation within the country on all fronts and broader support of the people.

When Mao passed away, the scale of problems confronting China was formidable indeed and priority areas were a legion. One must hasten to add, however, that a fair assessment of socialist development in China from 1949 to 1966 would render due homage to the political will exercised by Mao to push his country forward almost with Herculean efforts. For various reasons, however, the results did not conform to expectations. Understandably, the setbacks of the Cultural Revolution have clouded many a judgment. For our purpose, it would be sufficient to mention on the basis of the subsequent Chinese revelations that the situation inherited by Mao's successors was agricultural sluggishness, industrial inefficiency, growing restiveness of the larger segments of people due to a shortage of goods and services, etc. Professionals, including scientists and academics, also were severely frustrated due to closed outlets for advancement and career promotion. Only a fundamental overhaul including the motivational springs of the system could extricate the nation from the drudgery of a regimented milieu and its subsistence level economy which did occur at the behest of Deng Xiao-ping. The latter while lacking Mao's intrinsic charisma has displayed a unique singlemindedness for orienting social change through the introduction of some principles of capitalist economic management which in itself has resulted in a dramatic break from the Soviet and Maoist models which had continued to spawn over-centralisation, bureaucratisation, inefficiency and stagnation. Explicitly, a consensus manipulated by the present leadership had been projected nation-wide that rather than fight capitalism and capitalist adversaries, China could change its destiny if it could successfully graft a capitalist plant to the socialist tree. The recently concluded Sino-British agreement on Hong Kong under which the Chinese government has consented to retain intact the present ways and value system of the British-governed colony even half a century after the lease for the New Territories lapses in 1997, underlines the quinessential adjustment under the circumstances—aptly titled one nation-two systems. In other words, China has embarked tentatively on a limited liberal venture for realising socialist objectives in an authoritarian political system, the strength of which lies in the fact that it absorbs its conflicts; its weakness is that it may aggravate their number. In one sense the above experiment is a contradiction in terms.

## IV

## Problems and Prospects

It is a truism that internal political stability to a large extent is dependent on economic growth. The entire thrust of Deng's offensive against Maoist orthodoxy was premised on constant, consistent economic growth and benefits to the masses in a visible manner. On that ground, it should be admitted that constant growth at a fairly good pace has taken place. It is to be seen, however, whether the momentum can be sustained. A major source of the rate of growth is the productivity of agriculture in a country with 80 per cent of its population living in the country-side. From various estimates, apparently the plateau has already been reached. Largely, growth has been the result of using existing structures to the maximum and motivating individual initiative. However, increase in production through structural changes has paid dividends. Now that consumerism is being encouraged, it is quite possible that lesser capital accumulation and lesser investments could come in the way of faster growth.

However, as one sees the rapidly changing scene it transpires that:

(a) Peasants have become prosperous and have savings to invest which means that they are capable of accelerating production.

(b) With China shedding off its self-imposed isolation, foreign investments have come into the country in an unprecedented manner and the results are self-evident in certain image-building industries such as tourism, construction, steel, oil, etc.

(c) Off-shore oil investments will both strengthen China internally in terms of self-sufficiency in its energy needs and underwrite financing of its ambitious modernisation programme.

On the other hand, some nagging questions remain. For instance, can the peasant overnight turn into an entrepreneur? Can capital accumulation continue at the pace required by the modernisation drive, for initially does it not often happen that consumerism cuts into savings? The craving for the material trinity of a refrigerator, a colour TV and a washing machine has almost become the opium of the *nouveau riche* in Chinese society. Further, have foreign investments come to the extent the Chinese hoped for? It is too early to surmise in the affirmative for obviously the much talked about Sino-Japanese economic co-operation or the Sino-US agreements still answers a small portion of China's need for foreign investment. According to official statistics, upto now China has attracted about US $8 billion in direct investments, which actually forms an infinitesimal part of the national economy. Six years after the switch-over from a policy of self-reliance to one of seeking foreign investment, uncertainties over taxation, labour, marketing and other problems have acted as major constraints in the flow of investments into China. Deng Xiao-ping has been recently quoted as saying that the socialist economy of China will not be shaken by foreign investment even if the latter snowballs to reach 100 billion Yuan, approximately, i e, 40 billion US dollars at the current rate of exchange. Presumably the figure describes wishful thinking on the part of China's ageing leader in a hurry to modernise his country with generous input of investments from the Western countries. Here, it may be relevant to point out that China itself has built capital assets worth several hundred billion dollars.[8] Yet despite huge reserves, it is continuously trying to raise long-term, low-cost capital from abroad to finance its ambitious modernisation programme.

Other doubts concern the dichotomy between the political process which remains authoritarian and the economic objectives which can be tentatively described as largely materialistic. Thus, individual initiative could quite often be throttled by the procedural intricacies of the system. Similarly, the economic autonomy does not exactly match with the centralised authority currently in command which despite pronouncements of decentralisation has inevitably been slow in dismantling. In short, can one dissociate economic organisation from the political structure? The brief Beijing spring, known otherwise as the Democracy Movement could be a portent of future developments. The campaign of spiritual pollution directed against the moderates, continued violation of human rights by the state machinery, capital penalty, etc, only reinforce the argument.

As in the agricultural sector, reforms have been introduced in the urban, industrial sector. The purpose is to modernise the industries within the framework of a technical-managerial revolution. In other words, competence and efficient managment are the by-words of the present industrial reform. The process is fraught with uncertainties, for the attempted reform strikes at the very root of the superstructure inherited from Mao Zedong, specifically the mystique of egalitarianism summed up in the Chinese expression *Da Guo Bao*—eating from the same pot. Naturally, the twin-fold revival of kulakism and careerism rankles as much as the spectre of unavoidable contradictions between the technocrat-manager and the work force, between the party cadre and the people, between the rich and the backward areas and between the coastal and the hinterland China lurks menacingly in the background. The list is unending. Finally, one basic question remains to be answered convincingly—has economic decentralisation been effectively implemented? If the exercise is ambivalent, the benefits of economic reforms cannot be optimised. And since desired results are being sought against tight deadlines and awe-inspiring claims—typical traits of Chinese leadership which came to the fore during the rushed phase of communising the entire country and the grandiose claims of having reached the stage of communism before the Soviet Union by proclaiming the success of the Great Leap Forward and the communes—it may be prudent to keep in mind that all economic changes have to work against a lot of inertia and handicaps of the past, along with some basic impediments to fast growth in certain parts of China, specifically those of its regions in the north, west and the south-west which offer a sharp contrast in development to the "golden coastline" including the present expanding "capitalist zones" which traditionally have remained in the fore-front of commercial and trading links with the world at large. Therein, regional disparities have a direct relevance to the clarion call of modernisation of agriculture and diversification through opening up hitherto repressed areas of sideline activity. For, in the ultimate analysis, side-line activities generally go in tandem with agricultural affluence and apparently in impoverished areas, poor income would continue to be the norm rather than an exception in the immediate period.

To reiterate, it may be appropriate to consider certain factors for the purpose of evaluating the performance score of the modernisation drive. Importantly, who indeed has benefited most from the reform? Do the peasantry and the industry have sufficient surplus for parallel capital construction and conversion into earnings in foreign markets? How does one foresee the effect of Special Economic Zones on the insular, backward hinterland ethos? How much would China expect to receive and absorb in terms of technology and credits from the west?

It would appear that in most cases the *avant garde* elements who have traditionally wielded both political and administrative power at the grassroots and elsewhere have emerged as the leading figures in individual initiative. Admittedly, China has taken impressive strides in modernising the infrastructure and establishing its credibility as an up and coming sophisticated economy in being. However, it cannot be ignored that the construction boom notably is at the cost of two other vital areas, *viz*, energy and transportation. Heavy industry continues to show growth against a targeted decline in favour of light industry. Further, the Special Zones would continue for quite some time in the foreseeable future to be exclusive and even exclude the interior which remains parochial and depressed and hence distant from the rags to riches objective. Finally, the benign attentiveness of the west, specifically the United States, would have as much longevity as China's opposition to the Soviet Union.

The above perspective is, indeed, basic to our understanding of the forces currently at work, not necessarily at cross purposes with each other. And now that the all powerful policy planning Central Committee of the Communist Party has finalised and published the guidelines of the new strategy in the urban sector in the 6-day Plenum held in October 1984, aiming at decentralised planning, it may be assumed that the leadership is emboldened to carry the offensive launched under the directive of Deng Xiao-ping, initially in 1978, by revising the role of the communes further into the sensitive areas of industry, commerce, science and culture, mainly because it has achieved some remarkable success in overriding the stalemate and aberrations of the Maoist era. At the same time, there may be uncertain times ahead about the smooth transition to the 21st century ethos. For, China has speedily carried out the easier part of the post-Mao structural reform and related economic strategy, relying on the tide of enthusiasm aroused by the initial responses. Successful experiments with incentives and decentralisation notwithstanding, the substantive dimensions of the modernisation process reoriented under the directive of 80-year old Deng Xiao-ping may unfold yet another set of dialectics to be tackled by his successors.

## Notes

1 Entitled "Theory and Practice", the theme of the *People's Daily* editorial dealt with the Marxist nature of the Chinese state and the fact that China was pursuing Marxist principles in accordance with Chinese realities. Mao Ze-dong had won the revolutionary struggle on the basis of the strategy of integrating theory with pratice. Later, however, errors were made due to deviations from the above principle. The editorial significantly noted that Marx, who died more than a hundred years ago, could not be accepted without reservation or qualification. In the words of the commentator, "Marx has been dead for more than 100 years . . . some of his assumptions were based on conditions of that time. Great changes have taken place and some of these assumptions are not appropriate today . . . We cannot expect the writings of Marx and Lenin written in their time to solve our present problems". The editorial subsequently drew attention mainly due to the fact that it had consciously viewed Marxist idoelogy as outdated and, therefore, not entirely relevant to Chinese conditions. Interestingly, the very next day, the *People's Daily* carried a correction, adding a single word "all" to a sentence in the editorial to make it read: "we cannot expect the writings of Marx and Lenin to solve all our problems". The omission of the word "all" was explained as an editorial oversight. See the text in *Ta Kung Pao* (weekly supplement), December 13-19, 1984.

2 However, the occasion of the 90th anniversary was also used as an opportunity to further downgrade Mao's status by converting his mausoleum into a memorial hall for other revolutionary heroes as well. In keeping with the spirit of de-Maoisation or the fact that Mao was no longer considered the sole high priest, the direction and the objective of the Chinese revolution, the selected works of Deng Xiao-ping, Liu Shaoqi, Zhou Enlai and Chen Yun have made their appearance in the last few years. The latest publication released at the end of 1984, however, is a 72 page long collection of 22 speeches made by Deng Xiao-ping during 1982 and 1984, entitled "Building Socialism with Chinese Characteristics". The collection evidently seeks to reinforce the correctness of Deng's initiatives, specifically his re-interpretation of the ideological legacy of Marxist-Leninist Mao Ze-dong Thought, namely, that socialism will remain China's ideology despite the adoption of "some capitalism" to advance socialism.

3 Presumably, it was no coincidence that the Chinese premier's remarks were made on December 14, 1984, precisely a week after the *People's Daily* editorialised the provocative caution about dogmatic application of Marxist theory and the inefficacy of that ideology to resolve all the problems confronting the country.

4 See *Hong Kong Standard*, January 5, 1985.

5 Deng's famous statement as to what difference does it make if the cat's colour is black or white so long as it catches mice was actually made more than two decades ago.

6 One may recall that Chinese intellectuals and artists suffered the backlash of the abortive liberalisation launched by Mao in 1957 encouraging frank and candid expression on all subjects, including the role of the party, under the slogan of "let a hundred flowers bloom, let a hundred schools of thought contend". The weeding out in the form of an anti-rightist purge began a bare five weeks later and pushed the anti-party critics into disgrace and oblivion. Ever since then, the intellectuals remained as political targets of censure and mistrust by the leadership at all levels, the most virulent manifestation of which was made during the Cultural Revolution and its aftermath, when some of the country's eminent litterateurs and scholars were persecuted to the point of suicide, death due to want and repression or were exiled to the countryside to work on the farms. The current rehabilitation of the intellectuals, including the promise of "literary freedom", vividly demonstrated during a Chinese Writers' Conference in the first week of January 1985, however, should be evaluated with reference to the on-going rectification campaign directed against ultra-leftist ideology which remains a stubborn legacy of Mao Ze-dong's later years of stewardship of the nation, encompassing the Leap Forward, the Communes and the Cultural Revolution. The rectification, however, remains a twin-edged sword and could be easily directed against those who dare to transgress approved limits. Persecution of intellectuals again briefly flared up as recently as October 1983. There is nothing unfamiliar in the latest party dictum exhorting, as it does, the writers "to study and creatively apply the basic principles of Marxism and in particular apply the viewpoint of dialectical and historical materialism"

7 *China Trader Weekly Bulletin*, October 13, 1984.

8 According to official Chinese sources, China's foreign exchange reserves soared to US $ 16.48 billion by the end of June, 1984, compared with US $ 2 billion at the end of 1980. Earlier, excessive purchases in 1978 and 1979 had made a large dent in the reserves.

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## Dena Bank

**DENA BANK registered an impressive performance during 1984. It opened 43 new branches taking the total network of offices to 972. Total deposits of the Bank went up from Rs 1,256 crore in 1983 to Rs 1,460 crore as at the end of December 1984, recording a growth rate of 16.2 per cent. There was considerable pick-up in bank credit with advances increasing from Rs 722 crore to Rs 893 crore. The Bank earned a net profit of over Rs 81 lakh, despite substantial payments of additional wages and allowances to staff. The level of outstanding credit to the priority sectors registered a rise of 25 per cent, from Rs 282.52 crore to Rs 353.57 crore. With this, the share of priority sectors in the Bank's net advances rose to 41.1 per cent, thus exceeding the stipulated target of 40 per cent expected to be achieved by March 1985. The level of oustanding credit to the agricultural sector increased by over Rs 20 crore to Rs 99.41 crore and advances to the small scale sector recorded a growth of Rs 27 crore to Rs 161.60 crore in 1984. Reflecting the growth in outstandings, the number of borrowal accounts under priority sectors has gone up from 2.76 lakh to 3.28 lakh.**

**The level of outstanding advances under the New 20-Point Programme increased from Rs 87 crore in 1983 to Rs 116 crore in 1984. The aggregate disbursements under the Integrated Rural Development Programme (IRDP) reached Rs 28.16 crore covering 1.16 lakh beneficiary families. A Computer Cell has been set up at the Head Office. The Bank will shortly launch MICR Cheques for clearing operations in the four metropolitan cities of Bombay, Delhi, Calcutta and Madras. With a view to further diversifying its activities and widening the range of services to customers, the Bank has set up a separate Merchant Banking Division at the Head Office.**

# Bashing Nutritionists: The 'Small but Healthy?' Hypothesis

### Sol Chafkin

DAVID SECKLER's somewhat testy presentation of his hypothesis (*EPW*, November 3, 1984) shows unmistakable signs of "what we don't know (whether functional impairments result from chronic less-than-severe EPM, energy-protein malnutrition), won't hurt us". Acting on his hypothesis and adopting his proposed nutrition policy entail some risks and call for judgments that he has not explicitly acknowledged.

Seckler's views, as I read them, seem to include the following:

(1) Many nutrition scientists/advocates are muddleheaded. They confuse different kinds of EPM. Seckler clarifies things by using terms like 'pure chronic EPM' and 'mild acute EPM'!.

(2) Millions of people who fall below certain height, weight and related standards are considered to be suffering from some degree of EPM. But most of these people, although small in size, seem to function adequately.

(3) It has not been demonstrated that these 'small' people are functionally impaired in any of the physical, mental, or emotional dimensions of life. Therefore, they should be considered 'healthy'. (See how strong the short Nepalese are!)

(4) This 'Small but Healthy' (SBH) hypothesis must be considered valid unless and until irrefutable evidence of functional impairment is produced.

(5) If SBH is valid, then we need worry only about acute EPM, probably representing less than 10 per cent of the total EPM population.

(6) Therefore, says Seckler, the only commonsense policy is to give highest priority, in the use of nutrition improvement resources, to preventing acute EPM. Treat the acute EPM cases (known to represent functional impairments) before treating cases where adverse health effects, if any, are unknown, i e, chronic but less-than-acute EPM. What could be more obvious?

There are a few murky aspects of Seckler's generally brilliant exposition of his hypothesis and his policy prescription. He implies he knows (but does not tell us) what symptoms of what physical, mental and emotional impairments to look for. He sees no symptoms among the chronic EPM. If, by a stroke of luck, an impairment among the chronic EPM should be found, Seckler must be shown proof that the impairment was caused by EPM and by nothing else. Would functional impairments associated, for example, with Vitamin A deficiencies, anemias, and diarrhoeas be ineligible impairments because these conditions are somehow seen as independent of pure chronic EPM?

The prospect of shrinking the world's malnutrition problem to 10 per cent is more exhilarating than seeking the spectrum (or the thresholds) of severity of particular impairments, if any, that might be associated with different degrees of EPM. Still, Seckler acknowledges something of a spectrum in noting that there may be *mild* cases of *acute* EPM. I suppose, then, that there may also be *severe* cases of *chronic* EPM. So the overlap area of risk gets wider than 10 per cent and the distinctions fuzzier, especially in each of what Seckler calls the physical, mental, and emotional dimensions of life. Could it be possible, for example, that a risk of mental impairments of SBH folks exists not only in acute EPM but also in the *severe* case of *chronic* EPM, or that a risk of emotional impairment may exist in *moderate* cases of *chronic* EPM? Nobody knows, but some investigators have accepted the importance of looking and have begun. The complexity of the subject makes Seckler's hypothesis almost refutation-proof for the foreseeable future.

Some foreign construction companies under contract on major earthmoving projects in some poor countries have concluded that it is cost effective to set up feeding facilities for the labourers. Without feeding, work capacity is four hours a day. The contractor needs seven hours of work to meet contract targets. Do we have impaired work capacity among SBH chronic EPM or did we unreasonably change the prevailing expectations or standards of adequate functioning?

Seckler explains that tallness is one sign of affluence and that affluence is a good thing. I suppose, then, that shortness or smallness may be one sign of poverty and that poverty is a bad thing. The chances seem reasonable that many, if not most, SBH people may also be Small but Unhappy (SBU), because poverty is a bad thing and they are in it. If there are a fair number of SBH people who are also SBU, then chronic unhappiness may be an emotional impairment caused by chronic anemia-induced fatigue that in turn is caused by being chronically malnourished, and aggravated by chronic worry about obtaining food for self and child. Is this possibility ruled out because we don't know much about the emotional dimension of life, proof is hard to come by, and anyway, you can't prove EPM caused it?

The convenient feature of Seckler's proposed policy of giving high priority to preventing and treating acute EPM is that the cases are relatively few. While he does not spell out what specifically would be done, Seckler must mean feeding and otherwise restoring to health (at the chronic EPM level only?) individuals, especially children now suffering from acute EPM and continuing preventive intervention to avoid relapses below chronic EPM. The idea is to assure everybody of at least a state of chronic EPM.

In this connection, some investigators believe that acute EPM in children may be mainly the result of what may be called 'impaired families'. These can include chronic EPM households where, for example, the mother has been abandoned, is bereft of family support, too young to cope, sick, poor, mentally disturbed, drunk, fearful in seeking help, unemployed and unemployable, and in other ways unable to function as a child care provider. These impaired families are known to villagers or urban neighbours and therefore easily identifiable. In these circumstances, it seems evident that nutrition resources cannot be effective without a much more extensive range of services (health, jobs, housing, literacy, psychosocial therapy, etc) to rehabilitate the parent(s) or to provide a substitute parent. Indeed, what is needed goes beyond government services (notoriously ineffective in reaching the poorest or improving their lot) and requires creating a caring environment that demands human resources more scarce and costly than nutritional resources. So, it is not at all obvious that the Seckler policy is of significance in coping with this tangled web of poverty and pathology.

For the moment, Seckler's position smacks very much of "if it [impairment] hasn't been proven, then it has been disproven". This is not necessarily a commonsense basis for choosing a policy of preventing and treating acute EPM. Impairments among SBH have neither been proven nor disproven. Therefore, the Seckler policy, by withholding nutrition resources, accepts a possible risk of impairments among moderately malnourished people. On the other hand, a decision to devote nutrition resources to moderately malnourished people accepts the risk of wasting nutrition resources. Some societies may prefer (and be able to afford) the risk of waste. Others will welcome the absolution (and the lower costs of much smaller programmes and subsidies) conferred by the SBH hypothesis and its resultant policy.

In situations of uncertainty, there is nothing more practical than a good theory and Seckler has offered one. Until research methods can determine conclusively whether functional impairments are caused by less-than-acute malnourishment, the SBH hypothesis will—and should—influence policy. The only competing and probably more popular hypothesis is much older, namely that all malnutrition is deleterious to human development, that appropriate national and international action can eliminate chronic malnutrition everywhere, and that such action should not depend on evidence of identifiable functional impairments caused by such malnutrition. Each hypothesis creates its own special discomfort on knowledge gaps and resources gaps. So, it is good that Seckler is making nutritionists, government, and others choose.

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ECONOMIC AND POLITICAL WEEKLY

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Advertiser's Supplement

May 18, 1

# GUJARAT

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Navnit/196/83

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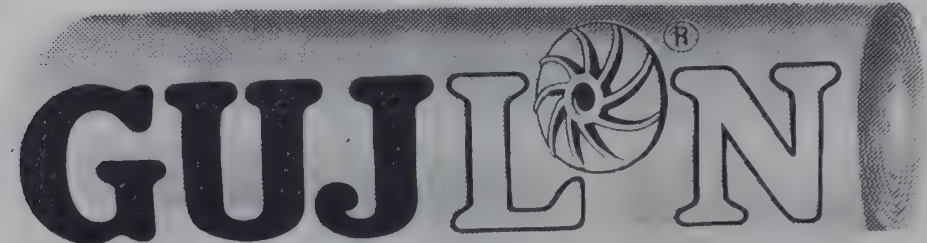

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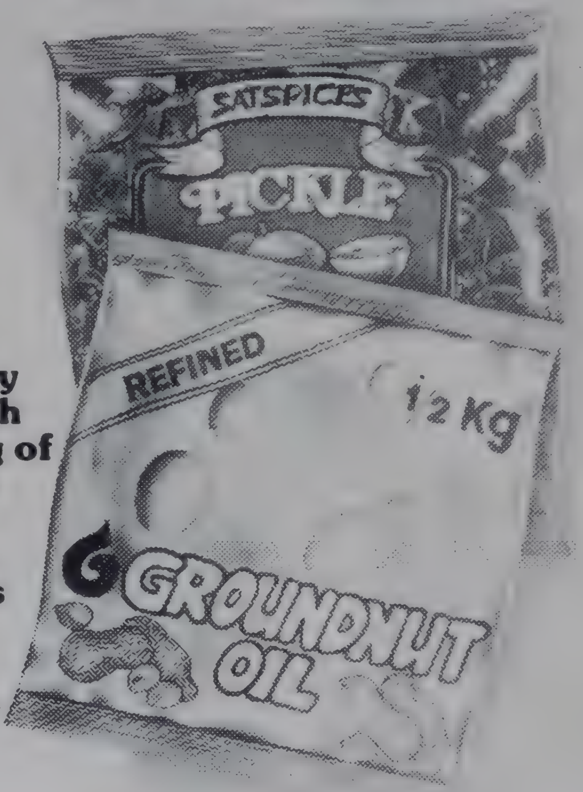

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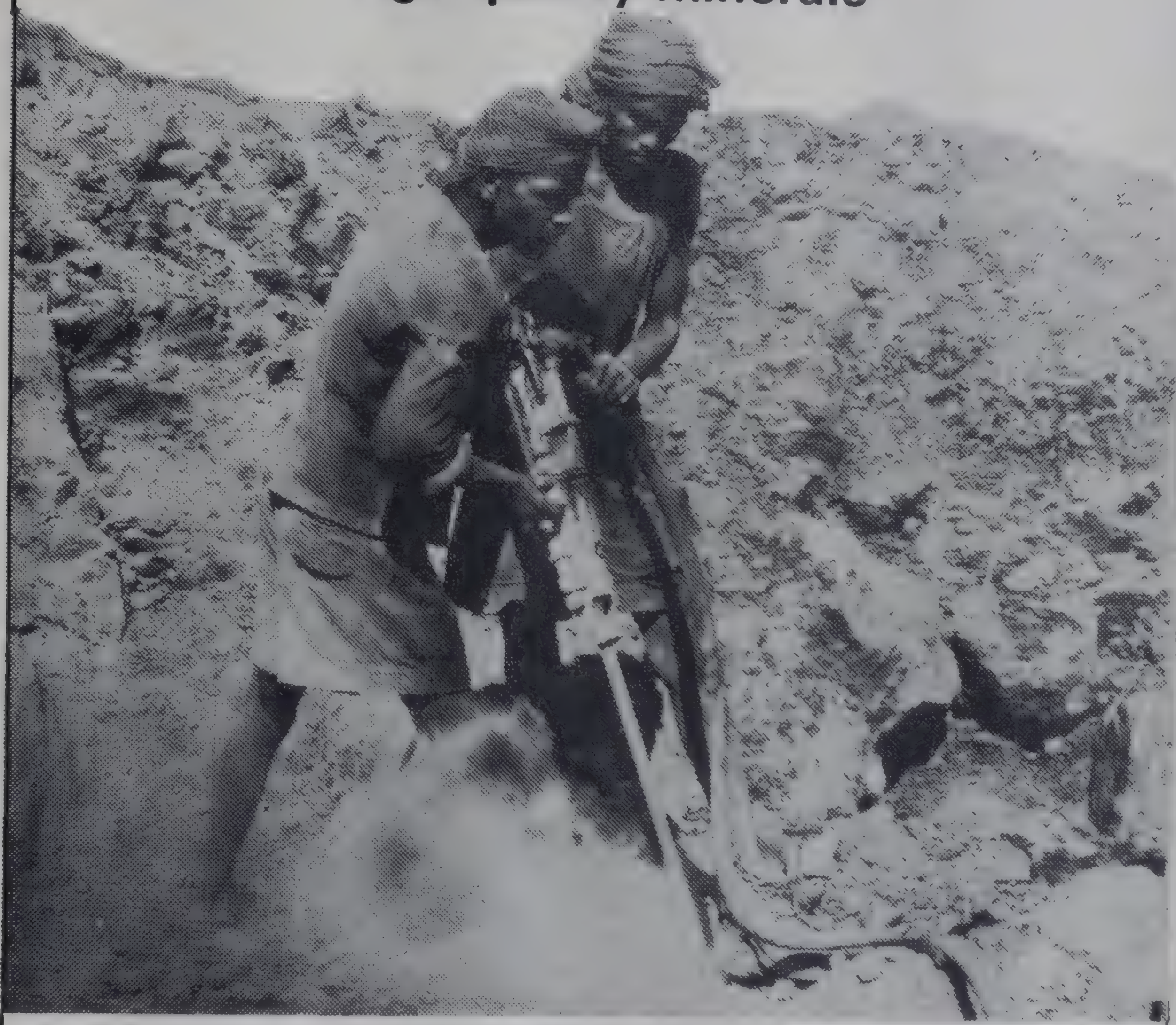

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# Agriculture, Landholding and Agro Industries in Gujarat

## A Profile

**T D Soyantar, IAS**

*Managing Director, GAIC Ltd*

THE total geographical area of Gujarat is 195.98 lakh hectares constituting about 6 per cent of the total geographical area of India. The area under forest is about 10.44 per cent of the total geographical area, the area under cultural waste land is about 10.55 per cent, the area of culturable fallow land is about 4.63 per cent, whereas the area under cultivation is 50.88 per cent and the rest is uncultivable or not available for cultivation. The total area under cultivation for the entire nation is about 53 per cent of the total geographical area which compares well with 50.88 per cent of the total area covered under cultivation of Gujarat. The area under irrigation is only 18 per cent of the total area covered under cultivation. As against this the percentage of the area under irrigation for the entire nation is 26.6 per cent of total area under cultivation.

Out of the total area under cultivation in Gujarat, i e, about 99.71 lakh hectares, about 47.43 lakh hectares area is taken up for cultivation of foodgrains (about 48 per cent of total area under cultivation), about 26.88 lakh hectares area is used for oilseed cultivation (about 27 per cent) whereas the balance land is under the cultivation of cash crops like sugarcane, cotton, and tobacco.

Cereal cultivation is concentrated in districts like Banaskantha, Mehsana, Panchmahals, Kheda and Kutch. Major districts giving pulses are Kutch, Surat, Panchmahals, Banaskantha, Bharuch and Baroda. The concentration of oil seeds can be observed in Banaskantha, Mehsana, Amreli, Bhavnagar, Jamnagar, Junagadh, Kutch and Rajkot districts.

Concentration of tobacco cultivation is confined to Kheda and Baroda. Cotton cultivation is confined to Ahmedabad, Baroda, Bharuch, Sabarkantha, Rajkot and Surendranagar. Concentration of sugarcane cultivation can be observed in Surat, Rajkot, Junagadh and Valsad districts.

In 1970-71 about 35 per cent of the total area in the state was distributed among 75 per cent of the landholdings, the size of landholding being less than 5 hectares whereas about 25 per cent of the large and medium farmers were having access to about 65 per cent of the total landholdings, the size of landholding being more than 5 hectares. Over a period of time, i e, in about a decade, the total size of landholding in plots of less than 5 hectares increased to 43 per cent of the total area, being distributed among 78 per cent of landholdings, whereas 22 per cent of the landholdings had access to about 57 per cent of the total area.

The area cultivated by an individual worker employed in the agricultural sector comes to about 1.91 ha/person. This average is highest at 4.25 ha/person in Kutch which is quite understandable considering the low density of population in Kutch, followed by Surendranagar district at 3.74 ha/person. This average is the lowest in Panchmahal and Valsad districts at about 0.87 ha/person.

As far as the production of various crops is concerned, it has increased manifold during the last three decades. Table 1 clearly brings out this fact. As can be seen in the Table, the increase in production in 1983-84 over that of 1955-56 is more than 100 per cent in all the crops except cotton and other foodgrains. The increase in the production of sugarcane is almost 10½ times of the production over 1955-56. The increase in production of wheat is almost five times, groundnut is about 4½ times, bajra is more than 3 times during the same period.

As far as the yields of different crops are concerned, Gujarat has remained ahead of all-India yields of majority of the crops. Table 2 gives an indication of increase in yields of important crops in India as well as in Gujarat during the period from 1960-61 to 1982-83. Except maize, the yield of all other crops has increased in Gujarat in the year 1982-83 over that of 1960-61. The increase has been substantially high in case of castor, barley, jowar, wheat and bajra. This has been possible due to introduction of hybrid varieties of crops.

As compared to the yield of various crops in India, the yield of bajra, barley, wheat, castor, sugarcane and tobacco in Gujarat has been higher. The yields of other crops in Gujarat are either marginally lower or are comparable to the all-India yields of these crops.

Also this analysis draws our attention to the fact that an intensive agricultural practices using proper farm inputs, irrigation, etc, is an effective method of achieving the maximum farm productivity. At the same time non-conventional farm crops like horticultural crops need to be developed on the small landholdings so as to ensure better returns to the farmers and higher agricultural employment.

### DEVELOPMENT OF AGRO INDUSTRIES IN GUJARAT

The Economy of Gujarat state shows a propensity towards agro-based industries. Agro industries have developed in the state both in the public as well as private sectors.

The agro industrial development of Gujarat in the areas of textile, fertiliser, sugar, tobacco, edible oils, etc, hardly needs to be mentioned. Several agencies in the public and co-operative sectors have played a definite and positive role in the

TABLE 1

*(Production in lakh tonnes)*

| Crops | Years 1955-56 | 1983-84 | Per Cent Increase |
|---|---|---|---|
| Rice | 2.63 | 7.54 | 187 |
| Bajra | 3.91 | 13.78 | 252 |
| Maize | 1.75 | 4.76 | 172 |
| Jowar | 2.91 | 5.82 | 100 |
| Wheat | 3.26 | 16.26 | 399 |
| Other foodgrains | 4.16 | 6.97 | 68 |
| Total foodgrains | 18.62 | 55.13* | 196 |
| Groundnut | 3.41 | 15.05** | 341 |
| Cotton | 11.35 | 14.44 | 27 |
| Tobacco | 0.50 | NA | – |
| Sugarcane | 0.69 | 7.75 | 1023 |

* Excluding summer bajra.

** Excluding summer groundnut.

development of agro industries in the state.

The Gujarat Agro Industries Corporation Ltd has played a pioneering and catalytic role in the development of agro industries. The wide range of activities of the Corporation includes both the distribution of agricultural inputs, implements, etc, and manufacture of agricultural inputs and processing of agricultural produce, by-products and waste products. GAIC and its subsidiary companies have manufacturing facilities for formulated pesticides, technical pesticides, oil extraction and fruit and vegetable processing.

It may be mentioned that some of the activities taken up by the Corporation have directly helped the farmer by providing him with better quality inputs, such as seeds, manure, fertilisers, insecticides, light diesel oil, agro equipments, aerial spraying, customs hiring in tractors, repairing of tractors, etc, while other activities of the Corporation have indirectly helped the farming community by providing an outlet for processing their crops, by-products, and waste products into industrial or consumer goods which ultimately fetch better remunerative prices to the farmers for their produce.

The Corporation serves the farmers by exporting fruit pulp and juices, fresh vegetables including onions worth more than Rs 2 crore per annum.

The processing of rice bran which was one of the earliest activities of its kind has made significant strides. Every year 13,000 MT of rice bran worth Rs 3 crore is processed. One more unit of similar capacity is also planned to come up.

Beginning as a mere distributor of pesticides, GAIC has emerged as one of the major manufacturers and suppliers of pesticides and insecticides all over the country. It has already hit annual turnover target of Rs 15 crore before the close of the current financial year. GAIC has two formulation units, one joint sector unit for manufacture of technical grade pesticides and insecticides and one more export-oriented unit in joint sector entirely for formulation of pesticides and insecticides is coming up. The joint sector company, i e, Gujarat Insecticides Ltd, has helped break the monopoly of the multinational companies in the field of insecticides and pesticides in Indian market.

The progress and growth of the Corporation in the service of farmer during the last decade is referred in the rise of its annual turnover of Rs 3.28 crore in 1973-74 to Rs 41.72 crore in 1983-84.

The Gujarat State Co-operative Marketing Federation Ltd (GUJCOMASOL) is an apex co-operative body in the state with more than 1,030 primary village and taluka level societies as its members for the distribution, marketing and processing of farm inputs and produce. The turnover of GUJCOMASOL is approximately Rs 275 crore per annum. The society has facility for cattle feed manufacture, oil milling, oil extraction, oil refining, etc. Besides the domestic market of agricultural commodities, the Society also undertakes export of the same.

The Gujarat Co-operative Oil Seeds Growers Federation (GROFED) is serving more than 95,000 farmers through 1,112 village level co-operative societies by processing oil seeds like groundnut, mustard, etc. The turnover of the Federation has crossed Rs 75 crore per annum. The Federation provides inputs to the members and procures oil seeds from them for further processing in their plants. The Federation presently has edible oil seed processing plants in Bhavnagar, Jamnagar and Junagadh. The Federation has plans to extend its operations to the districts of Banaskantha and Rajkot

TABLE 2

*(Yield in kg/hect)*

| Crops | 1960-61 |  | 1982-83 |  |
|---|---|---|---|---|
|  | India | Gujarat | Gujarat | India |
| Rice | 1013 | 547 | 1027 | 1230 |
| Jowar | 533 | 168 | 496 | 663 |
| Maize | 926 | 1221 | 999 | 1102 |
| Bajra | 286 | 334 | 845 | 472 |
| Barley | 879 | 479 | 1968 | 1249 |
| Wheat | 851 | 759 | 2091 | 1836 |
| Pulses | 539 | 331 | 651 | NA |
| Groundnut | 745 | 613 | 638 | 756 |
| Castor | 230 | 263 | 1219 | 605 |
| Sugarcane | 4613 | 5019 | 7034 | 5621 |
| Cotton | 125 | 139 | 176 | 162 |
| Tobacco | 766 | 700 | 1783 | 1185 |

### POTENTIAL OF AGRO INDUSTRIES IN THE STATE

Gujarat provides enough potential for the development of industries based on castor oil, agricultural wastes like rice husk, bagasse, groundnut shell, cotton stalk, etc, molasses, groundnuts, rice bran, potatoes, etc. Also there is a good potential for manufacture of agricultural implements and processing of forest produce, development of small HP gassifier, manufacture of edible grade rice bran oil, extraction of essential oils, etc.

## Tata Burroughs

TATA BURROUGHS (TBL)has once again bagged the nation's highest award for outstanding performance in software export—the Engineering Export Promotion Council's All-India Top Exporters Shield for exports of engineering consultancy, technical know-how and other engineering services. This is the fifth time that the company has won an award for excellence in software and consultancy exports in its six years of operation in this area. According to Prakash Hebalkar, Vice President, International Consultancy Services and Business Planning, TBL has firmly established its presence in 22 countries of the industrialised West and has completed over 300 projects in the most highly competitive computer markets of the world. Apart from projects for Citibank, Yamaha, Swissair, Credit Agricole, Ford, Westinghouse, Miami City Police, Toronto Police etc, TBL was awarded a, huge contract for the development of a global electronic funds transfer system for handling some one million money transfers per day between 800 banks—worldwide for SWIFT. This is of particular significance *vis-a-vis* the vital role that computers are going to play in the Indian banking industry. The company markets advanced computer software packages such as micro-mainframe links as well as packages for real-time foreign exchange trading. The latter package was recently received very satisfactorily by the banking community in London. As part of its commitment to computing, TBL will shortly undertake the manufacture of MICR (magnetic ink character recognition) equipment to computerise cheque clearing by Indian banks. Of the company's total turnover of Rs 15.5 crore in 1984, Rs 14.5 crore was from exports. These figures should show substantial growth as a result of the new computer policy of the Government of India.

# GDDC: An Attempt to Repeat Anand in Saurashtra

AGRICULTURE has been the backbone of the Indian economy. Unfortunately, before independence, hardly any conscious efforts were made to improve technology and increase production. The vagaries of nature only compounded the problems.

The green revolution in the mid-sixties spelt self-reliance in foodgrains production. However, its effect was restricted only to irrigated and larger land holdings. Small and marginal farmers and landless labourers were deprived of the benefits of the green revolution. Hence there was a need for an integrated thrust for the upliftment of these weaker sections. Animal husbandry coupled with agriculture is an important economic tool for the farmers to fight nature as well as the fluctuating market of agriculture.

At the same time, per capita milk availability was steadily falling and the sight of lengthening queues at milk booths in metropolitan cities become a common sight. Private traders exploited milk producers by providing unremunerative prices and also extorted the consumers through adulteration, high pricing, etc. The higher growth in population, stagnated milk production and increased urbanisation were three main reasons for this scenario. In such a market situation, on the one side, there was a lack of motivation for milk producers to improve the breed and on the other private trade failed in their responsibility of sustaining the level of productivity.

It was thought prudent to evolve a structure wherein the private traders could be done away with, so that the bulk of the consumers's money could be passed on to the producer directly thus giving him a remunerative return. The producers co-operative was an obvious choice. This structure was conceptualised to have three tiers, namely village co-operatives, which joined hands with to form a district union, which in turn formed a state level federation popularly known as the Anand pattern, and, first evolved by V Kurien, in Kheda district of Gujarat, as AMUL.

We at the Gujarat Dairy Development Corporation are striving to achieve this end under the Operation Flood programme geared for a white revolution.

The GDDC was set up in 1973 by the Gujarat government with the aim of developing dairying activities in the hitherto underdeveloped Saurashtra and Kutch regions. The task was particularly difficult because of the nomadic nature of the milk producers who migrate towards eastern and southern Gujarat or even to Maharashtra during summer, as also during droughts which is a common phenomenon. Further, the dairy plants earlier established by the state government in this region and which were having extremely limited handling capacities of milk were transferred to the GDDC for efficient management and speedier development of these backward districts so that the milk co-operative at the village level could develop simultaneously without the burden of the plant. After establishing their financial viability the district union would take shape and take over the plant. It is therefore, a unique experiment of a combination of both corporate management and co-operative movement.

### ORGANISATION OF VILLAGE LEVEL CO-OPERATIVE

The village co-operative is the foundation of the programme. This institution is run on democratic lines, with an elected board, to carry out the milk trade in the village. The society is also a nodal agency for provision of animal husbandry services, including animal health cover, artificial insemination, cattle feed, etc. With such a participative effort, it evolves grassroot leadership.

### PROVISION OF TECHNICAL INPUTS

The need for provision of technical inputs need not be overemphasised, since this is the basis of the programme. This activity has a direct bearing on the breeding, feeding and management practice of artificial insemination, which through the most advanced liquid nitrogen-frozen semen technology improves the breed of the animal. Normally, the native non-descript animals are impregnated with the exotic semen, to have an improved cross-bred progeny. In other words, when a non-descript animal, with a litre of milk production per day, is inseminated with the semen of an exotic animal, whose blood is proven to produce 30 litres of milk per day, the resultant cross-bred progeny would ideally produce 15-16 litres of milk per day.

To cover the animals with veterinary medical care, mobile veterinary clinics are operated. The doctor covers each society, once a week for treatment of the animals.

A balanced cattle feed is provided at reasonable rates, to replace the conventional feeds for augmenting the milk production. All these activities are backed up by necessary extension support.

### PROCESSING

Centralised processing facilities are created at the district level, to process the milk collected from the societies and to convert it into milk products, the SMP, WMP, white butter, ghee, cheese, casein, table butter, etc, wherever it is necessary. The pasteurised milk and other products so produced are safe for consumption and storage. Such dairy plants are by far the latest in technology and can compare favourably with any similar plant the world over. The designs of such plants have been standardised so as to facilitate their replication with least time and cost over-runs, elsewhere.

### FEDERAL STRUCTURE

Such unions, formed at the district level, logically federate into a state level apex organisation, to take the benefit of centralised purchase, marketing, R and D, etc, for economics of scale, while at the same time, retaining their autonomy so as to maintain a flexible structure for meeting its local requirements.

### PURCHASE PRICING

Although pricing is an integral part of the procurement strategy of GDDC, it has been taken up separately, since it is one of the most crucial and vital factors for success of the whole movement. In the case of other agricultural products, the government has consciously taken a decision to help the farmer by either having a floor price or sometimes having purchase made through government or semi-government organisations. But the milk producers have been left on their own. The risk in animal husbandry is equally high, like in any other crops, and, the investment of the poor farmers in their animals—the basic raw materials—is almost equally if not more than the investment made in the infrastructure of processing and marketing, the burden of which too falls on the farmers.

It is unfortunate that when milk is the only agriculture product which reaches the consumer in a standard quality and as a guaranteed product, the urban sales prices of it does not reflect the normal demand and supply of economics, and, does not match with the rate of increase in prices of other agricultural products which keep pace with normal market inflation. Further, the milk prices were governed mainly by the prevailing ghee prices in the market and were generally paid on the basis of the quantity of milk supplied, rather than quality. This was because milk was being converted into ghee and butter milk. The butter milk was consumed by members of the households and their neighbours and the surplus was fed to the animals. Thus solids not fat (SNF) which are the essential ingredients of butter milk, were not valued at all. And hence, the milk prices were based on the value realised from ghee. No wonder, the prices of ghee were one and half times that of butter oil (ghee) in international markets

With the establishment of the modern

dairy plants, with fat (ghee) and SNF handling capacities at the district level, the pricing of milk underwent a structural change. Thus instead of milk being valued on the basis of fat alone, it was being valued on the basis of fat and SNF. This is the reason why co-operatives have been able to make a dent in a big way and wherever they have had marginal success, the private trade has been forced to pay competitive remunerative prices. Recent years have witnessed a situation wherein milk prices have out paced the increase in prices of foodgrains, commercial crops and even inflation.

All this is reflected in the faith, the producer members have reposed on the co-operative structure. Their membership now stands at 70,000 for GDDC alone. A notable example is Banni area of Kutch district where most of the developmental schemes had failed due to lack of participation of the inhabitants. But dairying there has been a roaring success, with practically every litre of milk coming into the co-operative's fold. The milk producers of Banni area, who earlier made ghee out of the surplus milk, have entirely stopped ghee production, realising that sale of liquid milk to the dairy is more profitable. Consequently, the Kutch district which occupied a prominent place on the ghee production map of India, has now been obliterated.

Almost 70 per cent of India's milch animal population comprises of cows. Unfortunately, our cow breeds do not compare at all with exotic cow breeds, unlike our buffalo breeds. The difference in milk yield is normally 1:20. Thus a significant improvement in cow breed can be brought about, by cross breeding. In order to promote cow milk production, a special formula (double axis pricing) has been devised, for pricing cow milk. According to this formula, three fourth of SNF is added to the fat content of cow milk, so as to determine the total equivalent kilo fat, and, value the milk accordingly. Thus we find that the cow milk is valued at approximately 80 per cent of the value of buffalo milk, although its fat percentage is almost 60 per cent of buffalo milk! This is a further structural reform over the traditional milk pricing system.

GDDC is now processing approximately 3 lakh litres of milk per day, from 1,400 co-operative societies, spread all over Saurashtra, Kutch, Gandhinagar and Ahmedabad region. Thus approximately Rs 9 to Rs 10 lakh are being disbursed daily all the year round in the underdeveloped areas of Kutch and the backward areas of Saurashtra. Perhaps, no other developmental programme is able to mobilise so much of funds. Further, this has proved to be a platform for rural people to come together irrespective of their caste, creed and religion and promote ideals of democracy and fraternity.

## Pressure Cookers and Appliances

PRESSURE COOKERS AND APPLIANCES Chairman, Brahm Vasudeva, has enthusiastically welcomed the changes announced in the Union Budget and in particular the immediate de-licensing of pressure cookers. He estimates that had his company's profits for the year ended September 1984 been subjected to the tax laws being promulgated by this year's budget, its net profit after tax would have gone up from Rs 52 lakh to Rs 70 lakh. Commenting on the company's future, he says he has every reason to look forward with confidence to the years to come. The company has a growing variety of kitchen-related consumer durables, well accepted for their excellent design and high quality, their utility and convenience. The company is well positioned to both lead and to benefit from the renaissance in the Indian kitchen, and to spearhead some of its products into export markets.

IFFCO

**Indian Farmers Fertiliser Cooperative Ltd.**

**KANDLA**

- A pride of the Cooperative Sector, IFFCO is owned by 40 million farmers through more than 28,000 Cooperative Societies in 17 States and 5 Union Territories.
- IFFCO has emerged as the largest producer and marketer of fertilisers in the country with 3 operating units located at Kandla and Kalol in Gujarat and at Phulpur in U.P. Its contribution to the Nation's total production of nitrogenous and phosphatic fertilisers are 13% and 27% respectively.
- The net worth of IFFCO has consistantly gone up from Rs 37 crores in 1976 to Rs 281 crores in 1983. The value of fixed assets has increased from Rs 94 crores to Rs 343 crores during the same period.
- IFFCO has promoted a multi unit cooperative Society named KRIBHCO for the manufacture of fertilisers with equity participation of Rs 105 crires. It is also a promoter member of Godavari Fertilisers in Andhra Pradesh with equity participation of Rs 6.5 crores.
- IFFCO is participating in a joint venture in Senegal for manufacture of Phosphatic Fertilisers with a contribution of Rs 8 crores to its share capital.
- IFFCO is going to set up a gas based Ammonia/Urea complex with a total cost of Rs 732 crores at Aonla in Barailley District of U.P.
- IFFCO has won FAI's award for best production performance in nitrogen and phosphatic fertilisers during 1980, 1981 and 1982. In 1983 it got best production performance award in nitrogen and second best in phosphatic fertilisers.

**THE FARMER'S OWN FERTILISER PRODUCER**

Indian Farmers Fertiliser Cooperative Limited

one of the CO-OP AGRO GROUP members

# Investment Opportunities in Gujarat

**H K Khan**
Chairman and Managing Director
*Gujarat Industrial Investment Corporation Limited*

GUJARAT is in the throes of an unprecedented industrial transformation, the like of which has not been witnessed by any other state of the country. Formerly, Gujarat was recognised for its textiles or for its historical and political traditions. Today the name of Gujarat (not only in India but also abroad) brings to mind, almost immediately, an industrially advanced state.

When the state was first formed in 1960, it occupied the eighth place in the country in the sphere of industrial development. Today it is ranked second, and if we exclude the city of Bombay, it would occupy the prime position in industrial development in the country. Its rate of growth has been faster than that of any other state. The value added in the industrial sector has grown at the annual rate of five per cent during the decade 1971 to 1980. Small scale industries have recorded a 29.5 per cent growth during the same decade. Investment in plant and machinery has gone up significantly by 59.3 per cent. What is more the industrial scene has witnessed a complete transformation. When the state was first formed, the textile industry was the predominant one. In addition there were only a few light engineering industries in the state.

The period since 1963 has witnessed an amazing change. Today the belt between Vapi to Baroda is covered with pharmaceutical, chemical and petrochemical industries. The state accounts for more than 40 per cent of the pharmaceuticals and drugs produced in the country and is the major producer of basic chemicals, such as soda ash, and has taken the lead in establishing petrochemical industries. Apart from this, in the traditional spheres such as brass parts, ceramics, clocks and synthetic fibres, it continues to enjoy a monopoly in the domestic market.

The progress in the engineering field has not been to the same extent as in the chemical and petrochemical field. Therefore the state government has paid special importance to the development of engineering projects. This has resulted in the growth of small and medium scale engineering industries in Baroda and Panchmahals. With the special incentives announced by the state government for large engineering projects, we can be confident that this decade will see a growth in the engineering industry similar to that witnessed in the chemical industry during the last decade.

In electronics which is the industry of today, and also of the future, and which is already attracting more investment than any other sector of industry, the state has lagged behind some other areas in the country. Today Gujarat accounts for just four per cent of India's total electronics production. The state government has decided to give a boost to this sector. Apart from the special incentives offered for electronics projects, at the behest of the government, the Gujarat Industrial Development Corporation has set up a 230 hectares Electronics Estate at Gandhinagar. The plots in this estate have already been sold and the GIDC has now to look for additional space for a second Electronics Estate. These Electronics Estates are the first of their kind in the entire country.

A number of factors have contributed to the industrial development of the state. First of all, Gujaratis are endowed with a spirit of business and entrepreneurship, unique in this country. It was this spirit which enabled people from the state to open up large areas of East Africa, and, to go even to remote areas such as Fiji to set up business and trade. The inroads made by Indians from this part of the country in the traditional trade in UK, and even in the motel industry in the USA are well known. This spirit of entrepreneurship only required to be channelled in the proper direction. The state government, almost from the very inception of the state, decided that promotion of industries is one of its primary responsibilities. The method adopted was to develop industries through a number of State Corporations. The state established service corporations like the Gujarat Industrial Investment Corporation to finance large and medium scale industries, and, also for the promotion of industries in the joint sector; the Gujarat Industrial Development Corporation for provision of infrastructure; the Gujarat State Financial Corporation for loans to small industries and the Gujarat Small Industries Corporation for providing inputs to small industries.

In addition to these, the state also set up corporations for the development of specific areas like the Agro Industries Corporation, the Export Corporation, and the Textile Corporation, etc. These corporations, from the very beginning, adopted a business like approach to their task. They avoided the mistake made by many corporations in other states of taking over the staff in government departments. They recruited their own staff from the open market and imbued them with the spirit of enterprise. The state government adopted a very pragmatic approach by allowing the corporations to work as semi autonomous units. The directors for these corporations were also drawn from industry and from amongst professionals. These corporations work in close co-operation with entrepreneurs, and being backed by the pragmatic policy of the state government, have helped create a climate conducive to the expansion of industries.

Today there are more than 130 well planned industrial estates across the state. The power position, in spite of numerous difficulties, is presently more comfortable than in any other part of the country. Against the context of labour turmoil that prevails in some cities, Gujarat's labour position is unqiue. There may be strikes in some areas but on the whole the labour situation in Gujarat is one that has attracted the envy of industrialists elsewhere in the country.

More important than the infrastructure, is the attitude towards the budding entrepreneur. Here the corporations have adopted a unique single window approach by creating an Industrial Extension Bureau which caters to the needs of the entrepreneur from conception to completion. He does not have to move from door to door and can get a project report, a complete idea of the incentives available, his allotment of land, forms for financial loans, etc, at one single source. Here it is interesting to note that even when the Government of India was calling its public sector projects as public undertakings, in Gujarat, they were always labelled as public enterprises. This in a way embodies the difference in approach that has made Gujarat such an attractive investment prospect. As a result, it is estimated that a staggering investment of Rs 4,500 crore would materialise in this state in the coming decade through over 175 public, private and joint sector projects. Significant among these will be two large fertiliser plants and petrochemicals complex in south Gujarat, a large automobile plant at Panchmahal, two major cement and a soda ash plant in Saurashtra.

The Gujarat Industrial Investment Corporation was created to serve a dual function of providing loans to large and medium scale industries. Till today the corporation has provided almost Rs 175 crore as assistance to more than 2,400 industries and has helped to generate Rs 645 crore of investment in the state. It has been able to attract to Gujarat entrepreneurs from all parts of the country and even from abroad. In addition to this the GIIC has been a pioneer in promoting joint sector ventures in this country.

The GIIC's promotional role consists of taking a lead in identifying industries which do not exist in the state and which bring a new technology to the country or which utilise the raw materials or cater to the requirements of industries within Gujarat. We have also been attempting to attract entrepreneurs and technocrats from not only different parts of the country but from outside the world. We have with us today 60 projects under implementation which cover the entire gamut of industries from heavy engineering to petrochemicals, chemicals, drugs and pharmaceuticals and electronics. Ten of these industries have already been commissioned and some like Gujarat Alkalies are counted amongst the most successful enterprises in the country. The rest are under implementation. These cover projects such as the soda ash unit, which with an investment of Rs 165 crore is the largest joint sector project in the country, two large cement plants, a plant for making nylon filament yarn and many other projects.

Apart from the large business houses which have joined up with GIIC in implementing these projects, there are a number of technocrats who, armed with their knowledge and expertise, have come to GIIC and have become partners in the adventure of setting up new industries. With such partners, industries for making clutch plates, polybutene and a wide range of products are already set up. Well known non-resident Indians have teamed up with GIIC to set up projects like TV picture tubes, cement, caustic soda, etc. In fact, as of today, we have attracted in this state investment by non-resident Indian totalling more than Rs 25 crore.

The GIIC has also, with the help of the state government, taken the initiative in branching out into new aspects of industry. Thus, it has taken the lead in developing electronics in the state and is today the single largest promoter of electronics projects in the state, promoting nine projects at an estimated cost of Rs 23 crore. These projects include basic component manufacturing units like capacitors, TV picture tubes, walkie-talkie sets and entertainment devices like colour TV sets, etc. In addition there are projects for manufacture of process control instruments, magnetic tapes and nickel cadmium batteries.

The problem of finding new and renewable sources of energy and its conservation have been attracting the attention of persons all over the world. Taking the initiatives in this field too, the GIIC has opened up an energy conservation cell. This cell endeavours to identify and promote energy conservation projects like improvements in boilers, etc. The GIIC will finance, on soft terms, such improvements undertaken by the private industries. In addition, we have been working on new projects like a wind mill farm, white coal and reverse osmosis filteration equipments for sugar and similar industries.

As is known, steel making is almost non-existent in Gujarat primarily due to non-availability of good quality iron ore and coal. However, we are now in the process of setting up a steel making complex in the state with sponge iron, seamless steel tubes and other metal projects.

Another important field which is now opening up, is ship breaking activity, which has been catalysed around Alang in Bhavnagar. This is a good example of how initiative has paid off. Hundreds of people are seeking employment there and with the scrap available, the re-rolling units in Bhavnagar which were closed down, have been revived. Alang has become a centre of attraction for the rest of the country in this respect and we hope that within a short time, it will surpass Karachi as the best ship breaking yard in this part of the world.

All these large complexes—whether it is the fertiliser and petrochemicals complex in south Gujarat or a similar complex in Baroda or the Hindustan Motors' plant, with an investment of more than Rs 200 crore, in Panchmahals, or the ship breaking yard and the steel making complex around Bhavnagar—will cause hundreds of ancillaries to spring up. If this sounds too optimistic, one has only to refer to the example of Baroda which is supposed to have the highest investment per kilometre area next only to Japan.

Today Gujarat offers the most exciting opportunities for investment in the country. In fact, the subject of investment opportunities is a vast and changing one. We have attempted above to point out a few opportunities. Today more and more entrepreneurs, including in the traditional industries like textiles, are engaged in seeking new sources of investment. Persons in the profession are also having an eye on industrial opportunities. Many of our young graduates are thinking in terms of seeking their opening in industry rather than engaging in trade or going in for a profession. It is essential that these persons are shown the opportunities available and are provided the necessary facilities. This is what we have attempted to do and are attempting to do through our corporations and through the Industrial Extension Bureau, that we have created.

A number of profiles are available
show the type of industries that can be
up, the investment required for them, a
the market open for their products. Fina
cial corporations are offering attracti
packages to first time investors in indust
such as loans on soft terms, sales-tax a
income-tax benefits in backward are
and above all the seed and risk capital
reduce the amount of initial investmer
In addition, industrial sheds, power, wat
supply and effluent disposal, are easi
available.

Gujarat, apart from large industries, h
always been known for its small an
medium scale industries and successf
entrepreneurs. The investment oppo
tunities are being seized upon by these e
trepreneurs and the present decade ma
witness an industrial boom which migh
overshadow even the achievements of th
1970s.

## BEL

BHARAT ELECTRONICS (BE
achieved a record turnover of Rs 186 cro
in 1984-85 which was 20 per cent high
than in the previous year. Profit before t
was Rs 27 crore, despite the effect
major investments in three new units a
price reductions given for some comp
nents. Sales per employee went up by
per cent and sales to capital employe
ratio rose by nine per cent as compare
with 1983-84. During 1984-85 several ne
products were introduced in the manufa
turing line like low power TV transmitter
new communications transmitters, rece
vers and transreceivers, automatic ele
tronic switching, time division exchang
(TIDEX), encryption devices, meter
logical and mortar locating radars, las
range finders, passive night vision bin
culars, biangular X-ray tubes, vacuum i
terrupters, etc.

During the Sixth Plan which ended i
March 1985, the company's turnover ha
risen by 124 per cent without significa
increase in manpower. The value adde
per employee has increased by 128 per ce
and the profit before tax has more tha
trebled. The company has been maintain
ing a 12 per cent rate of dividend for th
last 15 years. Construction activities at th
TV glass bulb project at Taloja in Maha
rashtra and the Equipment unit at Panch
kula in Haryana made good progress du
ing the year. Panchkula even initiated pro
duction activities in hired sheds. Among th
achievements of the company during th
year was the successful development an
supply of equipments for Government o
India's crash TV expansion plan which ex
tended the TV coverage to 70 per cent o
India's population.

TO KNOW MORE ABOUT

G.D.D.C.

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BIO-GAS
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Capacity: 140 Cmt.
Provides Energy to: 125 families.

BIO-MASS
At: AHMEDABAD
Production 200 K.W. Electricity.
Bi-product: Activated Carbon.

DAIRIES
No. of Plants: 9
At:
AHMEDABAD
BHAVNAGAR
CHALALA
GANDHINAGAR
JAMNAGAR
JUNAGADH
KUTCH
RAJKOT
SURENDRANAGAR
No. of Chilling Centres: 8
No. of Members: 70,000
No. of Veterinary Routes 17

Total Handling Capacity Per Day: 3.50 lakhs.

CATTLE-FEED
At: KHANDHERI
Production per day: 100 M.T.

ANIMAL HUSBANDRY
For 1983-84
No. of First Aid Cases: 89390
No. of A.I. Done: 3612

SOLAR-POND
At: KUTCH
Output: 50,000 liters of hot water.
Production: 10 K.W. Electricity.

SOLAR HOT WATER SYSTEM:
At: RAJKOT
Output: 75,000 liters of Hot Water at: 80° c

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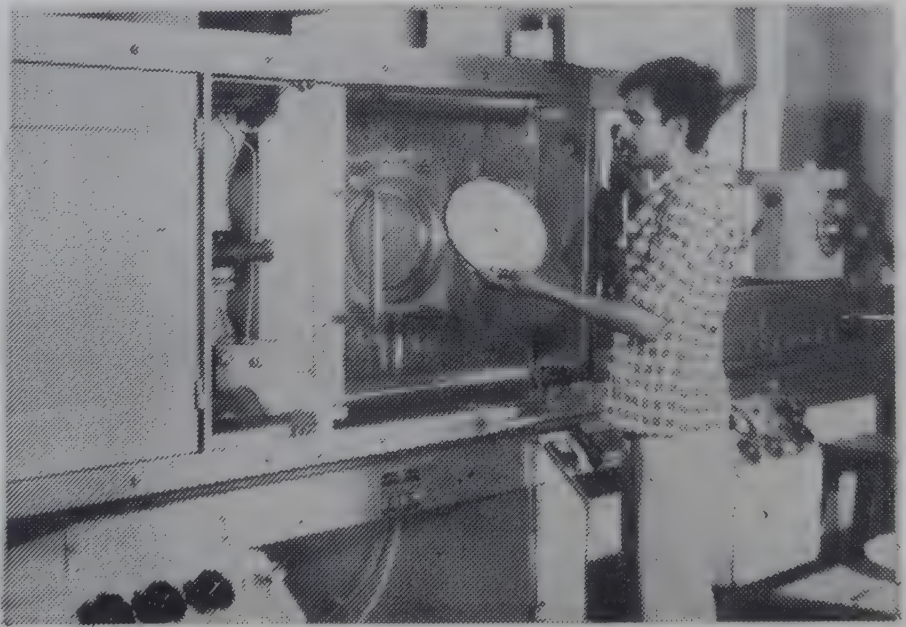

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Name of the unit & address: ..............................................

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Product(s):..................................................................

Proposed Modernisation Programme:...................................

..............................................................................

Requirement of loan: ....................Rs. ..............................

Year in which unit was set up...............................................

and mail it to :

MANAGER (PR)
**GUJARAT STATE**
**FINANCIAL CORPORATION**
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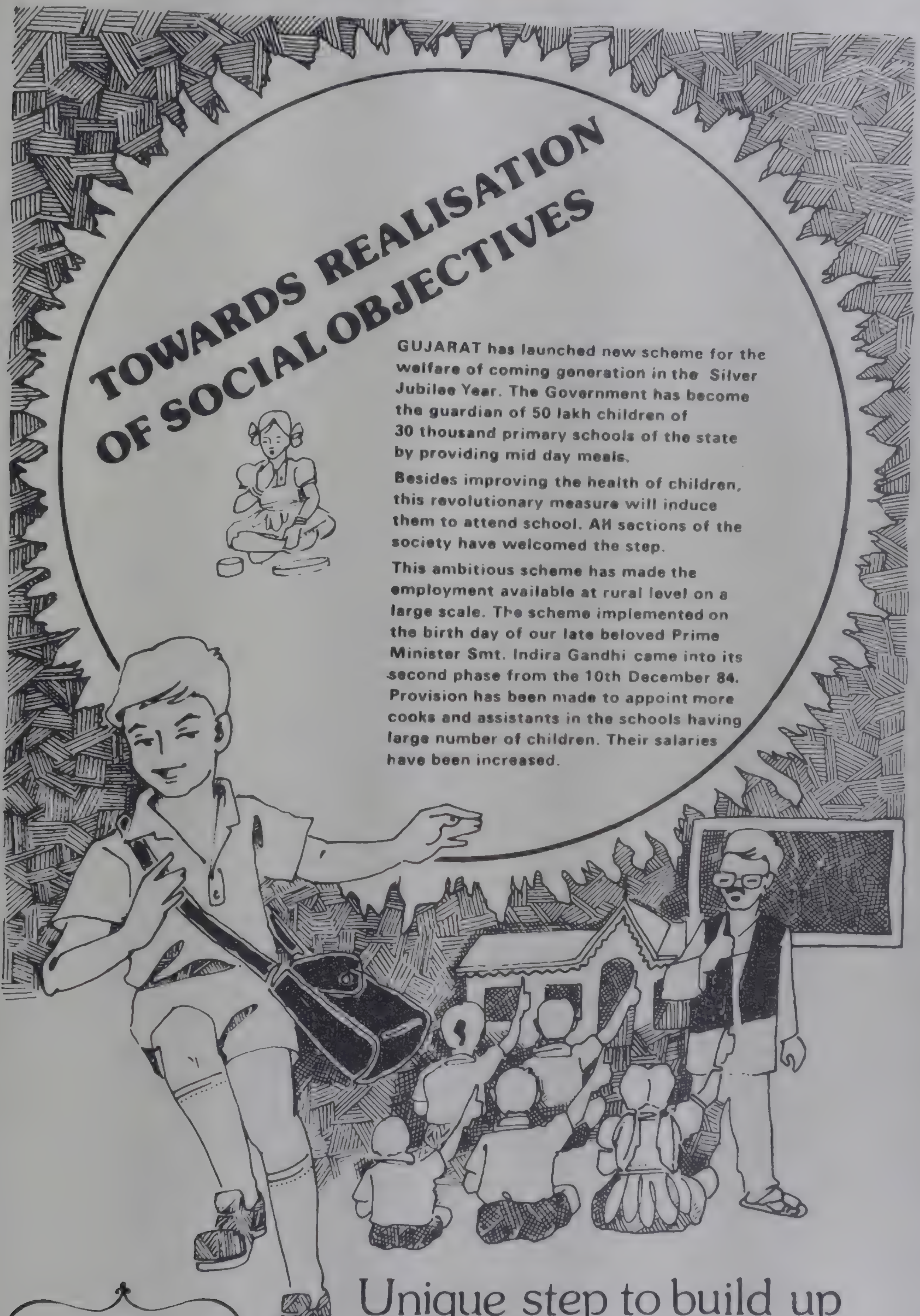
Ellisbridge, Ahmedabad - 380 006.
Phone : 462372, 402372-3-4-5.



# TOWARDS REALISATION OF SOCIAL OBJECTIVES

GUJARAT has launched new scheme for the welfare of coming generation in the Silver Jubilee Year. The Government has become the guardian of 50 lakh children of 30 thousand primary schools of the state by providing mid day meals.

Besides improving the health of children, this revolutionary measure will induce them to attend school. All sections of the society have welcomed the step.

This ambitious scheme has made the employment available at rural level on a large scale. The scheme implemented on the birth day of our late beloved Prime Minister Smt. Indira Gandhi came into its second phase from the 10th December 84. Provision has been made to appoint more cooks and assistants in the schools having large number of children. Their salaries have been increased.

Gujarat
silver jubilee year

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# Gujarat State Financial Corporation

## A Regional Development Bank

GUJARAT State Financial Corporation (GSFC), a development bank for encouraging development and growth of small and medium scale enterprises was set up in 1960 under the State Financial Corporations Act. During the last 24½ years of eventful operations, the GSFC has been instrumental in promotion and growth of over 23,500 units with financial assistance amounting to over Rs 4.7 billion.

### SUSTAINED GROWTH

The Corporation has achieved sustained growth during all these years but rapid strides have been taken during the decade of eighties. The accelerated tempo in the extension of assistance for gearing up the industrial growth in the state could be seen from the Table.

TABLE

*(Rs in million)*

| Period | Sanctions | Disbursements |
|---|---|---|
| 1960-61 to 1969-70 | 185.5 | 115.0 |
| 1970-71 to 1979-80 | 2012.4 | 1201.0 |
| 1980-81 to September 1984 | 2476.2 | 1581.8 |

### NEW INDUSTRIES

A broad spectrum of economic activities is covered with the assistance. The assistance of the Corporation became instrumental in the rapid growth of non-traditional industries/products in the engineering, chemical, pharmaceutical, ceramic and electronic industries. In order to encourage sophisticated new technology industries, the Corporation not only provides assistance to the enterprise having foreign collaboration but also term loans for projects sponsored by non-resident Indians.

### CUSTOM-MADE SCHEMES

The Corporation devised custom-made schemes for various sectors. Basic terms regarding margin, promoters' contribution, amount of loan, repayment period, interest rates were adjusted according to the needs of various segments of the industrial economy. The Corporation devised a special scheme for artisans/craftsmen (mini loans), new entrepreneurs (NES), doctors, economically weaker sections of entrepreneurs (SC/ST) transport operators, fishermen etc.

This helped promotion of many new small enterprises (SSI) by the entrepreneurs with will and skill. The assistance to the SSI sector has gone up very sharply reaching Rs 3.57 billion. The relative share of the SSI sector in number of units assisted is 97 per cent in loan amount sanctioned is 76 per cent.

### NEW ENTREPRENEURS SCHEME

For promoting new entrepreneurs, the Corporation has formulated a special scheme called the 'New Entrepreneurs' Scheme. This scheme was introduced in the year 1973-74 to assist technocrats, engineers, craftsmen, etc, to set up enterprises of their own with their limited resources. The Corporation, therefore, provides them soft term loans upto a limit of Rs 5,00,000 with promoters' contribution of 15 per cent, liberal margin and lower rate of interest. Besides an initial moratorium period of two years is granted for the principal amount and a moratorium of one year is also given for payment of interest. No scrutiny fee is levied from such entrepreneurs. The GIDC gives priority in providing sheds in their industrial estates to such entrepreneurs covered under the scheme. Under this innovative development banking scheme, the Corporation has assisted 946 new entrepreneurs with loans of Rs 156.44 million during the past one decade since the introduction of this scheme.

### MINI LOANS

At a time when term lending institutions were not providing loans below Rs 10,000, the GSFC became a pioneer in granting such small loans in 1970. In order to enable craftsmen, artisans and small borrowers to avail of this assistance, the Corporation provided these loans with a lower rate of interest, liberal margin and simplified procedural formalities. The scrutiny fee was also waived. During the last 14 years since the introduction of the scheme, the Corporation has assisted 5,595 entrepreneurs with loans of Rs 63.80 million.

### SCHEDULED CASTE/TRIBE ENTREPRENEURS

To help the weaker sections of society to beome self-reliant, the Corporation has formulated a special soft loan scheme for entrepreneurs belonging to SC/ST communities. Under this scheme, loans are granted with a promoters' contribution of five per cent, margin of 10 per cent and interest rates ranging from nine to 11 per cent. A longer initial moratorium period upto three years and full repayment period upto 12 years are also considered for such entrepreneurs. No scrutiny fee is levied. Under this soft loan scheme, loans upto a limit of Rs three lakh are granted. The Corporation has assisted 809 such entrepreneurs with loans of Rs 44.70 million during the past six years.

### SPECIAL CAPITAL SCHEME

The Gujarat State Financial Corporation provides special capital to bridge the gap in investment of the entrepreneur proposing to set up a new project in the small scale sector. Loans or equity to the extent of 20 per cent of the project cost or Rs two lakh whichever is less is granted at an interest rate of one per cent per annum. A liberal initial moratorium period upto five years is granted for principal amount and three years for interest payment. The Corporation has assisted 75 entrepreneurs with such soft term assistance amounting to Rs 7.2 million.

### MEDICAL PRACTITIONERS

The GSFC provides loans to qualified doctors to acquire electro medical equipments for diagnostic purposes and to have premises to house the same. In aggregate, loans of Rs 6.07 million have been sanctioned to 71 doctors since the introduction of the scheme. The Corporation has recently liberalised the scheme to spread medical facilities in the rural and semi-urban centres.

### BALANCED REGIONAL GROWTH

In respect of balanced regional growth the Corporation made a pioneering contribution which rose from 17.3 per cent of the total assistance in the first decade of its operation (i e, decade of the sixties) to 46 per cent by end of September 1984. By providing finance with lower margin, reduced promoters' contribution and concessional rate of interest as also with intensive campaign, the Corporation encouraged entrepreneurs to move to the backward areas. The assistance as a result has reached Rs 2.21 billion, to 9,438 units.

### DOOR STEP SERVICE PROGRAMME

The novel Door Step Service Programme initiated by the Corporation in 1981 to promote industrial development in rural and semi urban areas has continued to grow by leaps and bounds. Under the jointly operated programme CED imparts training to a group of 10-15 entrepreneurs, DIC provides help in completing procedural formalities, the GIDC provides infrastructure where needed and the GSFC provides term loan at the door step. 37 centres have so far been covered in the state where 720 entrepreneurs have been assisted with loans of Rs 769.68 lakh. Of these 37 centres covered, 23 have been in the backward areas where 493 entrepreneurs have received assistance from the Corporation.

### SPOT GUIDANCE PROGRAMME

The Spot Guidance Programmes were initiated by the Corporation in December 1983 for guiding, helping and encouraging entrepreneurs, particularly, in the small scale sector. Under this programme, teams of GSFC officials provide guidance 'On the Spot' to new as well as existing entrepreneurs needing term finance from the Corporation for their proposed projects or for expansion/modernisation of the existing projects. So far, the programme has been organised at eight important centres, *viz*, Vadodara, Ankleshwar, Vapi, Surat, Mehsana, Surendranagar, Bhavnagar and Amreli. A programme for counselling entrepreneurs was also organised at Bombay. A joint programme was also held at Bulsar and Vapi. At every centre, the Corporation has received a heartening response. After each Spot Guidance Programme, the Corporation has arranged a follow-up visit by a team of officers of the Corporation to assist entrepreneurs who need help in filling up the forms and complying with the formalities.

## Union Bank of India

UNION BANK OF INDIA has recorded all-round satisfactory growth during 1984. It opened 95 branches, of which 63 were in rural and semi-urban areas, taking the branch network to 1,505. This includes one overseas branch at London. Total deposit resources expanded by Rs 484.95 crore to Rs 2,819.77 crore and net credit increased by Rs 308.47 crore to Rs 1,666.55 crore. Nearly 73 per cent of the increase in credit was accounted for by 'preferred sectors' consisting of priority sectors, food procurement, exports and public sector undertakings. By end-1984, priority sector credit had reached Rs 670.68 crore, increasing by Rs 155.14 crore over the year and the number of accounts increased by nearly 1.30 lakh. The substantial growth carried the share of such credit in total advances past the 40 per cent mark, ahead of the stipulated period of end-March 1985. The three main segments of priority sectors *viz*, agriculture, SSI and others respectively contributed Rs 63 crore, Rs 45 crore and Rs 47 crore to the overall increase of Rs 155 crore. Financial assistance to weaker sections increased by Rs 34.48 crore covering additional 1.11 lakh borrowers during 1984 reaching the figure of Rs 120.95 crore spread over 5.15 lakh borrowers. Under Differential Interest Rates Scheme, meant for assisting the weakest among weaker sections at a concessional rate of interest of four per cent. The Bank's advances stood at Rs 19.90 crore spread over 1.67 lakh borrowal accounts. Further, substantial funds under the scheme were diverted to borrowers of Scheduled Castes Scheduled Tribes. The bank's lending under the 20-Point Programme rose by Rs 52.66 crore to Rs 162.45 crore spread over four lakh borrowal accounts. The increase in the number of accounts was a little under one lakh. By December 1984, as many as 1,131 branches participated in the Integrated Rural Development Programme (IRDP). Advances under the Programme rose to Rs 39.08 crore covering 1.86 lakh borrowers, an increase of Rs 13.85 crore and 61,000 accounts respectively. Credit to SC/ST increased by Rs 10.78 crore or 46.19 per cent to reach Rs 34.12 crore covering 1.79 lakh accounts. The number of beneficiaries increased by nearly 50,000. The Bank's outstanding export credit went up by Rs 30 18 crore to Rs 156.06 crore.

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# State Financing Covers Road Spectrum of Economy

A BROAD spectrum of economic activities, are covered by the institutional finance, provided mostly by the State Financial Corporation, and, aimed at promoting rapid industrialisation together with balanced regional growth. The policy of decentralised planning, leading to diversification of industries, has helped in changing the socio-economic condition of the underprivileged.

In the past four years loans worth Rs 227.10 crore were advanced as against the aggregate assistance of Rs 219.80 crore sanctioned in the sixties and the seventies; also Rs 186.53 crore were granted to small scale units as compared to Rs 149.85 crore.

This enlarged financial assistance has become instrumental in the rapid growth of non-traditional industries and products in the engineering, chemical, pharmaceutical, ceramic and electronics and sophisticated new technology industries. It has also covered assistance to enterprises having foreign collaboration, provided term loans in foreign exchange for import of capital equipment and assisted projects sponsored by non-resident Indians.

Emphasis has also been put on growth in backward areas. Such loan assistance, by the Financial Corporation, totalling Rs 105.39 crore was advanced to 2,477 units since 1980. The finance provided with lower margins reduced promoters' contribution, concessional rate of interest and subsidy schemes, has succeeded in encouraging entrepreneurs to move to less developed areas.

In order that the fruits of industrial development percolate to the rural areas, not only for providing gainful employment but also for preventing over-crowding of cities, loans of over Rs 51 crore, to 1,745 units in rural areas, were advanced.

In order to spread industrialisation to the grassroot level, several trailor-made schemes have been devised. Basic terms regarding margin, promoters' contribution, amount of loan, repayment period and interest rates are adjusted according to the needs and capabilities of various segments of the industrial economy within the framework of the refinance scheme of the Industrial Development Bank of India (IDBI).

The new entrepreneurs scheme provides assistance to experienced craftsmen, technicians and new entrepreneurs. Loans upto Rs five lakh, at a lower margin of ten per cent and at a concessional rate of interest, are given to new units. Interest of the first 12 months is capitalised and a longer repayment period of upto nine years is considered under the scheme. Rs 7.87 crore was advanced to 356 new entrepreneurs since 1980.

There is another scheme for the benefit of small borrowers like artisan, craftsmen, etc, known as Mini (Composite) Loan Scheme. Under the scheme loans upto Rs 25,000 are provided both for acquiring assets and for working capital needs on liberal terms and with simple procedures. During the 1980s, 2,306 units were provided such loan assistance totalling Rs 3.63 crore.

Entrepreneurs from scheduled caste and scheduled tribe backgrounds get loans on a concessional rate of interest and on liberal terms upto Rs three lakh, with a margin of 10 per cent and promoters' contribution of five per cent, an initial moratorium period of upto three years and a repayment period upto 12 years. A loan scrutiny fee is not levied for all the three previous schemes for loans upto Rs five lakh. As many as 589 entrepreneurs of SC/ST class were granted Rs 3.05 crore in loans.

Further 69 doctors availed of the assistance given under the scheme for qualified Medical Practitioners. Under the Door-step Service Programme to serve rural urban entrepreneurs, 35 programmes at 33 centres were arranged and 673 entrepreneurs took advantage. 517 units in 167 un-banked centres received loans worth Rs 12.54 lakh under the scheme introduced in 1982.

A Spot Guidance Programme, introduced in 1983-84, provided guidance to 3,452 entrepreneurs at six centres. There is also a Revival and Rehabilitation Scheme for sick and closed units as also consultancy services. All these initiatives have been helpful in accelerating the industrial development in the state over the past four years.

**Gujarat State Construction Corporation Limited**

**(A Govt. of Gujarat Undertaking)**

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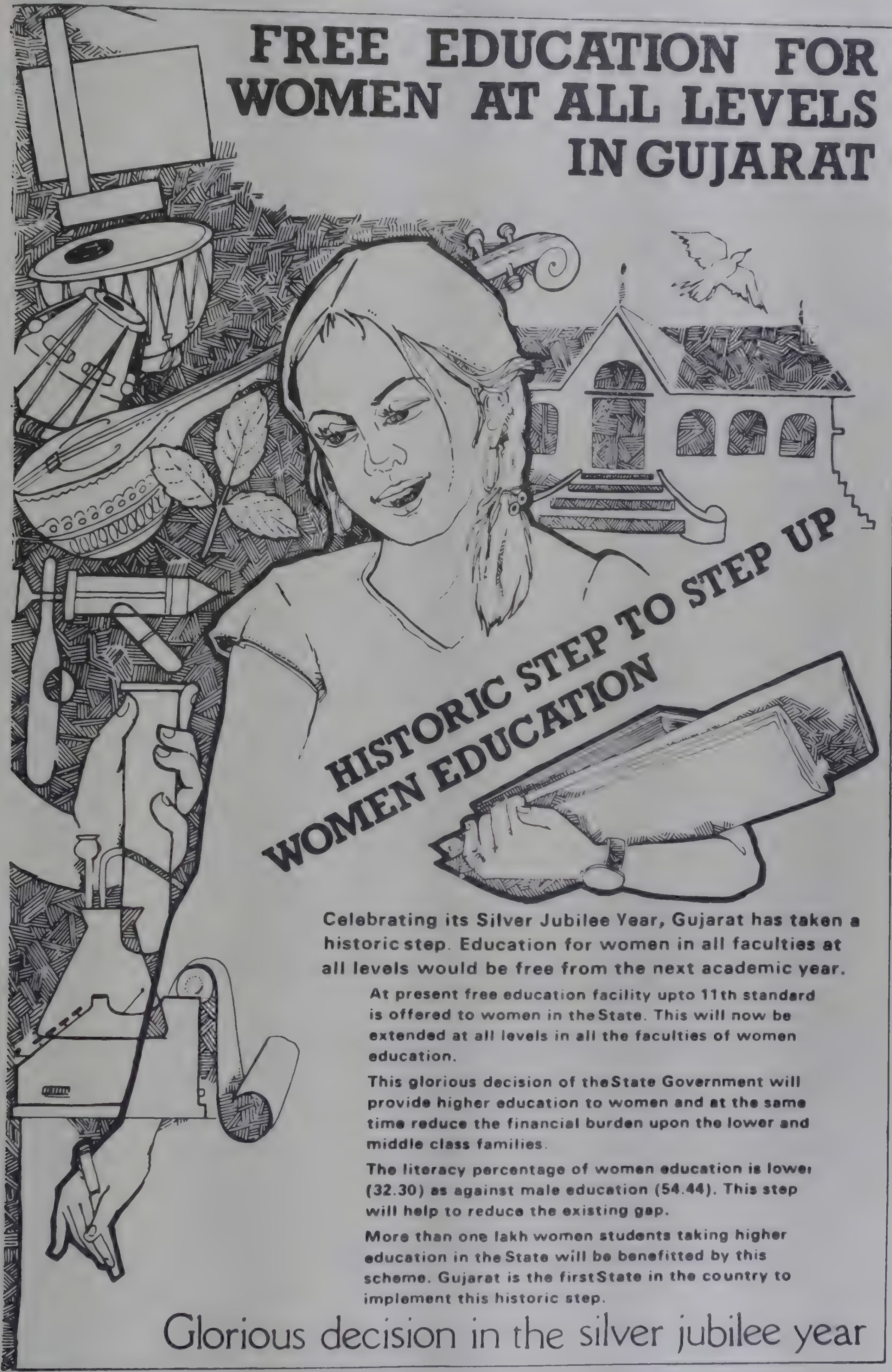

# FREE EDUCATION FOR WOMEN AT ALL LEVELS IN GUJARAT

## HISTORIC STEP TO STEP UP WOMEN EDUCATION

**Celebrating its Silver Jubilee Year, Gujarat has taken a historic step. Education for women in all faculties at all levels would be free from the next academic year.**

At present free education facility upto 11th standard is offered to women in the State. This will now be extended at all levels in all the faculties of women education.

This glorious decision of the State Government will provide higher education to women and at the same time reduce the financial burden upon the lower and middle class families.

The literacy percentage of women education is lower (32.30) as against male education (54.44). This step will help to reduce the existing gap.

More than one lakh women students taking higher education in the State will be benefitted by this scheme. Gujarat is the first State in the country to implement this historic step.

Glorious decision in the silver jubilee year

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A well planned network means minimum transmission and distribution losses. And better voltage conditions for the consumers. At GEB, work does not end at planning a net work. Maintenance is given equal importance with the result consumers are assured of reliable power supply.

**Gujarat Electricity Board (G. E. B)**

# Petrochemical Industry in Gujarat

**C M Lamba**

**K V Subramaniam**

*Indian Petrochemicals Corporation Ltd, Vadodara*

GUJARAT's climb from the eighth to the second rung, in a span of two decades, on the industrial development ladder is a forceful evidence of its dynamic industrial enterprise. The petrochemical industry's sizeable contribution to this climb is popularly acknowledged.

In this article, an attempt has been made to portray this takeoff by outlining the factors and underlying themes, capturing the petrochemical network as it is today and then dwelling on the future prospects.

Gujarat's proven oil reserves, a systematic effort at oil recovery by ONGC and the setting up of India's largest refinery at Koyali by IOC, set the foundation for petrochemical development. On this foundation, structures for development, based on the entrepreneur capacities of the people and the promise of petrochemical potential, were evolved. This structure, together with the favourable industrial harmony and a progressive outlook of the development authorities, brought in a synergy which has earned a special place for Gujarat in India's petrochemical field.

TABLE 1

| | Per Cent |
|---|---|
| Detergents | 35 |
| Plastics | 60 |
| Synthetic rubber | 35 |
| Polyester fibre | 40 |
| Acrylic fibre | 60 |
| Azodyes | 72 |
| Napthols | 49 |
| Vat dyes | 47 |
| Cyanide salts | 100 |
| Hydrocarbon solvents | 55 |
| Fibre intermediates | 95 |
| Secondary plasticisers | 36 |

TABLE 2

| | | |
|---|---|---|
| IPCL, Vadodara | Xylends (exp) | 56,000 MTA |
| | DMT (exp) | 10,000 MTA |
| | Linear alkyl benzene (exp) | 13,500 MTA |
| | Acrylonitrile (exp) | 6,000 MTA |
| | Acrylic fibre bicomponent | 12,000 MTA |
| | Polypropylene copolymer | 25,000 MTA |
| GSFC, Vadodara | Caprolactum | 5,000 MTA |
| GNFC, Bharuch | Methanol | 20,000 MTA |
| GACL, Baroda | Chloromethanes | |
| Gujarat State Petrochemical (proposed) | LDPE | 1,00,000 MTA |
| | HDPE | 40,000 MTA |
| | PVC | 1,00,000 MTA |
| | Polystyrene | 30,000 MTA |
| | Ethylene | 1,60,000 MTA |
| | Propylene | 40,000 MTA |
| Petrofils Co-operative | Nylon F yarn | 6,000 MTA |
| Indu Nissan Oxo Chemical Indus | Oxo alcohols (exp) | 15,000 MTA |
| Cibatul Ltd | Epichlorohydrin | 6,000 MTA |
| GIIC | Nylon F yarn | 6,000 MTA |
| | Polyols | 6,000 MTA |

*Notes:* MTA = Metric tonnes per annum.
Exp = Expected.

Two dominant themes that have underlined Gujarat's development in petrochemicals have been creation of investment opportunities in the areas of plastics, chemicals, detergents, fibre, dyes, etc, and a well meant emphasis on the small scale sector.

It is a salute to Gujarat's pioneering leadership role that, based on the Gujarat model, other states are actively pursuing avenues of petrochemical development.

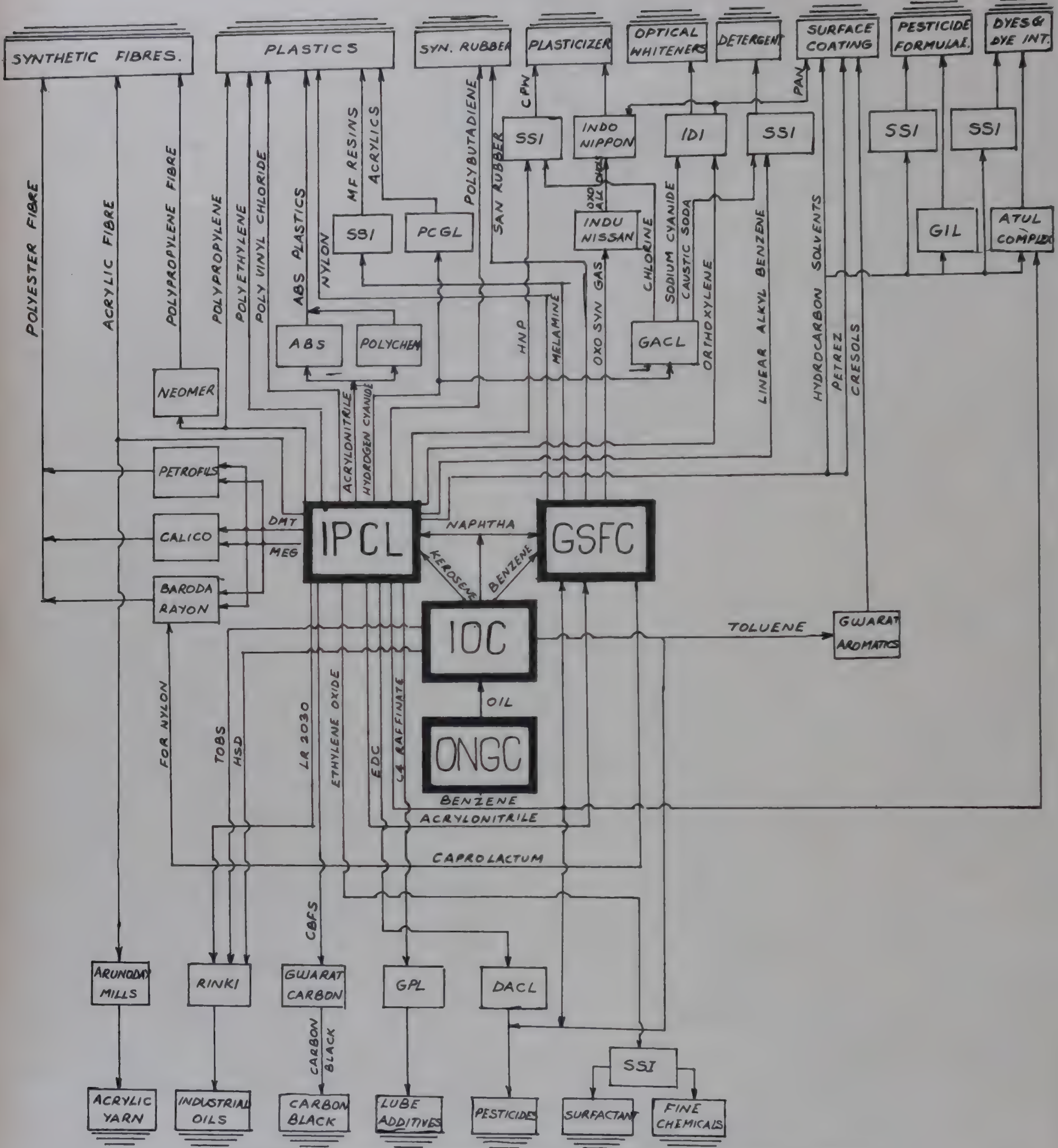
Before we proceed to capture the petrochemical network in Gujarat, it would be worthwhile focusing briefly on the meaning and scope of petrochemicals. It comes as a surprise to many, that, various items of daily use are derived from petrochemicals. To amplify this link between items of daily use and petrochemicals one can take resort to common examples and highlight the route of manufacture.

Naphtha, a co-product of oil refining, is cracked to ethylene, propylene and butadiene—basic petrochemical building blocks. Ethylene can be converted to polyethylene—a plastic used to pack many consumer products like milk, groceries, etc. Polyvinyl chloride, another plastic made from ethylene, also serves similar uses in addition to plastic footwear, electrical cable insulation, etc. Ethylene can also be converted to MEG, which is used in making explosives and alongwith DMT is used in making polyester fibre. Propylene can be converted to polypropylene—a plastic from which many domestic utility items are made. Propylene to Acrylonitrile can lead to acrylic fibre which partially substitutes wool. Butadiene can be made into synthetic polybutadiene rubber for use in tyres, rubber goods, footwear, sports goods, etc. A cut of kerosene, another product of oil refining, combined with benzene creates linear alkyl benzene which is used to make LAS—a product that contributes to washing powder in detergents. Many solvents derived from petrochemical manufacture are used in making paints, pesticide, insecticide formulations, printing inks, rubber solution, etc. Therefore some aspects are evident—that petrochemicals have an omnipresent evidence in everyday life, they substitute scarce natural resources like wood, edible oil, paper, metal, etc, and most importantly they improve the quality of everyday life.

Indian Petrochemicals Corporation Ltd (IPCL) and petrochemical development could well be described as a cause and effect relationship. The pace for development of petrochemicals was made in 1969 with the formation of IPCL at Vadodara. An infusion of over Rs 400 crore in fourteen integrated plants crystallised in availability of a spectrum of chemicals, plastics, rubber, surfactants, fibre and fibre intermediates by 1979. All these group of synthetic products, which embody the spirit of petrochemicals, catalysed setting up of various downstream units in the private, joint and small scale sectors. Side by side, Gujarat State Fertilisers Co Ltd, set up at Vadodara, and units like KRIBHCO and IFFCO emphasised the petro route to fertilisers. In additon, GSFC made its mark in the petrochemical arena with chemical, fibre and plastic intermediate products.

To the credit of state financial and investment institutions like GIIC, GIDC, GSFC and entrepreneurs, the potential, in terms of products and markets available from IPCL and GSFC, was dovetailed

CHART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POLYPROPYLENE FIBRE
POLYPROPYLENE
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ABS PLASTICS
NYLON
MF RESINS
ACRYLICS
POLYBUTADIENE
SAN RUBBER
CPW
PAN
SSI
INDO NIPPON
IDI
SSI
SSI
SSI
SSI
PCGL
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GACL
NEOMER
ACRYLONITRILE
HYDROGEN CYANIDE
PETROFILS
CALICO
BARODA RAYON
DMT
MEG
IPCL
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IOC
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CARBON BLACK
LUBE ADDITIVES
PESTICIDES
SURFACTANT
FINE CHEMICALS

AN ANGLE OF PETROCHEMICAL NETWORK IN GUJARAT

into the setting up of various projects. To name a few, Gujarat Alkalies and Chemicals, Polymers Corporation of Gujarat Ltd, Petrofils Co-operative Ltd, Calico, Gujarat Carbon, Diamines and Chemicals, Indu Nissan Oxo Chemicals, Petrosynthese Ltd, ABS Plastics, Gujarat Insecticides, Gujarat Aromatics, etc, were manifestations of this dovetail approach.

The small scale sector was equally dynamic. GIDC and other associated small industries development corporations in assistance with petrochemical producers, were able to assist, encourage and motivate setting up of over 2,500 small scale units based on petrochemical raw materials.

Today the evidence is striking—detergent powders at Ahmedabad, plastic processing at Ahmedabad, Makarpura and Nandesari, dye and dye intermediates at Nandesari and Ankleshwar, pesticide formulation at Ankleshwar, Bhavnagar and Vadodara, paint formulation at Vallabh Vidyanagar and Ankleshwar, chemicals and pharmaceuticals at Vapi and Bhavnagar, and industrial engineering oils at Vadodara—all in the small scale sector.

To bring out graphically, this development, a chart has been attempted. This chart snapshoots the network of petrochemical development in Gujarat.

The quantitative contribution is better expressed as a percentage share of the nation's total production. Gujarat today accounts for a sizeable share of national output in many products—cotton cloth (24 per cent), viscose yarn (24 per cent), stoneware (42 per cent), sheet glass (32 per cent), etc, and in the field of petrochemicals and associated areas the share assumes the figures depicted in Table 1.

Today Vadodara is sometimes described as a seat of the petrochemical industry—a tribute to the sustained efforts at providing infrastructure and resource support by various governmental agencies.

The horizon, in Gujarat's petrochemical field, presents a picture of promise. Over 2,000 crore of rupees are planned to be infused over the next 10 years culminating in production of over 20 lakh tonnes each year of useful petrochemical products. Some of the schemes being implemented are shown in Table 2.

Today, Gujarat can take pride in the fact that it has been the torch bearer in the field of petrochemicals. Through petrochemical products, Gujarat has been able to improve the quality of everyday life, conserve vital natural resources like wood, paper, edible oil, metal, etc, and most importantly been able to show the lead to others.

## Raasi Ceramic Industries

RAASI CERAMIC INDUSTRIES, a member of the successful Raasi Group, is setting up a plant for the annual manufacture of 6,000 tonnes of vitreous sanitarywares at Isnapur in Medak district of AP. Technical know-how and detailed engineering services for the project are being provided by Neiveli Ceramics and Refractories (NEYCER), a leading manufacturer of sanitarywares in the country. The project is estimated to cost Rs 6.90 crore, including margin money for working capital of Rs 29 lakh. This is proposed to be financed partly by equity capital of Rs 215 lakh. Of this, Rs 120 lakh is being subscribed by the promoters, directors and their friends, APIDC and Raasi Cement. The public is being offered Rs 95 lakh in equity shares of Rs 10 each at par. The subscription list opens on May 15. The issue is managed by the Merchant Banking Division of ICICI. Trial runs are expected to commence in July 1985 and commercial production in the subsequent month. According to B V Raju, a dirctor, the company is eligible for Central subsidy and concessional finance from the financial institutions by virtue of the location of its plant in a backward area. The demand for sanitarywares has been on the rise in the past few years and this trend is expected to be sustained in the coming years. The home market apart, there is also a growing demand for sanitarywares from West Asia, South East Asia, Africa and Bangladesh and Nepal. The break-even point of the plant is estimated at around 55 per cent of the full capacity. The company expects to achieve a turnover of Rs 4.5 crore in the first year of production, Rs 5.5 crore in the second and Rs 7 crore in the third. Investors in the company's shares will be entitled to benefits under Section 80 CC and 80 L of Income-tax Act and also Wealth Tax benefits.

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BY DIRECTORATE OF TOURISM, GUJARAT STATE.

# Gujarat's Efforts Towards a More Innovative Administration

THE Gujarat government has taken various measures to provide a more innovative administration. Right from the launching of the pending cases disposal drive in Sachivalaya, numerous steps were taken, like holding "Lok Adalats" in remote tribal areas to settle long standing cases on the spot and thereby provide justice to people at their door-steps.

To accelerate the uplift of tribals the Tribal Welfare Department has been separated from the Social Welfare Department so that greater attention can be focused on their welfare. A Tribal Development Commissionerate has been set up under the Tribal Development Department to effectively monitor programmes for the speedy uplift of scheduled tribes.

A special monitoring cell at the state level has been set up for ensuring speedy implementation of the programmes for scheduled castes and scheduled tribes. A high level committee under the chairmanship of the Chief Minister has been constituted to review schemes under the Special Component Plan. To ensure quick justice to tribals, Special Civil Courts have been established in tribal areas. The Integrated Programme for upliftment of scheduled castes has covered 46,000 families belonging to scheduled caste so far.

A separate Commissionerate for Rural Development in Agriculture has been created to bring all the programmes relating to rural development under one roof. A separate post of Rural Labour Commissioner has been created to improve the conditions of rural labourers.

To streamline the administration a separate Department of Fisheries and Ports has been created. The Gujarat Maritime Board was set up in April 1982 for the integrated development of ports in the state. The cargo turnover, which was 25 lakh tonnes in 1979-80, has increased to 42 lakh tonnes.

The launching of a mid-day meal programme for primary school students has proved a great success. High priority is being allotted to technical education. A state level council for Science and Technology has also been set up and a separate secretary for Science and Technology has been appointed.

For ensuring proper supply of essential commodities the Gujarat State Civil Supplies Corporation was formed in October 1980. The Corporation runs mobile shops, to provide basic necessities at cheap prices in the remote rural and tribal areas.

In order to pay greater attention to welfare programmes designed for the urban poor as well as to impart greater impetus to urban housing and a separate department of urban development and urban housing has been set up. The Gujarat women's development corporation was set up in March 1981 to implement schemes for uplift and rehabilitation of women.

Various steps have been taken to modernise the working of the state police so as to improve the effectiveness and mobility. New police commissionerates were set up in Surat, Vadodara and Rajkot. The state police force has been equipped with new vehicles, wireless sets, a forensic science laboratory and a computer centre.

A separate department of Forest and Environment has been created to devote greater attention to the problems relating to ecology and environment. The Gujarat government has also introduced computer services to pace up the administration. The basic amenities available at the village-level in each district, has been computerised for three districts where computerised monitoring of plan programmes has been adopted.

For ensuring justice to the poor a Legal Aid and Advisory Board was set up in 1982 under the chairmanship of the Chief Minister. The Chief Justice of the Gujarat High Court is the co-chairman of this Board. Over 4,340 persons have so far benefited. During the last two years 78 camps of Lok Adalats were held handling over 19,800 cases. The camps were mostly held in rural areas.

A separate Narmada Development Department has been set up for the accelerated implementation of the Sardar Sarovar Project. The other important steps include creation of Municipal Corporations for Jamnagar and Bhavnagar cities, new labour courts, and an industrial court at Rajkot, creation of nine teams for records of rights in rural areas, a new department of textiles to solve the problems of closed mills. Thus it can be seen that the state government is moving ahead to tone up its administration with tangible results.

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Founder-Editor: Sachin Chaudhuri

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# Growing Arsenal

18 JUN 1985

THE transistor bomb attacks by Sikh terrorists have supposedly obliged the government to bring forward the Terrorist and Disruptive Activities (Prevention) Bill and get it passed by Parliament in frantic haste. Actually the events since the bomb explosions have demonstrated clearly that the government does not need any fresh powers to deal with terrorism; the police have been able to arrest whoever they wanted to, secure their remand for extended periods (of course, with no question of any of the arrested persons being granted bail by any court) and 'interrogate' them without let or hindrance—so thoroughly in fact that three at least of the arrested suspects have already died in police custody and even that has not created any legal hassles or even public protest. If the government has failed to contain terrorism in Punjab, as indeed it has, this is not because it has lacked the required legal powers but because its security and intelligence forces have been inept and, more important, because its handling of the situation in Punjab over the last many years has created an environment conducive to the growth of terrorism. As far as the last mentioned factor is concerned, what is called for is not the enactment of yet more draconian laws but the undoing of the unfortunate consequences—in terms of the sense of fear, disaffection and alienation that has been created among large sections of the Sikhs in Punjab—of the use of the already enacted special laws such as the Punjab Disturbed Areas Act, the Armed Forces Special Powers Act, the Terrorist Affected Areas (Special Courts) Act, and so on.

The Terrorist and Disruptive Activities (Prevention) Act has therefore to be viewed more generally as yet another piece of legislation enhancing the police powers of the government and correspondingly abridging the civil rights of the people. While rushing the Bill through Parliament the Law Minister sought to assure opposition MPs that the new law would not be used against political parties and the government's political opponents. However, what would have been more relevant was to know from the minister, not when or against whom the law would not be used, but whether it would in fact be used in situations to which it clearly applies. The new Act defines 'terrorist activities' to include use of bombs or explosive or inflammable substances or firearms or other lethal weapons with the intent to overawe the government or strike terror in any section of the people or alienate any section of the people or adversely affect harmony among different sections of the people. If such action results in the death of any person, the Act prescribes the death penalty; in other cases the punishment prescribed is imprisonment for a term which will not be less than five years but which may extend to a term of life. The definition of 'terrorist activities', it will be seen, exactly fits cases of attacks against the rural poor and against dalits and backward castes as well as instances of communal violence ('use of firearms, inflammable substances or other lethal weapons' to 'strike terror in a section of the people' or to 'adversely affect harmony among different sections of the people'). All too often in these attacks the victims are killed and not always in ones and twos but in large numbers sometimes. Will the Law Minister affirm that the perpetrators of these 'terrorist activities' will henceforth be proceeded against under the Terrorist and Disruptive Activities (Prevention) Act? Will those responsible for a latter-day Kilvenmani or Belchi or Ansari Baug (where some 30 Muslims were massacred in last year's communal riots in Bhiwandi) be punished as prescribed by the new Act?

No, never; of that one may be sure. These criminals will continue to go scot-free; or if apprehended, to be charged under the mildest sections of the Criminal Procedure Code and the Indian Penal Code; and even thereafter the evidence against them will be so diluted by an obliging government that more often than not the courts will continue to be able to let them go with quite a clear conscience.

It is against this established pattern of highly selective use of laws that the vast powers with which the Terrorist and Disruptive Activities (Prevention) Act has now armed the government have to be viewed. Under the Act the government is empowered to make rules to impose censorship ("preventing . . . the spread . . . of reports . . . likely to cause disaffection or alarm or to prejudice maintenance of peaceful conditions in any area or part of India or to promote feelings of ill will"), to tamper with postal and telegraphic communications ("delaying, seizing, intercepting or interrupting of postal articles or telegraphic or telephonic messages"), to prevent normal political activity ("prohibiting or regulating meetings, assemblies, fairs and processions"), and so on. The rules made would also provide for arrest, trial and punishment of persons contravening any of the rules and seizure, detention and forfeiture of any property in respect of such contravention. The Act empowers the government to dispense with the normal safeguards for ensuring fair trial by constituting special courts, called 'designated courts', for trial of cases under the Act. The proceedings of the designated courts would be secret and the identity and addresses of witnesses may also not be disclosed. Appeal from any decision of a designated court will lie only to the Supreme Court. The police can seek initial remand of a suspect for 60 days and can then keep him in remand for a total period of a whole year without furnishing the charge-sheet.

Who can say that the legal framework for a police state is not being speedily assembled?

## *Andhra Pradesh*

### No Mid-Day Meals for Poor Children

*M Shatrugna writes:*

THE abrupt discontinuance of the much publicised mid-day meals scheme (MMS) of the Andhra Pradesh government exposes not only the slipshod manner in which the scheme was formulated and implemented but also the triumph of vested interests at all levels in the administration in scuttling another programme meant for the weakest among the poor—children of the rural poor.

The MMS which formed a part of the 1982 election manifesto of the Telugu Desam had been actually inaugurated by the then Congress(I) Chief Minister K Vijayabhaskara Reddy on November 14, 1982, just before the 1983 assembly poll, to 'prove' that it was a programme of the Congress Party. The Congress(I) sanctioned as much as Rs 38.40 crore for the programme for the period between November 1982 and March 1983. The aims of the scheme were (1) to raise enrolment in primary schools, (2) to improve school attendance and reduce the number of drop-outs, (3) to provide nutritious supplementary food, and (4) to gradually reduce feelings of caste and creed distinctions among children. Initially, under the programme a bun of 50 gm and 100 ml of milk per day per head were to be supplied to roughly 35 lakh children studying in classes I-V in all primary schools in the state. The scheme was to be in addition to the earlier CARE programme being implemented in the five coastal districts and the ready-to-eat (RTE) programme in Hyderabad and Secunderabad.

In a note presented to the state assembly in March 1983, the government claimed that the MMS had successfully achieved the first three objectives, though it had failed in the fourth, *viz*, that of getting children belonging to the upper castes to share the meal with lower caste children. It was estimated that more than one lakh extra students had been enrolled due to the MMS. To make the scheme more viable—though this amounted to diluting the fourth objective which in any case had not been achieved—it was decided to limit the scheme to children belonging to scheduled castes and tribes, backward castes and economically backward classes.

The NTR government allocated Rs 50 crore in its 1983-1984 Budget. It also decided to appoint separate staff to prepare food for the MMS, relieving teachers of the additional burden. The district collector was made overall incharge of the scheme. Local bodies, including mahila mandals, were entrusted with the preparation and distribution of food. Of the Rs 50 crore allotted, Rs 40.50 crore was meant to go for the cost of the food and the rest was to meet establishment charges.

But the scheme soon came under attack from different sides. While ruling party MLAs alleged that local bodies headed by Congress(I) supporters were not implementing the scheme in earnest, the non-Congress(I) opposition legislators were inclined to write off the scheme as a 'failure' and suggest that the state's 'meagre resources' should be directed to more useful areas, such as construction of school buildings. These legislators did not seem to realise what a potent inducement food was to draw children of the deprived sections to schools.

Though the government had claimed that the three major objectives of the scheme had been achieved, its Budget for 1984-85 actually showed a cut in allocation for the scheme to Rs 33 crore. At the same time, in a second report on the scheme presented to the assembly in March 1984 the government said it was 'optimistic' that over 40 lakh children would be covered by the scheme. The enrolment of scheduled caste students had apparently gone up from 10.67 lakh to 11.30 lakh and that of scheduled tribe students from 2.77 lakh to 3.20 lakh between March and December 1983. However, the lengthy note also conceded that the Rs 33 crore allotted would be sufficient for only 140 days in the year whereas the number of working days in schools were 220. The note 'hoped' that the diet consisting of rice (100 gm), dal (15 gm) and oil (5 gm) would give each child 10.1 gm of protein and 450 calories of energy.

Against this background, the state's 1985-86 Budget presented in March, came as a shock. It made no mention of the scheme at all. And now its abandonment has been formally announced. The reason advanced is that there was 'corruption' at all levels of the implementation of the scheme. The real reasons are different, however. First, the local authorities belonging to the upper castes never liked the scheme meant for the poor. Especially after it was decided to restrict the scheme to the scheduled castes and tribes and the backward classes, even the little enthusiasms the local bodies had initially shown died down. Even the non-Congress(I) opposition parties attacked the scheme instead of making concrete suggestions to improve it. All in all, it is ironic that a scheme meant for the children of the rural poor should be wound up so summarily, with hardly a voice raised in protest, in the first year of the 'Decade of the Child'.

## *IRDP*

### Reworking the Sums

ABOUT two years ago, while releasing the Mid-Term Appraisal of the Sixth Five-Year Plan, the Planning Minister and the Planning Commission had spoken ecstatically of the grand strides made in eradicating rural poverty. As many as 34 million poor persons were claimed to have been pushed above the poverty level in 1980-81 and 1981-82 by specially targeted measures, chiefly the Integrated Rural Development Programme started in 1980. Analysts strongly contested this claim, proving it to be largely unfounded. Possibly the criticism has had a sobering effect. The Union government is now making claims about the rural poverty programmes in a somewhat guarded and quieter manner.

The Sixth Plan document had envisaged that roughly as much as a third of the rural poor would be lifted over the poverty line between April 1980 and March 1985 by schemes like the IRDP. In this context an official press release, issued by the government this week, has made the claim—apparently more out of bureaucratic routine than with any evident conviction—that the IRDP had succeeded in eradicating poverty amongst 15 million households during the Plan. The statement does mention certain qualifications. The small scale industries that the beneficiaries had set up, it notes, could survive only if back up services like the supply of raw materials, quality control and marketing were made available by state governments. The release also mentions that certain evaluation studies had pointed out that the malfunctioning of the IRDP, in such matters as wrong identification of the poor, was because the District Rural Development agencies did not adhere to the prescribed procedures and guidelines. In other words, the government is making a not so subtle attempt at shifting the blame for shortcomings of IRDP onto other bodies, such as the state governments and district authorities who are also involved in the scheme.

But such issues are indeed peripheral when compared to the claim of the impact in terms of eradicating poverty. The Planning Commission's method of computing the effectiveness of the IRDP during the Sixth Plan is evidently the same as the one on which the Mid-Term Appraisal's calculations of rural poverty eradication were based. Amongst the 15 million households that supposedly benefited from the IRDP are the 2.72 million families uplifted in each of the first two years of the Plan, i e, 1980-81 and 1981-82. Sundaram and Tendulkar have, after a critical evaluation, punctured the claims made in the MTA for 1980-81 and 1981-82 (*EPW*, June 30, 1984 and November 5-12, 1983). Their criticisms would necessarily hold for the entire Plan period too and are therefore worth recapitulating briefly.

The effectiveness of the IRDP depends on the consumption gap to be bridged so as to just cross the poverty line and the income increment flowing from the financial resources transferred to the beneficiary. The financial resources transferred consist of a subsidy component and a loan component. The subsidy component in turn depends on how much of the Plan funds utilised under IRDP are available for providing subsidies to the beneficiaries after meeting the financial requirements of development administration and infrastructural development. It is also well known, Sundaram and Tendulkar point out, that there are 'leakages' between the amounts shown in official records as resources transferred to the beneficiaries and those actually reaching the hands of the beneficiaries. Then the location of the beneficiary household within the consumption distribution and whether it in fact receives the average income increment are other factors to be taken into account. On considering all these issues Sundaram and Tendulkar noted that in the two years together 2.72 million households or, on the assumption of an average household size of 5.2, 14.14 million persons could have been lifted above the poverty line on account of IRDP. But then, as they further pointed out, the existence of 18 or more million additional people is not recognised by officialdom because of their steadfast refusal to correct the census totals for the undercounting evident from post enumeration checks, which itself are known to undercount the population in the 0-4 group. On these very grounds, even without a similar study for the entire Sixth Plan period, it can be safely concluded that the Planning Commission's claims of poverty reduction are a paper exercise.

## *United States*

### Less Bangs Per Dollar

DEFENCE appropriations in the US over the past four Reagan years add up to over a trillion dollars, over one-third above those for the four years immediately preceding. For 1985-86, the original proposal was to raise the provision by a further 6 per cent. It is now doubtful if Congress will approve an increase of that order. The US Senate wants to keep the defence appropriation at the same real level as in 1984-85. The US House of Congress wishes to keep it at the same absolute level and not even allow for the inflation factor. Clearly, the wind is blowing in the direction of a freeze on defence spending.

Whatever level of defence appropriation is ultimately agreed upon, the most interesting aspect of the discussion on the subject is that in spite of the pleas from the Administration about the absolute urgency of the proposed increases in defence spending, very few are taking these pleas seriously. While in February 1980, three out of five Americans were in favour of increased defence spending, today not even one out of ten favours that.

What could this change in American attitude be ascribed to? Certainly not to lack of trust in the Administration that was voted back to power with a massive majority hardly a year back. An important factor is perhaps the revelation in recent months of the gross mismanagement and waste that pervades defence spending in the United States so that increased defence allocations have, as a Republican Senator puts it, "actually bought high costs and overheads rather than more tanks, ships and planes". The argument that the present Administration has gone in for much more sophisticated arms does not bite in view of the unending stream of revelations about the way US defence contractors have over-charged and over-billed their own government.

A recent study of the Congressional Budget Office showed that while funds for aircraft rose 75 per cent in constant dollars between 1977-80 and 1982-85, the number of planes increased by only 9 per cent. Also the number of missiles purchased rose by 6 per cent despite a 91 per cent funding increase. Major US corporations like General Dynamics and General Electric have been found to be indulging in fradulent practices in order to claim excessive amounts from their government in the fulfilment of their defence contracts. The story of how toilet seats were billed at the rate $ 600 a piece, one hammer cost the Pentagon $ 435 and four-cent diodes cost the department $ 110 each have been making news for quite some months now. Most recently, General Electric has admitted to over-charging the department in cost over-runs on Minuteman missile contracts. Of $ 28 billion sales by the company in 1984, one-fifth was accounted for by sales to government. The company managers forged employees' time cards and juggled figures in such a way as to switch cost over-runs from the fixed price part of the company's contract to the cost-plus parts of the contract.

The House Armed Services Committee has just put out the names of seven big companies, General Dynamics, Sperry, Tenneco, Textron, Mcdonnell Douglas, Rockwell and Boeing, which have over-billed the government to the tune of $ 4.3 billion between 1972 and 1982.

It is because of these reports that the US Administration finds itself in a corner. Although the President continues to resist strongly demands for any reduction in defence spending, he has already given his consent to the Senate's formula for zero real growth. He may well have to agree to a freeze in absolute terms as demanded by the Lower House. But whether or not he and his administration would draw the right lesson, *viz*, increased defence spending does not amount to increased defence, is yet to be seen. This is a lesson for others as well, not just the US Administration.

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# Import-Based Consumption Boom

THE vanaspati industry has, it would appear, succeeded in its efforts to prevent any major change in government policies on supply of imported oils to the industry. At one time the industry had feared that, in an attempt to reduce the import bill on account of edible oils, the government might drastically cut the allocation of imported oils for vanaspati production. The government has been under pressure to do this also from oilseeds farmers and oil processors. However, the latest indications are that the vanaspati industry will suffer a cut of no more than 5 percentage points in its quota of imported oils. The industry currently gets imported oils to meet 60 per cent of its requirements; this may now be reduced to 55 per cent. Against this, the industry has been allowed to use solvent extracted mustard/rapeseed oil to the extent of 10 per cent of its oil requirements from June 1. This was announced by the Union Food Minister earlier this month.

What the vanaspati industry's agitated response to the prospect of a cut in the supply of imported oils has brought out is that the industry has come to regard that it has a permanent right to be supplied with imported oils. The responsibility for spoiling the industry in this manner is, of course, the government's. Till March this year, fully 95 per cent of the industry's requirements of oils were being met through imports; 65 per cent was made available at a specially low price of Rs 9,500 per tonne and 35 per cent at Rs 13,000 per tonne. In return, the industry is supposed to have accepted informal price control. The price thus fixed is currently Rs 244.50 per 15 kg tin of vanaspati.

There have been doubts about the worth of this informal price control; it has readily broken down whenever there has been a sharp rise in the prices of edible oils. This is hardly surprising since it goes against commonsense to expect that the price of vanaspati can be held below that of vegetable oils. That being so, two questions arise.

First, has it been wise on the part of the government to deliberately stoke the consumption of vegetable oils by importing large quantities of these oils. Thus, despite the 1983-84 oilseeds, crop having been a record one at 12.81 mn tonnes, the import of vegetable oils in 1983-84 (oil year, November 1983-October 1984) too touched the record level of 16.34 lakh tonnes worth Rs 1,319 crore (compared to 11.50 lakh tonnes worth Rs 507 crore in 1982-83 when the oilseeds crop was only 10 mn tonnes). The government has made the same mistake in sugar: in an attempt to prevent the price of sugar from rising, the government has sharply increased the monthly releases of sugar for sale in the open market. The result has been a steep rise in sugar consumption which has compelled the government to resort to import of sugar as well. It is also clear that this consumption bonanza sustained by imports has mostly benefited the well-off. The poor have certainly had little share in the much increased consumption of vegetable oils or sugar in the country.

Second, even if some import of vegetable oils is considered necessary to keep prices in check, is supplying the bulk of the imported oils to the vanaspati industry the most effective way of achieving this objective? An alternative course would have been to use the imported oils for enlarging the supply of oils through the public distribution system. The government is clearly not inclined to pursue this course. In the effort to bring down the import of vegetable oils, while it has shown such tender care for the interests of the vanaspati industry (paring the industry's allotment of imported oils by a mere 5 percentage points), it has effected a drastic reduction in the monthly allocation of imported oils to the state governments for sale through the public distribution system. Thus the allocation for April at 58,670 tonnes was about 20,000 tonnes lower than the average monthly release since July 1984.

Enrichment of the vanaspati industry has, it is evident, become the primary rationale of import of vegetable oils.

## *Jute*

### Evading Basic Issues

IT is unlikely that the condition of the jute industry would begin to improve with the implementation of the Union government's proposal to fix a ceiling on raw jute prices. The ceiling would at best be a kind of patchwork that can hardly overhaul the major long-standing problems affecting this traditional industry. In any case it will be a temporary measure since it is expected to operate only till the fresh harvest comes in July.

Three jute mills, employing 7,000 workers, have been virtually closed permanently. Lockouts are being declared by the managements of several others. Presently as many as a third of the 62 mills in the country lie shut in this manner, affecting a further 72,000 workers. The concerned managements claim that chronic labour problems have pushed them to take such a step. This is contested by the trade unions, including the Congress(I)-led INTUC, who accuse the managements of wanting to maximise their earnings at the cost of the workers and of the long-term prospects of the industry itself. Apparently the Union government too does not accept the mill-owners' claims.

The two-day meeting held in Calcutta this week—attended by Chandra Shekhar Singh, Union Minister of State for Textiles, certain ministers of West Bengal, state and Union officials, representatives of trade unions and of mill-owners—was convened primarily with the intention of finding ways to restart the closed mills. The Union government's plan to fix a ceiling on raw jute prices was announced by Singh after the meeting on May 21.

The price of the fibre did move up to over Rs 1,000 per quintal in early 1985, i e, to more than four times the level prevailing in 1982. But since the past month or so the price has been declining, probably partly because of the fall in demand resulting from the closure of the 21 mills. Also, the demand (and price) of finished jute goods, which had spurted to a new peak in November-December 1984, has considerably slackened and thereby contributed to the dampening of the demand for raw jute. Then it is also likely that the traders-industrialists, who had hoarded the fibre for speculative purposes, may have started unloading their stocks. This is because the fibre price has slumped from its peak and the coming crop is estimated to be a much bigger one than the crop of 7.3 million bales in 1984-85.

The imposing of a ceiling on the fibre's price might help further depress its price. But it is doubtful whether such a measure will lead to a re-opening of most of the closed mills. The ceiling will have to be sufficiently low to induce the owners of the 21 mills to restart their operations. But then the traders would be unwilling to off-load their stocks at a low price, *vis-a-vis* the peak attained over the past year, on the plea of running into losses. The Union government has threatened to take penal action against hoarders. But past experience indicates that such threats are seldom implemented seriously. Ironically the public sector Jute Corporation of India will turn out to be a major loser if the ceiling is imposed. The JCI has been purchasing the fibre even in the lean season and not exclusively during the harvesting months as it is expected to. The Corporation, apart from thereby aiding the speculators in their activity, has paid a higher price for such off-season purchases. A price ceiling lower than the JCI's purchase price would mean a loss to this Union government undertaking.

The Textile Minister had added that attempts to revive the demand for jute goods would be made by ensuring that government undertakings like the Food Corporation of India, which are amongst the principal buyers, place additional orders. However this expected fresh demand may still not be sufficient to reopen all the mills. Cheaper synthetic substitutes like HDPE packaging are already being used in the country, particularly following this year's steep hike in the price of jute goods. The effectiveness of the Union government's resolve to stop further expansion in the use of synthetic substitutes remains to be seen. All in all the squeezing out of the maximum returns by the millowners (and traders) without bothering to modernise and reduce costs has now boomeranged in the form of synthetic substitutes.

## *International Monetary System*

### Squeeze on Third World

THE currently prevailing world monetary and financial conditions are imposing heavy costs on developing countries, including severely constraining investment in these countries, on which genuine adjustment and sustained development depend. This is the finding of a Report by the UNCTAD secretariat on "The International Monetary System and Financial Markets: Recent Developments and the Policy Challenge".

The report states that the tight monetary policy of the United States has not forestalled recovery in that country because of its expansionary fiscal policy, but it has constricted the policy options of other developed market-economy countries, influenced exchange rates, and increased the debt burden of developing countries. The developed market-economy countries have in principle the option of using fiscal instruments to avoid many of the consequences of the rise in dollar interest rates, thereby making the world recovery stronger and more robust. The developing countries have no such means to offset the impact of United States monetary policies or of other external shocks. Their reserves and liquidity have dried up, while private flows in the form of bank lending and export credits have contracted; indeed, the net transfer of financial resources is negative for many countries. Such financing as is available from private and public sources is for the most part conditional on monetary and fiscal retrenchment.

International bank lending to many of the developing-country borrowers, the Report continues, no longer reflects normal market processes but collective decision-making in which lenders have the predominant voice. The aim is, on the one hand, to prevent banks from so restricting their lending that debtor countries are unable to meet the interest due and, on the other hand, to ensure that debtors take whatever measures are needed to improve their trade balance. The possibilities of their doing so *via* import cuts having been exhausted, export expansion is now being emphasised. The scope for export growth, however, is limited both by the supply capabilities of developing countries and by demand-side factors, including protectionism. Consequently, efforts to 'adjust' quickly *via* expenditure reduction and devaluation tend to result in severe deflation and social conflicts, and to put at risk the terms of trade and long-term export capabilities.

However, an investment-led strategy of export expansion and import substitution, which is a *sine qua non* for successful long-term adjustment, is being made extremely difficult by the stringency in private financial markets; by the constricted supply of liquidity, payments support and long-term financing available from official sources; by the exceptionally high level of interest rates; and by the slow pace of recovery in developed market-economy countries.

## LETTER TO EDITOR

# Marxism in India

THE essay in the 'Perspectives' section of *EPW* of March 30, ('Marxism in Punjab' by Pritam Singh) raises interesting questions with refreshing directness. It is time people cut through the undergrowth of special jargon to reach towards realities. The lessons of Punjab seem to me applicable, with suitable modifications, to other regions of India.

The essay is outspoken in its criticism of the stagnation of the left parties. The apparent symptoms of stagnation are intellectual backwardness and lack of political initiative as well as a spirit of conformity imposed by the leadership on the ranks. Though the author does not say so explicitly, it seems that the failure to deal with new social developments politically and intellectually stems from the same root. The rural petit-bourgeois base of the major left parties seems to have led to a politics of economism and reformism rather than revolutionary advance. Hence the neglect of theory as well as failure to respond to new circumstances and social forces.

Incidentally, the notion of a 'monolithic discipline' developed in a backward autocratic environment in Russia, and under Stalin it acquired a ruthless character during a period of imperialist encirclement. It is a moot point if present-day parties should stick to that tradition, especially if it becomes a fetter on further growth. If the few formulas developed under Comintern guidance have ceased to be fruitful, intellectual and political conformism ought to be abandoned in favour of fresh Marxist analysis and understanding.

The essay goes on to remark that on the cultural front the left has been very active. It has reportedly fought vigorously against communalism, oppression of women, etc, through theatre and other media. But the point is that unless the politics of the party is on the frontline of social development, other forces than the left are likely to benefit from such progressive cultural work. The Central government for example is likely to be pleased with the impact of such cultural work against Akali obscurantism.

The essay refers to the specificity of the Sikh problem which defies conventional formulas. Unless the author supports, a Sikh state, whether within or outside the Indian Union, the problem can hardly be understood without understanding and transformation of the Hindu role in Punjab. Both the Akalis and the leaders of the Assam movement, as well as the leading elements elsewhere of such mass-movements as 'anti-reservation' agitations, have undoubted mass-base, but are totally detached from radical and democratic ideas. How is the left to understand and combat their conservative outlook without alienating the masses? That remains a major problem.

It is ironical and instructive that left-wing publicists have recently described a 180 degree turn from aesthete-like downgrading of the masses to a Maoist worship. Much is made of the spontaneous creativity of the masses. But even the British *guru* Raymond Williams cannot demonstrate that the co-operative clubs, mutual-aid teams and friendly societies of working-class culture in Britain have been immune to the devitalising viral attacks of middle-class culture. Indeed, while such cultural responses are heart-warming evidence of resistance to capitalist hegemony, they fail to stem the tide of capitalist culture and eventually turn into outposts of capitalist culture in the proletarian hinterland. Raymond Williams does not study (one wishes somebody else would) how British working-class culture, dominated and structured by middle-class radicals without revolutionary ideology, has helped in stabilising and strengthening British *capitalist* rule.

The left parties' scepticism regarding the winds of change are understandable against such a background. But the history of Marxism is sufficient evidence that creative Marxism is by no means a surrender to revisionism in every instance. The risks must be taken, however great they may be.

HIREN GOHAIN

Gauhati.

| **Index Numbers of Wholesale Prices** (1970-71 = 100) | Weights | Latest Week (4-5-85) | Variation (Per Cent) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85$^{++}$ | In 83-84 | In 82-83 | In 81-82 |
| All ommodities | 1000 | 349.9 | 1.1 | 7.8 | 1.5 | 7.2 | 9.2 | 2.6 | 9.3 |
| Primary Articles | 417 | 326.2 | 1.1 | 5.6 | 0.8 | 5.1 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 303.8 | 2.3 | 7.7 | 1.5 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 309.3 | −1.9 | 2.6 | 1.1 | 3.7 | 15.7 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 555.6 | 0.8 | 9.5 | 1.9 | 7.3 | 6.7 | 7.5 | 20.7 |
| Manufactured Products | 499 | 334.9 | 1.1 | 9.1 | 2.0 | 8.9 | 8.3 | 0.6 | 5.2 |

| **Cost of Living Index** | Base | Latest Month | Variation (Per Cent) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Over Last Month | Over Last Year | Over March 1984 | In 83-84 | In 82-83 | In 81-82 | In 80-81 |
| For Industrial Workers | 1960 = 100 | $585^2$ | −0.5 | 4.3 | 4.8 | 12.6 | 7.8 | 12.5 | 11.4 |
| For Urban Non-Manual Employees | 1960 = 100 | $538^1$ | 0.2 | 6.8 | 6.5 | 10.3 | 8.0 | 11.9 | 11.8 |
| For Agricultural Labourers | July 60 to June 61 = 100 | $523^1$ | 0.2 | — | 1.8 | 11.4 | 5.2 | 12.4 | 9.7 |

| **Money and Banking** | Unit | Latest Week (26-4-85) | Variation Rs Crore (Per Cent in Brackets) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85$^{++}$ | In 83-84$^{++}$ | In 82-83 | In 81-82 |
| Money Supply ($M_3$) | Rs Crore | 1,02,351 | 1,871<br>(1.9) | 15,018<br>(17.2) | 1,871<br>(1.9) | 14,651<br>(17.1) | 13,031<br>(17.9) | 10,442<br>(16.7) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 51,169 | 4,152 | 8,664 | 4,152 | 6,509 | 5,757 | 4,734 | 4,965 |
| Bank Credit to Commercial Sector | Rs Crore | 69,695 | 648 | 9,429 | 648 | 9,320 | 8,830 | 8,797 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 2,991 | 124 | 1,569 | 124 | 1,419 | −104 | −895 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 72,398 | 1,212<br>(1.7) | 11,384<br>(18.7) | 1,212<br>(1.7) | 10,590<br>(17.5) | 9,451<br>(17.8) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets•• | Rs Crore | 7,085 | 124 | 1,620 | 124 | 1,463<br>(26.7) | 1,233<br>(28.9) | 911<br>(27.2) | −1,468<br>(−30.4) |

| **Index Numbers of Industrial Production** (1970 = 100) | Weights | Latest Month | Average of Months• | | Variation (Per Cent) | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | 1984 | 1983 | In 1984$^{++}$ | In 1983$^{++}$ | In 1982 | In 1981 | In 1980 |
| General Index | 100.00 | $206.6^{12}$ | 191.6 | 179.7 | 6.6 | 4.8 | 4.2 | 9.3 | 0.8 |
| Basic Industries | 32.28 | $239.6^{10}$ | 237.5 | 210.7 | 12.7 | 5.5 | 7.9 | 14.6 | −1.0 |
| Capital Goods Industries | 15.25 | $197.1^{10}$ | 206.7 | 183.3 | 12.8 | 3.3 | −1.2 | 7.6 | 4.6 |
| Intermediate Goods Industries | 20.95 | $163.4^{10}$ | 161.8 | 158.5 | 2.1 | 7.7 | 2.2 | 3.7 | 0.8 |
| Consumer Goods Industries | 31.52 | $146.5^{10}$ | 156.4 | 156.6 | −0.2 | 0.5 | 5.6 | 8.2 | 0.4 |
| Durable Goods | 3.41 | $191.8^{10}$ | 189.0 | 167.1 | 13.1 | 0.1 | 3.6 | −0.1 | 3.5 |
| Non-Durable Goods | 28.11 | $147.5^{10}$ | 153.2 | 155.4 | −1.4 | −0.1 | 6.5 | 9.3 | — |

| **Foreign Trade** | Unit | Latest Month (Jan 85) | Cumulative for• | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | 1984-85$^{+}$ | 1983-84$^{+}$ | 1983-84 | 1982-83 | 1981-82 | 1980-81 | 1979-80 |
| Exports | Rs Crore | 994 | 9,258 | 8,131 | 9,866<br>(11.7) | 8,834<br>(13.2) | 7,803<br>(16.3) | 6,711<br>(3.9) | 6,459<br>(12.8) |
| Imports | Rs Crore | 1,977 | 13,122 | 12,625 | 15,763<br>( 9.8) | 14,360<br>(5.0) | 13,671<br>(9.2) | 12,524<br>(40.6) | 8,908<br>(30.7) |
| Balances of Trade | Rs Crore | −983 | −3,864 | −4,494 | −5,897 | −5,526 | −5,868 | −5,813 | −2,449 |

| **Employment Exchange Statistics** | Unit | Latest Month (Nov 84) | Cumulative for• | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | 1984 | 1983 | 1983 | 1982 | 1981 | 1980 | 1979 |
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,649 | 23,649 | 21,707 | 21,953<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) | 14,334<br>(13.1) |
| Number of Registrations | Thousand | 447 | 5,991 | 6,019 | 6,555<br>(11.8) | 5,862<br>(−6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) | 6,132<br>(15.1) |
| Number of Vacancies Notified | Thousand | 51 | 686 | 784 | 828<br>(1.0) | 820<br>(−8.4) | 895<br>(6.6) | 840<br>(−4.1) | 876<br>(5.8) |
| Number of Placements | Thousand | 30 | 376 | 456 | 486<br>(2.5) | 474<br>(−6.1) | 505<br>(5.2) | 480<br>(2.6) | 468<br>(2.6) |

• For current year upto latest month for which data are available and for corresponding period of last year.
•• Excluding gold and SDRs.
+ Variation in current year upto latest month for which data are available over corresponding period of last year.
+ + Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript$^1$ indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

# Deeper into Agrochemicals

**Hansavivek**

*NATIONAL ORGANIC CHEMICAL INDUSTRIES (NOCIL)* proposes to increase its participation in the agrochemicals business and is seeking government permission to undertake manufacture of Phosphamidon and DDVP. The project is estimated to cost Rs four crore. It has also submitted an application for the manufacture of sulphonates and sulphates of linear alkyl benzene/dodecyl benzene/alpha olefins/fatty alcohols and detergents based thereon at a cost of about Rs 6.4 crore. In addition, the company is considering a number of other possible areas for investment and marketing as a means of achieving growth in the future. After successfully overcoming teething troubles of the monocrotophos plant, experienced in 1983, the company has been able to achieve operation of the plant at design capacity despite repeated power interruptions. The company started commercial production at the cypermethrin plant in September 1984 and it has been operating smoothly. The petrochemicals plant showed a satisfactory performance during 1984, after four rather poor years. This could be possible as a result of the cumulative effect of steady operations with few breakdowns, careful monitoring of utilities and yields, a continuing search for improved efficiency and operating economies and the beneficial impact of investments on modernisation in earlier years. The company achieved a number of production records during the year, the most significant being the production of nearly 72,000 tonnes of ethylene as against the previous high mark of about 63,000 tonnes reached in 1978.

While sales increased from previous year's Rs 156.47 crore to Rs 200.18 crore, gross profit jumped from Rs 10.32 crore to Rs 26.96 crore. Gross margins have been thus doubled. Net profit amounted to Rs 14.02 crore against a mere Rs 2.02 crore, even though provision for depreciation required more and tax liability a crore of rupees against nil previously. Dividend has been stepped up four points to 16 per cent and is covered as much as 3.65 times by earnings, whereas nearly a fourth of last year's lower payment was short-earned. These good results were obtained despite increases in costs. The price of electricity increased by 7.25 paise per unit. The full impact of the increase in water charges by MIDC from Rs 2 to Rs 3 per cubic metre effective from mid-October 1983 was felt during the year. The base price of chlorine increased by about Rs 335 per tonne resulting in an overall rise of about Rs 420 per tonne inclusive of duties/taxes, an increase of 66 per cent over the 1983 price. Recoveries through increases in selling prices to offset these cost increases were made by the company to the limited extent possible. The company had earlier estimated a contingent liability of Rs 26 lakh in respect of income-tax on account of retrospective amendment to Section 80 J of the Income-tax Act. This has been recalculated at Rs 11 lakh after having regard to appellate decisions affecting the tax liability of the company for the relevant years. Provision for the sum

## The Week's Companies

*(Rs Lakh)*

| | | Nocil | | Colgate | | Otis Elevator | | Reckitt and Colman | |
|---|---|---|---|---|---|---|---|---|---|
| | | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 30-11-84 | Last Year 30-11-83 | Latest Year 29-12-84 | Last Year 29-12-83 |
| Paid-up Capital | | 2400 | 2400 | 393 | 393 | 252 | 252 | 300 | 300 |
| Reserves | | 3135 | 2129 | 781 | 591 | 618 | 596 | 636 | 511 |
| Borrowings | | 9050 | 8936 | — | — | 34 | 40 | — | — |
| *of which* Term borrowings | | 3620 | 3105 | — | — | 34 | 40 | — | — |
| Gross fixed assets | | 13974 | 13528 | 418 | 400 | 958 | 761 | 849 | 740 |
| Net fixed assets | | 7620 | 7899 | 266 | 266 | 442 | 425 | 544 | 481 |
| Investments | | 832 | 253 | — | — | 2 | 2 | 269 | 118 |
| Current liabilities | | 2395 | 2255 | 707 | 819 | 4053 | 3255 | 974 | 892 |
| Current assets | | 8527 | 7547 | 1616 | 1538 | 4513 | 3714 | 1092 | 1097 |
| Stocks | | 4359 | 4268 | 1138 | 1096 | 2568 | 2078 | 571 | 495 |
| Book debts | | 1979 | 1982 | 154 | 109 | 1265 | 1031 | 97 | 84 |
| Net sales | | 20018 | 15647 | 9276 | 8088 | 2693 | 2079 | 2841 | 2592 |
| Other income | | 592 | 459 | 85 | 50 | 78 | 61 | 56 | 38 |
| Raw material costs | | 8544 | 6825 | 5804 | 4972 | 1301 | 932 | 1195 | 1064 |
| Wages | | 1153 | 964 | 377 | 356 | 801 | 611 | 629 | 551 |
| Interest | | 1318 | 1385 | — | — | 5 | 6 | 3 | 2 |
| Gross profit (+)/loss (−) | | 2696 | 1032 | 1734 | 1581 | 607 | 510 | 607 | 519 |
| Depreciation provision | | 1194 | 830 | 30 | 25 | 113 | 96 | 36 | 33 |
| Tax provision | | 100 | — | 1314 | 1163 | 304 | 233 | 380 | 342 |
| Net profit (+)/loss (−) | | 1402 | 202 | 390 | 393 | 190 | 181 | 191 | 144 |
| Investment allowance reserve | | 220 | 760 | — | — | 15 | 11 | 11 | 83 |
| Transfer to reserves | | 798 | — | 115 | 138 | 7 | 107 | 114 | 1 |
| Dividend | | | | | | | | | |
| Amount | P | — | — | — | — | — | — | — | — |
| | E | 384 | 288 | 275 | 255 | 63 | 63 | 66 | 60 |
| Rate (per cent) | P | — | — | — | — | — | — | — | — |
| | E | 16 | 12 | 70 | 65 | 25 | 25 | 22 | 20 |
| Cover (times) | | 3.65 | 0.70 | 1.42 | 1.54 | 3.01 | 2.87 | 2.90 | 2.40 |
| *Ratios* (per cent) | | | | | | | | | |
| Gross profit/sales | | 13.46 | 6.59 | 18.69 | 19.54 | 22.54 | 24.52 | 21.36 | 20.02 |
| Net profit/capital employed | | 25.33 | 4.45 | 33.22 | 39.83 | 21.84 | 21.34 | 20.40 | 17.75 |
| Inventories/sales | | 21.72 | 27.28 | 12.26 | 13.55 | 95.36 | 99.95 | 20.09 | 19.09 |
| Wages/sales | | 5.07 | 6.16 | 4.06 | 4.40 | 29.74 | 29.39 | 22.14 | 21.26 |

of Rs 11 lakh has been made in the accounts for 1984.

*COLGATE-PALMOLIVE (INDIA)* has once again shown good results and stepped up total dividend by five points to 70 per cent. What is more, the directors have recommended an issue of bonus shares on a one-for-one basis by capitalising 393 lakh out of the general reserve. The issue of bonus shares is subject to the approval of the Controller of Capital Issues and, as regards the issue and allotment to non-residents, also subject to the approval of the RBI. The company's sales amounted to Rs 92.76 crore against Rs 80.88 crore in the previous year, and gross profit Rs 17.34 crore against Rs 15.81 crore. These figures reflect a small shrinkage in gross margins. With increase in tax liability, net profit has turned out to be a shade lower at Rs 3.90 crore compared to previous year's Rs 3.93 crore. The enhanced distribution is covered 1.42 times by earnings as against 1.54 times. The book value of each ten rupee share based on net worth as at the end of the year was Rs 29.88 and the aggregate dividend worked out to 23.4 per cent of this book value. A notable feature of the company's working is that it carries on its business entirely with its own funds. The loan borrowing shown in the Balance Sheet is an unsecured interest-free loan of Rs 42,010 from Colgate-Palmolive Company, USA. In recommending the issue of bonus shares, the directors have recorded their intention to propose a dividend of "not less than 15 per cent" on the expanded paid-up share capital after the issue of bonus shares. Looking to the company's profits and its past dividend record, this appears to be an ultra-conservative indication. R H Hall resigned as a director on March 11 last. No appointment has been made to fill this vacancy.

*OTIS ELEVATOR COMPANY (INDIA)* has well maintained its growth record during 1983-84 and has announced a proposal to make a bonus issue of equity shares on a one-for-one basis besides maintenance of dividend at 25 per cent, to reward the shareholders. The proposed bonus issue will involve capitalisation of Rs 252 lakh out of the general reserve and is subject to the approval of the Controller of Capital Issues and other concerned authorities. Sales and service income of the company amounted to Rs 26.93 crore against Rs 20.79 crore in the previous year and gross profit Rs 6.07 crore against Rs 5.10 crore, showing reduced profit margins because of higher costs of inputs. With both depreciation and tax liability requiring higher provisions, the gap has narrowed and net profit came to Rs 1.90 crore against Rs 1.81 crore. Equity distribution is covered 3.01 times by earnings compared to 2.87 times previously. While the total turnover of the company increased by about 30 per cent over the year, export completions of Rs 1.59 crore were 49 per cent ahead of last year. The directors state that domestic orders booked for elevators and escalators during the year were valued at about Rs 30 crore as compared to Rs 25 crore last year. Growing competition coupled with continuing increases of costs are resulting in lower margins. Export orders received have been lower at Rs 145 lakh as against Rs 177 lakh previously due to increased competition and unremunerative prices. The company's income-tax liability for assessment years 1972-73 to 1975-76 is likely to go up in view of the recent verdict of the Supreme Court in other cases. General reserve number 1, which was established at Rs 68 lakh, has been written back and provisions for taxation for the previous years correspondingly increased.

*RECKITT AND COLMAN OF INDIA* has fared so well during 1984 that the board has not only stepped up dividend by two points to 22 per cent but also recommended issue of bonus shares in the proportion of two equity shares for every five shares held by capitalising Rs 119.88 lakh out of the general reserve. The issue of bonus shares is subject to and conditional upon the consent of the Controller of Capital Issues and of the permission of RBI in so far as it relates to allotment of bonus shares to any person who is not an Indian national or is resident outside India. The company has earned a gross profit of Rs 6.07 crore against Rs 5.19 crore in the previous year following an increase in turnover from Rs 25.92 crore to Rs 28.41 crore, reflecting an appreciable increase in margins. Net profit is also higher at Rs 3.80 crore (Rs 3.42 crore). The enhanced distribution is covered 2.90 times by earnings as against 2.40 times previously. The company's R and D centre has been functioning satisfactorily. Commercial production of some of the processes developed in the laboratory for aromatic chemicals commenced during the year. The company incurred capital expenditure of Rs 115 lakh, of which about Rs 32 lakh accounted for R and D activities.

*GUJARAT STATE FERTILISERS COMPANY (GSFC)*, which hoisted new peaks in 1984—in fertiliser production at 6.42 lakh tonnes, in turnover at Rs 229 crore and in gross profit at Rs 39 crore—is looking ahead to sustained growth in the coming years. Addressing shareholders at the 23rd annual general meeting at Fertilisernagar, near Baroda, the Chairman and Managing Director, Moosa Raza said that the work on the coastal DAP project, being set up at Sikka, had been speeded up with the signing of the contract and commencement of preliminary work at the site. He expressed confidence that the proposed new ammonia plant and the expansion of the caprolactam plant, for which letters of intent were expected shortly, would substantially improve the company's growth prospects. Meanwhile, the company had made a major breakthrough by entering the international market through export of Gujlamine (melamine) to South Korea and Japan. The product is comparable to international standards. The Chairman re-assured shareholders that the company was well geared to meet the expectations of all concerned. He welcomed the pragmatic and imaginative budget proposals and the balanced import-export policy announced by the Government of India. He, however, observed that the decanalisation of caprolactam would adversely affect indigenous caprolactam operations and urged the government to consider this aspect while permitting imports of caprolactam. Raza expressed the company's deep concern for the welfare of the farmers and for rural development, which was reflected in the sustained and increased involvement in promotional and developmental activities, and, said that besides the existing package of services to farmers, the adoption of dry farming projects in selected areas of Gujarat and the development and commercial production of bio-fertilisers as a supplementary low cost input were new dimensions added to GSFC's promotional programme. A large number of shareholders including farmers from different parts of the state attended the meeting. Many of them paid glowing tributes to the company for its excellent all round performance during last year.

*RAJASTHAN STATE INDUSTRIAL DEVELOPMENT AND INVESTMENT CORPORATION (RIICO)* recently organised a special industrial promotion campaign in Bombay to offer vantage location on ideal projects for initiating industries in the 'no-industry' district of Sirohi in Rajasthan. The campaign was quite successful and many entrepreneurs evinced interest in setting up industries in that backward region. According to V B L Mathur, Chairman and Managing Director, both RIICO and Rajasthan Financial Corporation (RFC) have sanctioned about Rs 14 crore to industries set up in the Sirohi district during the past two years. The total number of beneficiaries were around 260 small, medium and large scale industries.

# Time to Play It Cool

**Romesh Thapar**

THERE is something terribly strange about the surprise that is expressed in official quarters when an eruption, terrorist or otherwise, takes place in some part of this rather large and difficult sub-continent. India is so garrulous and open about its prognostications and expectations that almost all possibilities have been discussed in the bazaars before the event.

The transistor-bombs used in the north were certainly a variation, but surely the elaborate and numerous Intelligence agencies were not unaware that the extremists-cum-terrorists would stir as the solutions to Punjab's tangles came on to the national agenda.

It is most encouraging that both the government and the public have played it cool as violence has mounted at widely separate points. Anxiety there must be, what with everyone fighting everyone in Gujarat's capital city, with newly-activised secessionists in the Kashmir Valley screaming, 'Indian dogs go back!', with the Shiv Sena in Bombay attempting to prepare a scenario for the expulsion of non-Maharashtrians from the city, and with the Sikhs in Punjab pussy-footing over the leadership ambitions of persons hiding behind the 83-year old father of Bhindranwale.

This is no ordinary summer of discontent. It is taking on dimensions very much more serious than what we have been accustomed to in the past. Indeed, at this moment of writing, the speculation is widespread whether a number of forces are not pitching in to make the going doubly difficult for the government of Rajiv Gandhi.

What, for example, is the justification for the BJP to call a provocative *bandh* in Delhi when the law-and-order position is under strain following the transistor-bomb attacks in the north? What persuades Opposition formations to urge the banning of organisations that they do not agree with (*a la* L K Advani) or the dismissal of governments newly elected with huge majority (as in Gujarat)? What is the motivation behind the move of Maharashtra's Congress Chief Minister to paly second fiddle to the vicious Shiv Sena campaign for discrimination against non-Marathas? And what thoughts are stirring among those Congressmen who have in private begun lampooning their PM as someone ill-suited to his job and disastrous for the country?

Maybe, the ruling Congress Party is moving into a kind of 1968 situation when Indira Gandhi was being confronted by the so-called Syndicate and had to move skilfully to preserve her position of power. The thrust of those days led to the Congress split of 1969. Can history again repeat itself or will it be possible to keep the dissidents within the ruling party at the level of muttering and murmering? Indira Gandhi, let it be remembered, used government patronage to do this even at the cost of vital efficiencies.

Of course, the ridiculous posturing of the frustrated *dadas* of the party around 'the imperative need for socialism' based on 'an expanding public sector' dedicated to 'the eradication of poverty' is received in the country with the contempt it deserves. The record of the party is too dismal. But Rajiv Gandhi's reluctance to spell out what his alternative programme means in the context of a just and productive society puts him on the defensive and damages him. This was clear at the AICC jamboree in Delhi.

The argument that he does not know what he wants to do is heard at every level. When he takes an intelligent stand on the Akali/SGPC business of pulling down the Akal Takht, there is immediate appreciation. He articulates an unspoken consensus. But, if economic policy-making is always controversial, why is there a failure to end the dangerous 'democratic' farce in Kashmir where elections should be held, and should we not have a spell of President's rule in Gujarat after what the state has been through? Assam, too, needs an immediate opening to proper elections. We are piling up crisis upon crisis.

Punjab, however remains the major challenge with the extremist/terrorist attempt to disrupt any kind of straightforward settlement. History teaches that often it is better governance to avoid negotiations with groups that have no fixed positions and to proceed to intelligent unilateral decision-making. Punjab is in the grip of a variation of criminalised and communalised politics, and must be salvaged in this fashion.

If the planned jail delivery of young activists has become too controversial following the bomb attacks, there is no reason why permanent machinery should not be established to deal with water and border problems which concern a number of states. Permanent commissions, under respected judicial leadership, should be available to decide on these problems. Until an Inter-State Council is agreed upon, the Sarkaria Commission which is concerned with Centre-State relations could also be turned into something more permanent. Then, only the future of Chandigarh would remain to be announced, and here there is not much to be decided.

The bureaucratic and political fear that such steps will be viewed as 'concessions' and will be claimed as 'victories' by the intemperate elements in the Sikh community could be discounted by mandatory regulations which discipline the functioning of *all* places of worship. Such regulations are overdue and would be widely welcomed by those who are deeply disturbed by the manner in which religion is being misused for politicking.

The lack of political initiatives to solve problems is being criticised all over the country. It is a debilitating factor in the present surcharged situation where all the clout is with those who want to strangle the democratic system and bury it. This effort parallels the attempt to keep the country paralysed within the existing economic stagnation. Clear perspectives are absent. Without them, the people cannot be diverted from the nihilism that is taking hold of them.

Why are we so reluctant to correct ourselves, even to re-structure palliatives which have been misread or distorted? The budget needs constant revision if we are to avoid the snares and traps of the economic lobbies, now more active than ever. So, too, stupid legislation like the enactment on urban ceilings, a vast area of evasion and corruption, or the parameters of our textile policy now floundering in confusion, or the reform of the police system already sketched in detail by an experienced commission. Who is blunting action? The bureaucracy? Or are we the victims of those elected to power who lack the courage to begin the surgery?

A fumbling Rajiv Gandhi heading a party with no commitments, an apparently energetic Jyoti Basu sitting pretty on his dying city, a damaged M G Ramachandran still happy to be all things to all factions in his party, an over-confident NTR living with his gods and goddesses and what they say to him, a still confident Solanki when all has failed, a Patil and Pawar in competition over the worst of parochial chauvinisms, an angry Faroukh Abdullah unable to think beyond disruptive *bandhs* which ruin the fragile tourist economy of the Valley and still do not return power to the people, the crazy Akali leaders constantly harping on their community's courageous history but forever surrendering to the threats of terrorist gangs . . . I could go on like this *ad infinitum*. A single R K Hegde does not herald a Spring.

Whatever brought us to this level of political imbecility? Let's play it cool until we find the answer.

*May 17.*

## ANDHRA PRADESH

# Indravelli 1985

**KB**

THE Seventh National Highway, in its run from Hyderabad to Nagpur, leaves the Godavari basin at the commercial town of Nirmal and climbs on to the West-Central highlands of Adilabad by a brisk series of twists and turns picturesquely called Mahbub ghat; and then it has a run of about 50 kms on the plateau before it dips again into the sweltering district headquarters town of Adilabad. If, on the 20th of April this year, you happened to be on this road or in the teak forest flanking it, you would have seen a very odd sight. You would have observed pickets of 4 or 5 reserve constables armed with rifles holding up traffic every now and then and subjecting the passengers of buses, lorries and jeeps to a close scrutiny. They even pull out some people from the buses, and some vehicles are stopped altogether.

The police are on the look out for people going to Indravelli. On any other day of the year Indravelli is so typical of a roadside village in a tribal area—with the tribal hutments consigned to the periphery and the road flanked by the houses of Marathi and Telugu settler landowners, of an odd Revenue or Forest or 'Tribal Development' official, and most prominently the big and ugly houses of the Marwari traders with the unmistakable swastika and the best-of-both-worlds motto *shubblaabh* daubed in simulated turmeric (that is to say yellow paint) on the door-post—that you would have wondered why the police should be interested in people going to Indravelli. But 20th of April is not any other day of the year.

Four years ago that day, on 20th of April 1981, the police fired on a large gathering of tribals organised by the Girijana Rytu Coolie Sangham for a public meeting. The meeting was first permitted and then cancelled at the last minute and Section 144 Cr PC was promulgated; tribals who could not know of the prohibition and who came walking dozens of miles along forest paths were deliberately assualted and fired upon. The exact death toll is a matter of dispute. The government maintains that only 13 persons died, and indeed only 12 names have been identified to date; but the local estimate is much higher, and a fact-finding committee of civil liberties people from Delhi and elsewhere, which included among others (and thereby hangs our tale) Manoranjan Mohanty, Professor of Political Science at Delhi University, gave its estimate as sixty.

Since that year the Sangham has made it a habit to hold a commemoration meeting at Indravelli on that date every year. A memorial monument was built amidst continuous police threats, and confiscation of the building material. On the first anniversary the police went around and so effectively propagated their threat of 'one more Indravelli' that not a single tribal turned up at the commemoration meeting. The second year, when the memorial monument was inaugurated, was better. The police blocked roads, held up buses plying along the route and pulled out anybody who had bought a ticket to Indravelli; as evening came on, they even got the buses cancelled. But the tribals came nevertheless. The third year, the gathering was about 10,000 and was addressed among others by George Fernandes. This steadily increasing success of the commemoration meeting sets half the background to what happened this year.

### Growing Strength of Tribal Movement

The other half is the steadily increasing strength of the tribal movement among the Gonds of Adilabad. The Gonds are a tribe who do not fit the romantic urbanite's notion of an *adivasi*. They dress themselves in the manner of the Maratha peasants who have occupied the lands of which the Gonds have been dispossessed. At festival times they probably put on an exotic appearance but on a normal day it is not possible to catch them in anything other than a dhoti and perhaps a full-sleeved shirt. They speak Gondi, Marathi and a smattering of Telugu and Hindi. Shifting cultivation and mahua—archetypal themes in journalistic discussions of 'tribal problems'—are no longer issues of much moment with them. Shifting cultivation is confined to the hilly slopes deep inside the forest, and the mahua is an occasional tree that stands out in lonely splendour on the deforested plains, splendid by virtue of its closely packed crown and the smell, if you know to recognise it. If you talk to the Gonds today, they are more likely to complain about the small amount the Marwari *seths* of Adilabad pay for the cotton crop. And you will believe their plaint if you visit Adilabad and look at the prosperous Marwaris, and—in the proper season—the heaps of bright white cotton by the roadside, which the people appropriately call 'silver mountains'.

The price of cotton, and land, of course.

Adilabad is a district where the 'village tank', a universal phenomenon and even an institution in the rest of Telengana, is prominently absent. In the typical village of North and West Adilabad, which is the recently deforested area, there are few tanks, few irrigation wells, and no canals, notwithstanding the fact that the district is ringed on three sides by the Godavari and two of its tributaries—the Pranahita and and the Penganga. Agriculture depends almost exclusively on rainfall, which increases the land-hunger further. The tribals have been robbed of the best land by the non-tribals and they are therefore continuously in search of new land. The only way they can get it is to cut down forests. They have always been doing this, ever since the Government of the Nizam of Hyderabad introduced non-tribal settlers into the district and parallelly adopted a forest policy of growing teak. But they have always had to contend with the Forest department, its corrupt officials, and Court cases. The main advantage they have gained with the formation of the Sangham is that their new-found collective strength deters the corrupt officials from their exactions.

The state, naturally, has never liked this. And it has reacted in the only way it knows: by deploying the police and giving them the licence to do what they please. Indravelli of 1981 was the first attack. In March last year there happened an incident that could easily have been one more Indravelli in miniature, and which was widely publicised in the Press. The setting was a bunch of villages—Satnala, Toyaguda, Jamini, Mediguda, Mangurla—a few kms to the east of Adilabad town. Tribals of this area had occupied about 300 acres of forest land, and 65 acres of land illegally retained by an ex-Makhtedar. And the peasants (both tribal and non-tribal) of Toyaguda, Mangurla and Jamini were agitating for proper compensation for the 1,000 acres of land they would lose under an irrigation project on the Satnala stream. The story of this compensation is a good instance of how every welfare measure in our country is used *against* the people. The state pays compensation according to what is called the market value of the land: but since this is a notified area where no transfer of land is permitted, the only market value available is that of many years ago, of the time before the notification. Thus, good cotton growing land worth at least Rs 25,000 per acre was paid compensation of only Rs 5,000.

In the early hours of March 10 the police raided these villages in three vans and nine jeeps, and after indiscriminate lathi charge, rounded up 60 to 70 tribals. As they put them in the vans and reached Satnala on the way back, they were surrounded by a large gathering of tribals who had come from various villages to the weekly fair at Satnala. The police lathi-charged them, fired eight rounds into the air, and compounded their catch by arresting another seventy persons. They were all thrashed mercilessly at Adilabad police station and 52 of them (including two women) were charged with assaulting and attempting to murder the police "while they were scouting the forests for a wanted naxalite". The Court, in its wisdom, refused some of them bail and they had to spend nearly a month at distant Nizamabad district jail before they could obtain bail; the others were given bail with the condition that they should stay at far-off towns like Nirmal and Bhainsa, where they would not get even the daily meals that their friends would get in jail.

Another series of assaults that took place in June-July 1984 again illustrate the cycle of proclaimed welfare and developmental measures turning against the people, and then the police being let loose on the people for harbouring naxalites. In the southern taluka of Khanapur, a major source of supplementary income to the tribals and other poor people is the collection of gum. Now, it is part of the mythology of 'Tribal Development' how the greedy private traders buy such forest produce dirt cheap from the tribals (among the more exotic stories being the exchange of a basket of tamarind for a packet of cigarettes), and how the benign state has rescued the tribals by setting up tribal co-operatives and corporations. Very few people know that these co-operatives actually pay them *less* than the greedy private traders, except that the replacement of barter of cigarettes and salt against forest produce with cash payment makes it look more civilised. The reason is that the private trader regards the forest produce procured by the tribal as the property of the tribal and pays for its value—though he pays much less than the market value. The institutions of the state pay neither the real market value nor the market value less a nominal profit for the state; they do not in the first place regard the forest produce procured by the tribals as their property at all; the forest and all it contains is the property of the state, and all that the tribal gets is a wage for procuring it, which naturally turns out to be much less than the diminished market value paid by the private trader. Speaking of Adilabad, the tribal gets only Rs five to eight per kg of gum from the tribal co-operative, whereas the private traders pay Rs 12. The 'nationalisation' of forest produce is a bigger fraud on the forest-dwellers that the commercialisation of forests that began about a century and a half ago. Its purpose has never been to ensure that the forests provide a decent livelihood to the tribals, but only to take away the forests from the petty marauders and concentrate the wealth in the hands of the state to serve the interest of the principal propertied classes of the country.

The forest-dwellers themselves may not know all this but they do know who pays them more. And so a lot of 'smuggling' takes place, to which the state reacts by setting up police stations and camps and assaulting the tribals. During June-July 1984 there were repeated raids on Dharmajipet, Kadem, Dathojipet, Gangapuram and Allampalli. A large number of people were beaten, arrested and some of them were released upon payment of Rs 200 each to the SI of Khanapur; houses were pulled down, pots and utensils smashed and limbs broken. A police camp was set up for a period at Allampalli and the policemen forcibly took 20 chicken from the people of Allampalli and three goats from the people of Gangapuram.

## 'FREE HAND' FOR POLICE

Since March 1985 things have worsened. To N T Rama Rao, his re-election this year has apparently meant that he can behave without regard to anybody's opinions. He has quickly acted in giving the police the 'free hand' that is their fondest fancy, in dealing with the peasant movement. And this brings us to the odd sight you would have seen if you had been on the Seventh National highway on the 20th of April this year.

The police decided that prohibiting the Indravelli meeting is not the best way of assaulting the tribals. They permitted the meeting, and assaulted the people as they prepared for it. They arrested the organisers, including Ganji Rama Rao, for many years member of the State Assembly before the CPI split. They arrested him at Indravelli three days before the meeting and declared to the Press that he was arrested at far-off Asifabad while extorting donations from traders by threats. They arrested students who were carrying a plaque to be attached to the monument. They drove back tribal groups coming to the meetig by driving jeeps into them. And unlike in the previous year they arrested even the speakers who had come to address the meeting. One of them was Manoranjan Mohanty, for whom this was to be a return visit to Indravelli where he had come with the fact-finding committee four years ago.

The jeep in which he and some others were travelling was stopped at the village of Gudihathnur where the road to Indravelli branches off from the highway. The jeep was stopped by barricading the road with big stones. Their bags were taken out and the contents thrown out. When they protested, they were beaten with fists and proclaimed to be 'under arrest'. The grounds of the arrest was stated to be preventive detention under Sec 151 Cr PC. After they got into the jeep they were further beaten with rifle butts. In this manner they were taken to Adilabad and the eight of them (including the jeep driver, cleaner and a friend of theirs) were thrown into a single lock-up; they were kept there till the next night without being given any food to eat, but were copiously photographed, finger-printed and interrogated. Mohanty repeatedly requested the SI to let him speak to the Superintendent of Police, for he had an air ticket to Delhi the next day where he had to attend a UGC seminar, and therefore had to get back to Hyderabad before the night. It must be presumed that the SI informed the Superintendent of Police but that gentleman was disinclined to oblige.

To their consternation and surprise the arrested persons discovered late the next night that their detention was not preventive as they had been told all along, but they were being charged (the jeep driver, cleaner and all) with having criminally intimidated the villagers of Gudihathnur by threatening to kill them if they did not go Indravelli, and further, for good measure, for having incited them to revolt against the police and proceed to Indravelli. It was with great difficulty that they could get bail next day in the Court of the Munsif Magistrate, Adilabad. The Police Prosecuting Officer pretended to disbelieve Mohanty's claim that he was a Professor at Delhi University, and challenged him to prove it!

A few days later, when some Pressmen asked N T Rama Rao why intellectuals and academics were ill-treated in this manner, he is reported to have replied: "But why should those people encourage such activities?". There is no better epilogue for the shameful episode.

## PRICES

# Seasonal Patterns Persist

(By a Special Correspondent)

PRICE behaviour in 1984-85 generally indicated an easing of inflationary pressure. The rate of price rise at 7.2 per cent was smaller than that of 8.9 per cent recorded in 1983-84. Wholesale prices rose steadily between March and August 1984 by 7.5 per cent compared to 8.0 per cent in the same period of the previous year. This was followed by a seasonal decline which continued upto the end of December 1984. The decrease of 2.2 per cent was more than that of 0.4 per cent in 1983-84. Between end-December 1984 and March 1985 prices once again rose by two per cent, against a smaller rise of 0.5 per cent in the previous year.

The year 1984-85 was the terminal year of the Sixth Plan. The wholesale price index recorded an average annual growth rate of 8.1 per cent during the Sixth Plan period, i e, between end-March 1980 and end-March 1985, which was the second highest price rise registered in any Plan period. The highest growth rate of 12 per cent was recorded in the Fourth Plan when the economy experienced the first 'oil shock'. The price rise in the Sixth Plan was the result of two successive drought years and the second 'oil shock' during 1979-81. Further, throughout the Sixth Plan period, economy experienced a higher expansion of liquidity.

An analysis of the components of the price rise in 1984-85 shows that the increase upto August 1984 and the subsequent decline till December 1984 were influenced by the movement in prices of seasonal commodities. But in the last quarter of the fiscal year (January-March) the main impulses for the price rise came from increase in administered prices of commodities (see Table 2).

Between end-March 1984 and end-August 1984, prices of seasonal commodities, accounting for a weight of about 48 per cent in the general price index, contributed about 76 per cent to the rise, against 82 per cent last year. Commodities responsible for the sharp rise during the period were mainly wage goods and included pulses (15.6 per cent), fruits and vegetables (29.2 per cent), gur (28.9 per cent), edible oils (15.2 per cent) and oilseeds (10.5 per cent). The seasonal decline between end-August and end-December 1984 was led by fruits and vegetables (−25.5 per cent), gur (−18.0 per cent), oilseeds (−4.5 per cent), fibres (−5.3 per cent) and edible oils (−4.4 per cent). In the last quarter of the fiscal year, i e, between end-December 1984 and end-March 1985 items covered by administered price regulations rose by 5.1 per cent and contributed 63 per cent to the rise of 2.0 per cent in the general price level.

The behaviour of cereal prices, especially those of rice, was most noteworthy during the year. Cereals which had gone up by 1.7 per cent between end-March and end-August came down appreciably by 3.5 per cent between end-August and end-December, reflecting the high foodgrain production and a gradual build up of buffer stocks with the government. But in the last quarter of fiscal year 1984-85 cereal prices rose by 2.0 per cent. Changes in freight charges effected in the budget contributed to this to some extent. Between March 16 and March 29 the price increase was almost one per cent.

Prices of pulses, which had been under continuous pressure during the last decade

TABLE 1: TRENDS IN WHOLESALE PRICES IN SIXTH PLAN PERIOD*

| | Weight | 1980-1981 | 1981-1982 | 1982-1983 | 1983-1984 | 1984-1985 |
|---|---|---|---|---|---|---|
| **All Commodities** | 1000.00 | +16.7 | +2.4 | +6.6 | +8.9 | +7.2 |
| **Seasonal commodities** | 481.30 | +20.0 | −3.9 | +8.0 | +13.0 | +5.9 |
| Cereals | 107.43 | +11.3 | +9.3 | +16.4 | −5.3 | +0.2 |
| Rice | (51.31) | +6.6 | +11.8 | +18.1 | −0.8 | −0.7 |
| Pulses | 21.79 | +42.0 | −11.4 | −3.2 | +28.0 | +14.9 |
| Fruits and vegetables | 61.32 | +17.3 | +5.8 | +16.7 | +2.5 | +11.5 |
| Milk and milk products | 61.50 | +12.8 | +16.9 | +1.0 | +16.5 | +4.0 |
| Egg, fish and meat | 18.97 | +10.5 | +13.4 | +14.7 | −4.5 | +18.8 |
| Condiments and spices | 10.94 | +32.1 | +11.1 | −4.5 | +40.4 | +14.1 |
| Other food articles | 16.04 | −0.8 | +3.9 | +39.9 | +36.6 | −0.8 |
| Tea | (11.49) | −7.2 | +7.1 | +50.3 | +36.1 | −3.8 |
| Fibres | 31.73 | +25.3 | −6.8 | +5.2 | +25.2 | +16.7 |
| Raw cotton | (22.46) | +35.1 | −11.6 | — | +26.1 | −5.8 |
| Raw jute | ( 4.29) | −0.5 | +11.2 | +43.9 | +41.7 | +135.7 |
| Oilseeds | 42.01 | +18.0 | −4.0 | +7.8 | +25.6 | −5.8 |
| Edible oils | 37.16 | +20.3 | +2.4 | +5.9 | +14.5 | −1.9 |
| Sugar, khandsari and gur | 72.41 | +32.1 | −33.4 | −5.5 | +28.5 | +10.9 |
| Sugar | (21.91) | +28.9 | −13.2 | −7.8 | +4.8 | +3.3 |
| Gur | (45.58) | +32.7 | −39.7 | −3.6 | +41.1 | +3.1 |
| **Administered items** | 156.67 | +25.4 | +7.6 | +5.9 | +4.4 | +9.0 |
| Petroleum crude | 6.02 | +18.3 | −7.2 | −13.3 | — | −1.6 |
| Mineral oil | 49.12 | +39.6 | +9.7 | +4.3 | +0.5 | +8.4 |
| Coal mining | 11.47 | +29.6 | — | +19.2 | +24.9 | +0.2 |
| Electricity | 24.00 | +10.4 | +15.7 | +27.5 | +5.6 | +9.4 |
| Iron and steel group | 34.73 | +19.7 | +13.0 | +12.6 | +5.1 | +23.4 |
| Non-ferrous metals | 11.78 | +9.0 | +7.2 | +2.4 | +12.2 | +7.0 |
| Cement | 7.03 | −0.1 | +56.5 | +9.4 | +8.2 | +13.0 |
| Fertilisers | 12.52 | +52.9 | +7.1 | — | −5.4 | — |
| **All other items** | 362.03 | +7.1 | +6.9 | +5.3 | +7.4 | +7.5 |

*Note:* * Variations at end-March over end-March of previous year.

TABLE 2: TRENDS IN GENERAL PRICE LEVEL

| | Weight in Per Cent | 1983-84 | | | 1984-85 | | |
|---|---|---|---|---|---|---|---|
| | | March-August | August-December | December-March | March-August | August-December | December-March |
| All commodities | 100 | 8.0 | 0.4 | 0.5 | 7.5 | −2.2 | 2.0 |
| Seasonal commodities | 48 | 15.8 | −0.9 | −1.6 | 13.4 | −7.2 | 0.7 |
| Administered commodities | 16 | 1.7 | 0.4 | 2.2 | 3.4 | 2.3 | 5.1 |
| All others | 36 | 3.1 | 2.1 | 2.0 | 8.0 | 3.1 | 1.3 |

TABLE 3: TRENDS IN CONSUMER PRICE INDEX

| | 1982-83 | 1983-84 | 1984-85* |
|---|---|---|---|
| Consumer prices | + 9.8 | +11.2 | + 5.0 |
| Food | + 9.9 | +11.7 | + 2.9 |
| Pan, supari, tobacco | + 9.3 | + 9.9 | + 8.8 |
| Fuel and light | +10.7 | +12.6 | + 9.7 |
| Housing | + 9.0 | +11.4 | +13.0 |
| Clothing and bedding | + 8.8 | + 5.0 | + 4.7 |
| Miscellaneous | + 9.2 | +13.1 | + 8.9 |

*Note:* * Data for components available only upto February 1985.

or so because of a sizeable gap between demand and supply, rose by 14.9 per cent in 1984-85. Production of pulses has remained stagnant around nine to 12 million tonnes and in their case domestic availability cannot be augmented through imports.

Prices of oilseeds and edible oils were kept in check throughout the year by import of edible oils. In 1983-84 about 16 lakh tonnes of edible oils were imported. The improved production of groundnut and coconut also helped to keep prices in check. During the year, while oilseeds decreased by 5.8 per cent as compared to an increase of 25.6 per cent in the previous year, edible oils prices recorded a decline of 1.9 per cent as against a rise of 14.5 per cent.

Domestic tea prices increased sharply in 1982-83 (50.3 per cent) and 1983-84 (36.1 per cent), reflecting the sharp rise in international prices, but recorded a decline of 3.8 per cent in 1984-85. Production of tea was around 550 mn kg in 1982, 588 mn kg in 1983, and 644 mn kg in 1984 and is estimated at 655 mn kg in 1985. Exports however rose from 190 mn kg in 1982 to 215 mn kg in 1984. The domestic price was sought to be contained by banning of export of CTC tea and requiring producers to sell a specific quantum through auctions.

Raw jute prices rose steeply by 135.7 per cent in 1984-85 on top of an increase of 41.7 per cent in 1983-84 and 43.9 per cent in 1982-83. This spurt in prices was due to lower production in the face of buoyant demand for jute goods. Import of three lakhs bales of jute in 1984-85 seems to have had no significant impact on prices.

Sugar, khandsari and gur prices have recorded wide fluctuations in recent years following variations in output. Gur prices had declined in 1982-83, but in 1983-84 and 1984-85 they rose by 41.1 per cent and 3.1 per cent, following low sugarcane production. Prices of sugar have been more or less kept stable by judicious release of sugar from the buffer stock supplemented at times by imports.

Administered commodity prices moved up by 9.0 per cent in 1984-85 against a lower rise of 4.4 per cent last year. There were increases in the administered prices of steel items, petroleum products, aluminium and electricity. Steel prices were raised by 23.4 per cent as compared to 5.1 per cent in the previous year. Though crude petroleum prices declined by 1.6 per cent in 1984-85, prices of petroleum products increased by 8.4 per cent as a result of the Budget proposals. Cement prices rose by 13.0 per cent compared to 8.2 per cent in the previous year, mainly because of an increase of Rs 40 per tonne in the retention price and also because of an increase in the basic excise duty. Increase in the statutory prices of aluminium has been responsible for the rise of seven per cent in prices of non-ferrous metals in 1984-85.

The rate of inflation as measured by consumer prices was 5.0 per cent in 1984-85 which was the lowest for any year in the Sixth Plan (see Table 3).

## BHOPAL TRAGEDY

# Failure of Scientific Community

**Padma Prakash**

LIKE a giant sloth the Indian scientific and research community takes time to move and given a choice it would not move at all. What is distressing is that even a disaster of the dimensions of Bhopal which has left thousands of people dead or suffering has not roused it from its typical lassitude and inertia. In keeping with their usual complacency, scientists and doctors spent the first few post-disaster months 'reassuring' people that MIC would not have long-term health effects even while confessing that relevant information on the toxic effects of the gas was inaccessible. Next they plunged into debates about theories and counter-theories and reduced a social catastrophe to a scientific/clinical/medical problem. But even if this had been accomplished successfully, the situation would not have been so bleak As things are, six months after the disaster, precious little has come out of the plush corridors of research.

The March update of the research being conducted under the Indian Council of Medical Research (ICMR) throws hardly any new light on the vast problem of how to treat the variety of symptoms, some of which are only now becoming apparent. The ICMR has already funded over 20 projects totalling Rs 156 lakh. All but two of them are of more than two years' duration. The main objective of the various studies is "to gain knowledge on the delayed, and long-term effects of exposure which would be of value in treatment and in a better outcome eventually". Of the short-term studies one is a follow-up study of 1,000 'affected subjects' over a six-month period. The study began in January. The investigators have found that 74 per cent suffer from cough, 34 per cent from breathlessness and 36 per cent from burning eyes. Anorexia (lack of appetite), lacrimation and fever were also reported. The study also mentions that identified cases will also be provided with treatment, but the summary until March mentions no treatment. These findings are nothing new and corroborate and support the observation and records of other studies such as the KEM-VHAI Bhopal study, S R Kamat's hospital study and the Medico Friends Circle's socio-medical study. More intriguing is the study on ocular changes which concludes that there are no cases of complete blindness and that the majority of the cases have completely recovered with treatment. This is surprising because the KEM-VHAI study reports a high percentage of visual problems in children. At the end of March when the MFC team visited Bhopal to conduct their survey, eye disorders seemed widespread.

The plight of women, especially pregnant women, is pathetic. As early as February it was known that a good proportion of the women were suffering from a variety of gynaecological problems. Several voluntary groups, health groups and women's groups suggested the setting up of regular basti-based clinics for women. But that has been ignored. The KEM-VHAI study has found that 100 out of 198 women surveyed were suffering from gynaecological problems. Such problems are an indication that the gas has indeed affected the reproductive system. This should have been a major concern in research and relief and treatment. But none of the ICMR's projects consider this aspect to be of any importance. Ever since the disaster there have been sporadic reports of increased rates of abortion and still-births among the affected population. A survey conducted by two MFC doctors, Rani Bang and Mira Shiva, had also recorded cases of foetal distress (a decrease in foetal movement). Apparently the doctors at the Zenana Sultania Hospital where a special antenatal clinic for gas-hit victims has been set up are turning away women with false assurances of 'all's well'.

As part of its study of a population of one lakh, the update reports 97 births and 5 still-births. This would suggest a still-birth rate of 50 per 1,000 live births! According to the 1978 figures, the rate in urban India (as reported in the *Sample Registration Bulletin*) was 10.3. In Bombay the figures were closer to 25 to 30 per 1,000 live births. The Bhopal rates appear to be extremely high. Strangely however, in the preliminary report of the ICMR study of teratogenic sequelae no still-births are mentioned. The death of infants in the mother's womb is not an event one can ignore. But that is precisely what the government authorities and the ICMR seem to be trying to do.

It is also surprising that the several research institutions and the two councils of research appear to be pursuing independent programmes of research which is more than likely to be similar. For instance, there does not seem to be any comprehensive plan for research on toxicological aspects between the ICMR funded projects and the CSIR funded Industrial Toxicological Research Centre's (ITRC) interests. This would seem to indicate that the ICMR and the CSIR are as usual going their independent way quite ignoring the urgency of solving the problem at hand or the duplication of costs.

It has been reported that the ICMR met with other institutions in January to work out a strategy for research. One would have expected the setting up of a centralised co-ordination cell for all research work in Bhopal which would perhaps be independent of either council of research. If any understanding or plan of action was formulated at this meeting, the authorities have chosen to keep silent about it.

Another curious turn of affairs is the distribution of responsibility within the ICMR. The department of non-communicable diseases has been designated as the co-ordinating unit for the Bhopal research. The National Institute of Occupational Health (NIOH), an ICMR institution, seems to be nowhere in the picture. Why should a division in the ICMR headquarters be specially strengthened for the purpose when there is already an institute which has both the infrastructure and the expertise for this kind of research? In fact, NIOH seems to be surprisingly absent from the research picture developing in Bhopal.

It is not just the status of *medical* research which arouses ire and distress in Bhopal. Whatever has happened to the numerous samples of water, soil and other materials which were taken from the gas-hit areas for testing? Apart from vague statements about washing vegetables and boiling water and milk, no test results have been published. The KEM report seems to have recorded a high rate of thiocyanate in the water samples from the affected areas. The fact that no definite research-based report on water or soil has been forthcoming even six months after the disaster is disturbing.

In an attempt to combat this embargo on information the Jan Vigyan Samiti co-ordinated by Eklavya, an MP people's science group, was formed in December and their report on the state of the environment was released on the 100th day after the disaster. The 'people's scientists' have had serious problems in getting the samples tested—laboratories have not been willing to release reports or some of the sampling techniques needed have to be innovated, some need sophisticated equipment only available in government laboratories. This preliminary report only makes it all the more urgent for the government institutions to release environmental data and results of tests. For instance, the report states that there are unconfirmed reports of high levels of amines in water. If this is so work needs to be done on how amines behave in the body and if they would have deleterious effect on health. CSIR's silence is only adding to the general confusion.

Never before has the "world's third largest population of scientists" seemed more like a deadweight as now, in the wake of Bhopal.

### INDO-SOVIET RELATIONS

# Economic Diplomacy of the Billion Rouble Credit

**R G Gidadhubli**

MIKHAIL GORBACHEV's one billion rouble (equivalent to Rs 1,160 crore) credit offer to India announced during Rajiv Gandhi's visit to Moscow on May 22, 1985 represents a very shrewd and calculated step by the Soviet leaders ostensibly to promote Indo-Soviet economic co-operation and trade. The Soviet leaders would like to achieve several important objectives by offering this credit.

As in the case of any credit, Gorbachev intends to give a boost to Indo-Soviet trade through the billion rouble credit which is the largest in the history of Indo-Soviet economic co-operation. He might be aware of the viewpoint of a section in India that the level of Indo-Soviet trade had reached a plateau and that the Soviet and Indian economies were no more complementary. But considering the growing interest among Indian exporters in increasing their export volume of traditional and non-traditional commodities to the USSR, this viewpoint may not be valid. However, Soviet policy-makers seem to be convinced that a limit has been reached on their side for exporting oil, oil products, and industrial raw materials. For instance, with a decline, though marginal, in Soviet output in 1984 and in the first four months of 1985, Gorbachev might have indicated to Rajiv Gandhi his country's inability to step up export of oil and oil products beyond the present 3 to 3.5 million tonnes, which constituted about 70 per cent of Soviet exports to India in 1983-84. In contrast to this, the Soviet export of engineering goods to India was only one per cent of their total exports to India. In fact, in the past few years the volume of imports of engineering goods by the USSR from India has been much larger than export of this category of goods to India. Gorbachev wants to correct this situation and also the imbalance in the prevailing export trade structure by offering this huge credit with which India could import Soviet machinery and equipment. Gorbachev intends to achieve simultaneously two objectives, namely, diversification of export trade and growth of trade volume.

Two-way trade between India and the Soviet Union has more than doubled during the last 4-5 years from Rs 1,810 crore in 1979-80 to over Rs 3,840 crore in 1983-84. There are targets of doubling of trade turnover during the period 1986-90 over the achieved level of the previous five-year period. However, there have been wide year-to-year fluctuations in trade and in specific years like 1983 two-way trade declined over the level of the previous year. Among other factors, the shortage of rupee resources was crucial in the Soviet curtailment of imports from India which affected many Indian exporters of traditional and non-traditional commodities to the USSR. While the situation improved in 1984, the shock of 1983 had a psychologically destabilising effect on certain sections of Indian exporters. Soviet policy-makers would have realised that any repetition of such shocks would substantially affect the growth of Indo-Soviet trade, which would not be in the long-term interest of the USSR. Over the last 10-15 years, the Soviets are convinced of India's potentiality and capability for supplying a wide range of traditional and non-traditional goods to the USSR, including engineering goods based on western technology. For several years India had been one of the major trading partners of the USSR among the non-socialist countries. Hence in order to retain the market cultivated so far and to ensure further growth, the Soviet leaders perhaps rightly thought of offering a substantial credit which would automatically be repaid in terms of a variety of consumer and industrial goods to the USSR.

As per the latest agreement, the repayment of the rouble credit together with interest will be, as in the past, in Indian rupees through the sale of Indian goods. In other words, the prevailing framework of Indo-Soviet trade, bilateralism and rupee trade, will be continued at least for the next 15 years. This is precisely what Soviet policy-makers wanted. They did not wish any change in the existing practice. In the opinion of Soviet foreign trade specialists, the bilateral system and avoidance of convertible currency transactions are in the interests of the USSR and India. They further contend that it is mainly due to this arrangement that trade between the two countries has witnessed phenomenal expansion. Soviet policy-makers, therefore, would have been satisfied that the views expressed in certain academic circles in India questioning the utility of the continuation of bilateral rupee trade had not affected the thinking n Rajiv Gandhi's government. The Soviet Union will, therefore, be assured of the supply of substantial quantity of tradiional Indian goods such as tea, coffee, obacco, spices, textile, etc, without paring with its hard currency earnings. While he fact remains that by selling oil and oil products to India, the USSR is forgoing hard currency earnings, Soviet policy-makers have a vested interest in retaining he existing rupee trade system with India. Although foreign exchange forgone by both India and the USSR in mutual trade may be nearly equal, Soviet policy-makers may feel that their sale of defence equipment as well as industrial machinery to India may not be as smooth and secure as under the existing bilateral rupee payment arrangement. Apart from this, the Soviet leaders would like to retain the institution of rupee trade which they have created and built up during the last three decades. They are also aware of the fact that India is the foremost among the not so many developing countries with which bilateral clearing in non-convertible currency is being practised and this system has suited the interest of the USSR and of India.

## SOVIET INTEREST IN INDIA'S PATH OF DEVELOPMENT

Perhaps the most important objective of the Soviet leaders is to test whether Rajiv Gandhi was willing to develop the public sector (referred to in Soviet economic literature as 'state sector') in India. They might have entertained some fears about the future path of India's economic development when Rajiv Gandhi repeatedly criticised the role and performance of public sector undertakings soon after coming to power, even threatening to hand over to the private sector those public sector undertakings which did not function well. The apprehensions of the Soviet leaders might have been reinforced by 'pro-private-sector' budget announced in March 1985. In fact, during my brief visit to Moscow in February 1985 several university professors inquired whether Rajiv Gandhi intended to restrict the growth of the public sector in India. The pronouncements at the recent AICC session about the commitment of the Congress Party to socialism (whatever may be the understanding and content of the term for the Congress Party) and faith in the public sector might have partly allayed the Soviet concern. But the matter was too important for them to be complacent about and to stand by as silent observers. The Soviet Union has its own interest in the growth of India's public sector, representing primarily basic and heavy industries such as power generation, metallurgy, mining, oil exploration, heavy engineering, and so on. Soviet economic assistance to India during the last three decades has been concentrated in these branches of the public sector which, according to the Soviet scholars, has enabled India to achieve economic independence. Soviet leaders do not make any secret of their foreign economic policy objectives with regard to the developing countries which have adopted the policy of developing their state sector. The Soviet leaders consider this as a progressive form of economic development for developing countries and the USSR intends to give preferential treatment to such countries in providing economic assistance.

While it is now for Rajiv Gandhi to make up his mind and to find rupee resources to be able to utilise the rouble credit, the Soviet leaders have assured him of Soviet support for further strengthening India's public sector. The rouble credit, as per the agreement, may be utilised for the Kahelgaon thermal power plant of 840 MW capacity, for opencast mining in Jharia and Singrauli coal fields with washeries and for the establishment of an institute for designing coal washeries, for the petroleum sector in integrated exploration in upper Cambay and Cauvery basins and for modernisation and reconstruction of industrial units in the ferreous metallurgical and machine building sectors.

Ideological and emotional considerations apart, the Soviet billion rouble credit to India has become necessary perhaps for another reason. In spite of nearly two years of expectation on the part of the Soviets, Indian industrialists have not made much progress in purchasing Soviet machinery and engineering goods. There is considerable hesitation and reluctance on the part of even textile manufacturers to take Soviet textile machinery in spite of huge exports of textiles to the USSR and in spite of the prospect of export of 500 million metres indicated by Soviet trading organisations. Besides certain psychological inhibitions about Soviet machinery, there could be hesitation among Indian industrialists about technological suitability of Soviet engineering goods, the productivity of Soviet equipment, easy availability of spare-parts and after-sales service. Since it may take some years to overcome these constraints, Soviet leaders would like to step up export of machinery and equipment to the public sector. And the best way open in the circumstances was to offer a credit for the development of industries in the public sector which is already acquainted with Soviet machinery and equipment.

However, while serving their ideological commitment, Soviet policy-makers perhaps do not wish to neglect India's private sector. An indication of this seems to be conveyed in the agreement in which it is stated that "the terms of the credit agreement are flexible". While it is not made explicit that the rouble credit could be made available to India's private sector, the Soviet government may not be averse to such a proposal since this may help the USSR to sell their machinery and equipment to private sector units from whom they now buy a wide variety of machinery and equipment.

The offer of credit to private sector units may be an incentive to overcome the prejudices and reservations of India's private sector. It is to be seen whether

Soviet trading organisations will succeed in their effort with the engineering industries delegation which was in Moscow during Rajiv Gandhi's visit to the USSR.

### CREDIT UTILISATION

Going by past experience, Gorbachev is aware that India was slow in utilising rouble credits. For instance, the rouble credit equivalent to Rs 116 crore offered on May 12, 1984 is yet to be utilised and the earlier credits made in 1977 and 1980 amounting to Rs 208 crore and Rs 433 crore remain unutilised to the extent of 20 per cent and 90 per cent, respectively. Whatever be the reasons for this state of affairs on the Indian side—lack of rupee resources or inadequate preparation of projects—Soviet policy-makers may have expected that the billion rouble credit, which far exceeds the combined credits made available during the last 10 years, may be utilised only by the middle of 1990s. This suits Gorbachev because the Soviet Union is hard pressed for capital equipment for developing its own oil, engineering and metallurgical industries in the 1986-90 plan period. But the Soviet leaders can immediately start making capital out of the billion rouble credit offer in their propaganda campaign against possible offer of US economic assistance to India when Rajiv Gandhi will visit the US in June 1985.

Gorbachev knows very well Rajiv Gandhi's interest in the West, particularly the US, for hi-tech products which the USSR would not be able to supply. The Soviet leaders might have been worried that starting with hi-tech products on easy terms, the Western countries would consolidate their position in the Indian economy at the expense of the USSR. Hence in order not to loose the ground gained by them in India's economy, the Soviet leaders seemed to have decided to offer a substantial volume of credit to Rajiv Gandhi to strengthen India's heavy industries where Soviet technology does not lag behind that of the West. Thus, out of the one billion rouble credit, 350 million roubles are earmarked for expansion of the oil industry in India and the Soviets have secured the consent of the Government of India for exploration in the potentially prospective areas of Cambay and Cauvery basins. The Soviets have also succeeded in getting Rajiv Gandhi's consent for building a 440 MW atomic power plant in India, their first ever in the non-socialist world, for which they have been waiting for the last two years.

The Soviet leaders' are aware of the benefits to their country of the specific path of development of India's economy as well as of the institutional arrangements evolved for the promotion of Indo-Soviet economic co-operation and trade. Apprehending the prospects of a deviation in India's path of development and modification of the institutional framework of economic relations between the two countries under Rajiv Gandhi's leadership, Gorbachev has decided to vigorously protect the interests of his country with the billion rouble credit.

# Bonn Economic Summit: A Post-Mortem

**Ramesh Jaura**

SINCE the then Chancellor Helmut Schmidt of West Germany and President Giscard D'Estaing of France initiated highest levels consultations among the leaders of major western industrial nations in Rambouillet near Paris in 1975, non-communist economic summits have become an annual feature accompanied by a marathon media show. This, according to co-father Schmidt, has diminished the quality of the summits and their outcome—a view that is obviously not shared by present day sherpas who do the spadework for their respective heads of state or government.

Whatever the veracity of the criticism, the fact is that things have undergone a change in the past decade. The annual economic summits not only serve the purpose of a free exchange of views among leaders with a view to co-ordinating their economic and monetary policies but also involve discussions on current political issues. Precisely that happened at the eleventh annual economic summit in Bonn from May 2 to 4 in which the heads of state or Government of Canada, France, Federal Republic of Germany, Italy, Japan, the UK and the United States participated. The meet was also joined by the EEC Commission president.

The summit concluded not only with a final communique entitled "The Bonn Economic Declaration Towards Sustained Growth and Higher Employment" but also issued on May 3 a "Political Declaration on the 40th Anniversary of the End of Second World War". What is common to both the declarations, according to analysts, is that they do not mention all that the heads of government or state, foreign ministers and economics and finance ministers discussed.

Thus in the Political Declaration, described as an important political document both by Chancellor Kohl and Foreign Minister Genscher, there is no mention of President Ronald Reagan's Strategic Defence Initiative (SDI), popularly known as the Stars Wars plan. Nor does either of the declarations refer to the controversial trade embargo against Nicaragua, the Presidential Directive for which was signed by Reagan soon after landing in West Germany.

Yet, much to the chagrin of the Reagan Administration, there was a serious difference of views among the allies. Among the European allies, France was the most vocal and most unequivocal. President Francois Mitterand must have appeared to himself—as he did to the international public opinion—as an indispensable champion not only of the cause of a sovereign Western Europe but also that of the Third World. He left no doubt that France will not join the SDI research programme. Instead, he wished the other 'big three' of Europe to join the EURECA, a proposal France presented to the Ministerial Meeting of the resuscitated Western European Union (WEU) on 22-23 April in Bonn. The Communique of Foreign and Defence Ministers referred to the French offer when it said: "Noting the increasing importance of technology, the Ministers also affirmed the member states' determination to take the necessary measures within the European Communities to strengthen Europe's own technological capacity and thus achieve the creation of a technological community".

On Nicaragua, President Reagan must have had the feeling of running through a concrete wall. Whereas Canada and Japan did not hide their reservations, the 'big four' of Europe and the EEC Commission President Jacques Delors clearly pointed out that they did not regard trade sanctions as an instrument of policy. Even West German Foreign Hans Dietrich Genscher, known for being extraordinarily cautious, made no bones about the fact that he did not approve of the US move and that the EEC would continue to set forth its policy of establishing closer relations with a large number of Latin American countries with a view to helping the process of democratisation.

### REAGAN'S FAILURE

Another point noted by analysts is that President Reagan failed to return home with support either for his SDI in the Political Declaration or for a calendar for the new GATT Round. This does not mean, however, that the allies have become adamant. It only means that when it comes to national interests, as is the case with France both in respect of SDI and GATT, the allies—in this case only President Mitterand—do not give in that easily.

Apropos the date for launching a new GATT Round, even though France has emerged as the champion of the cause of the Third World—a distinction which Chancellor Kohl also would like to claim for himself, for it was at his behest that the summiteers devoted considerable at-ing countries—the fact is that President Mitterand had to defend the interests of French farmers who fear their existence from a flood of American agricultural exports.

Subsequently, there was no alternative to a painstaking compromise on the issue of GATT. The final communique says: "We strongly endorse the agreement reached by the OECD Ministerial Council that a new GATT Round should begin as soon as possible. Most of us think that this should be in 1986. We agree that it would be useful that a preparatory meeting of senior officials should take place in the GATT before the end of the summer to reach a broad consensus on subject matter and modalities for such negotiations. We also agree that active participation of a significant number of developed and developing countries in such negotiations is essential. We are looking to a balanced package for negotiation."

France had also insisted on a reform of international monetary system and linked it to the launching of a new GATT Round. On this the final communique says: "It is also essential to improve the functioning of the international monetary system. We take note that the Finance Ministers of the Group of Ten, at their meeting in Tokyo in June, intend to complete their current work on ways to improve the functioning of the monetary system and to put forward proposals, to be discussed at the next meeting of the Interim Committee of the International Monetary Fund in Seoul in October, with a view to making the international monetary system more stable and more effective."

In other words, the Bonn Economic Summit rejects an International Monetary Conference, urged by President Mitterand, as well as reiterates its rejection by implication of an International Monetary and Finance Conference desired by the NAM Summit of New Delhi.

### BITTER PILL FOR DEVELOPING COUNTRIES

For the developing countries it means being presented with a *fait accompli*—one that they apparently accepted at the last Interim Committee meeting. It was probably with assurances given there by India and other developing countries at the back of his mind that a senior Cabinet-rank minister in Bonn told a selected group of journalists that India had softened its attitude on the GATT issue. That being the case and the Bonn Economic Declaration being as it is, the developing countries have no alternative to jumping on the bandwagon of a fresh GATT Round—probably in Brussels, as the EEC would like—sometime next year even before the commitments of the Tokyo Round have been fulfilled.

There is a lot more for the developing countries to swallow in the Bonn Economic Declaration. First, they cannot official development assistance (ODA) being maintained or increased as a matter of right. This will be done on a case by case basis. This will apply to debt rescheduling as well. The seven summiteers say that they continue to encourage the constructive dialogue with the developing countries "in the existing international institutions with a view to promoting their economic development and thereby their social and political stability" In the same breath, the communique emphasises the crucial role of, and the improved co-operation between, the International Monetary Fund and the World Bank Group in supporting policies by debtor countries necessary to strengthen the confidence of domestic and foreign creditors and investors, to mobilise domestic savings and to ensure efficient use of resources and sound long-term development.

The communique adds: "We agree to work to ensure that these institutions are equipped with necessary resources and instruments, and we stand ready to discuss an increase in the resources available to the World Bank which may be necessary in the coming years." This is a repetition of known views of the leading donor nations which met in Bonn. In any case, there is no specific mention of IDA replenishment.

The summiteers say they are deeply concerned about the plight of African peoples who are suffering from famine and drought. They welcome the positive response from their citizens and from private organisations, as well as the substantial assistance provided by the governments of many countries and the establishment by the World Bank of the Special Facility for Subsahara Africa. And they will continue to supply emergency food aid.

In addition, the major western donors shall intensify their co-operation with African countries to help them develop their economic potential and a long-term food strategy, based on their own agricultural programmes. They are prepared to promote increases in food production by supplying agricultural inputs within the framework of agricultural development projects. They agree on the need to improve the existing early-warning systems and improve transportation arrangements. However, political obstacles in the countries concerned—which are not named—should not be allowed to stand in the way of the delivery of food to the hungry.

The summiteers also stress the need to examine the establishment of research on dry zone grains, and promise to strengthen co-operation with African countries in fighting against desertification. Further, continued efforts are needed by all countries in a position to contribute to any or all of this work. Finally, the Seven and the EEC Commission call upon the Soviet Union and other communist countries to assume their responsibilities in this regard.

This aid programme for Subsaharan Africa, a brainchild of President Mitterand, is the only substantial outcome of the Bonn Economic Summit as far as economic issues are concerned. In fact, the Seven have set up an expert group to prepare proposals for follow-up measures to be reported to Foreign Ministers by September 1985.

### WAR WOUNDS

Another substantial outcome, falling within the realm of the Political Declaration deserves close attention, especially as Chancellor Kohl, humiliated as a result of being left out of the D-Day celebrations last year, wanted the Summit to take place on the eve of the 40th anniversary of fascist Germany's capitulation and at the same time avail of President Reagan's state visit to achieve reconciliation *a la* Verdun last year with the French President. At the controvesial Bitburg cemetery, where some 50 Waffen SS soldiers are buried, it did not come to a handshake *a la* Verdun. The visit to the former concentration camp Bergen Belsen was added to the itinerary to silence furious criticism in the US. But the ceremony at the Bergen Belsen memorial was boycotted by the Jewish community.

Nevertheless, the Political Declaration itself suffices to satisfy the powers-that-be in West Germany. The first part of the Declaration, of which Chancellor Kohl and Foreign Minister Genscher are certainly proud, says that the seven heads of state or government and the President of the EEC Commission, "meeting together in Bonn on the eve of the fortieth anniversary of the end of Second World War, remember in grief all those who lost their lives in that time, whether by acts of war or as victims of inhumanity, repression and tyranny".

The summiteers acknowledge the duty they owe to their memories, and to all those who follow after them, to uphold peace, freedom and justice "in our countries and in the world". They say they have learned the lessons of history. The end of war marked a new beginning. As the sounds of battle ceased, they had tackled the tasks of moral and spiritual renewal and physical construction. Transcending the hostilities which had once divided them they had initiated on the basis of common values a process for reconciliation and co-operation amongst themselves.

Whether this new step towards reconciliation, black-on-white in the Political Declaration, would heal the wounds which have been reopened, especially as far as the survivors of those who were gassed to death by Nazi megalomaniacs or the victims who survived by chance, are concerned, remains to be seen. It also remains to be seen whether reconciliation in a Political Declaration would lead to reconciliation in the hearts and minds of the people who fought pitched battles against each other only 40 years ago.

# Political Economy of Indian Non-Development

**Ashok Rudra**

**The Political Economy of Development in India** by Pranab Bardhan; Oxford University Press, Delhi, 1985; pp viii + 118, Rs 60.

THIS is a very different book by Pranab Bardhan. As students of economics know for a long time, Bardhan is an economist with one foot in theory and another in empirical research. On the theoretical plane he is further known for his refusal to recognise a Chinese Wall kind of barrier between the analytical tools and concepts of neo-classical economics on one side, and Marxian political economy on the other. In his own words written in the Preface of another book by him that has recently made its appearance, "The book shamelessly uses neo-classical-looking tools to analyse problems of traditional Marxist concern". In his empirical researches on the Indian economy he has been, once again in his own words in the Preface of the present volume, much concerned "with studying different aspects of poverty, measurement of its strength, its socio-economic characterisation and the institutional mechanisms of its perpetuation or reproduction". These empirical researches of his are known by his readers to be marked by a rather touching, uncritical faith (that he shares with many other eminent economists) in the ubiquitous omnipotence of the simple linear regression model for laying bare the hidden causative process in any complex socio-economic problem. All these familiar trappings are missing in the volume under review. No simple mathematical functions; no figures of 't' values and DW statistics, etc, which fill so many pages of his other book released recently.

His concern in the book is one that is shared by most other economists interested in the Indian economy: "The political economy of the constraints that seem to have blocked the economy's escape from a low-level-equilibrium trap of slow growth." In pursuing this concern, he freely crosses the academic boundaries between disciplines like economics, sociology, political science, etc. It is of course easy to appreciate why the subject of his concern cannot be treated within the confines of any one of those disciplines. That is not to say that it is a work with a multi-disciplinary approach, to use a description which has by now become a cliche. It is not an academic work at all but an essay meant for the general intelligent reader. He freely includes whatever mixture of facts and concepts from any of the disciplines is called for by his arguments and writes in a style of discourse which involves 'sweeping survey', 'wanton generalisation' and 'polemical speculations', etc, in an attempt to "taking on a vast panorama of the political economy of development in contemporary India in a few quick, impetuous brush-strokes". Even though he does not state explicitly anywhere, his attempt to "discern some patterns in the chaotic and seemingly disconnected events in the political and economic life of India in recent years" is carried out in a framework of analysis which is clearly Marxian in its fundamentals. As a matter of fact the most important contribution the book makes is a certain class analysis of the Indian society, a certain concept of the role of the State that he advances and a certain kind of class struggle that he describes as leading to the present crisis of Indian society.

Given its highly ambitious coverage, the book is extremely small—a mere eighty pages or so of text supplemented by a number of statistical tables. Half of the text and the statistical tables are used to present a terse but convincing picture of the state of affairs in the Indian economy, whereas the remaining half of the text is devoted to attempts at political economic explanations for that state of affairs. This brevity is explained by the fact that the book is nothing but an expanded version of some lectures that were delivered to an Oxford audience. The tight package in which he presents his facts and figures is highly commendable for its degree of condensation. Alongside certain all too familiar data relating to the Indian economy from standard sources there are some which are less so, e g, the figures relating to the huge subsidies paid by the government with their staggering implications.

His starting point, emphasised at the beginning, is that this crisis can be understood only in terms of a deadlocked contradiction of class interests. He explicitly refuses to search for causes in the "social psyche or national character or value systems" or in the role of the bureaucracy or even in the general fact of India being a case of peripheral capitalism in a world system of global accumulation. All these are recognised as contributing to the crisis but he proposes to trace the particularities of the crisis to some roots which lie in a particular configuration of class conflicts. In this he seems to be almost puritannically attached to his version of the Marxian methodology. He dismisses the possibility of the cause for retardation lying in such factors as the high degree of inequality, rampant corruption or the importance of government interventions in the economy. This he does by pointing out that India is no exception in these matters: there are many other countries with equal or higher degrees of inequality, more pervasive corruption of social life and with at least as much of bureaucratic intervention in the economic life which have known higher rates of growth than India has known.

## STRUCTURAL CHANGES

In two small chapters rapid surveys are made of the achievements and failures of growth of production in agriculture and industry. For both the sectors he adopts a procedure of cutting the thirty-year period from 1950 to 1980 into two equal halves and comparing various rates of growth pertaining to these two periods. He sometimes indulges in carrying out tests of significance of differences among them. This procedure appears to us to be objectionable on various counts. Cutting a period arbitrarily into two can give rise to many spurious statistical results. Of course the mid-sixties are significant in many respects; planning begins not to be taken seriously; extensive agriculture reaches its limits; the period of public sector primacy is over, etc. On the other hand, it is not true that the mid-sixties mark the beginning of the Green Revolution strategy in agriculture. The break point, both in the sequence of policy decisions and in the series of production figures, may be located in 1959, the year the Fort Foundation Team taught "How to Solve India's Food Crisis". In any case, hypotheses about slowing down are not best treated in terms of two constant rates prevailing in two distinct periods: slowing down is a continuous process. And testing the significance of the difference between two such rates for two such periods constitutes an abuse of statistical theory: the estimated rates may not be treated as random variables.

Despite these reservations, we have no hesitation in accepting as valid most of the structural changes he chooses to highlight, e g, deceleration has affected those industries most which started off with extremely high rates of growth (e g, heavy and basic industries, metal and chemical based industries) whereas consumer goods and intermediate goods in general have grown at low rates all along and durable consumer goods have actually accelerated. By presenting such a disaggregated picture the author succeeds in making a convincing case that the deceleration phenomenon cannot be regarded as a direct result of the input substitution strategy playing itself out. He also passes over rapidly the two other pet theories of economists, namely, the 'limited-home-market' theory and that about agricultural development not being sufficient to allow industrial growth. As to the agriculture based explanation, the evidence of agro-based industries not slowing down while the mineral-based industries doing so is persuasive enough. As to the limited home market due to a high degree of inequality we agree with the author that such inequality would affect only the product composition of the final demand but not its rate of growth.

### Decline in Public Investment

The explanation favoured by the author lies in the falling off of public investment. The heart of the economic problem, as understood by the author, lies in insufficient investment in the economy as a whole because of the squandering of public funds, and inefficient utilisation of public investments as well as of other public institutions. All these contribute to the raising of the capital-output ratio in individual industries through extremely low capital utilisation, escalation of costs on items other than fixed assets, etc. The same mismanagement of public funds and public institutions is thought to be responsible for the undoubtedly satisfactory growth performance in agriculture remaining confined only to certain pockets. Positive performance has been recorded, according to him, even in areas where production relations are backward but where public investments have been made in irrigation. It goes without saying that the author does not fail to emphasise the all too common argument of declining public investments entailing declining private investments by creating supply bottlenecks and demand shortages affecting private sector enterprises.

Another important fact emphasised by the author is the following: Gross fixed capital formation in the public sector in 1981-82 was nearly half of the corresponding total of the economy and about five times the amount in the private corporate sector. This investment grew at the rate of 11.3 per cent per year in the first period of fifteen years and in the second half of the thirty-year period the rate dropped to 5.5 per cent per year. This cutback very largely affected such infrastructural sectors as power, fuel and transport services. "The rate of growth of private investment moved in sympathy with that of public investment, although not to the same extent."

Incidentally, the author accepts without any reservations the ups and downs in the rate of savings and the rate of domestic investments as occurring in the official series. As such, he concludes that the rate of public investment reached a peak in the mid-sixties which has never been reached subsequently. Similarly he accepts without any demur the ups and downs in the figure relating to the rate of saving. Here too he accepts that the rate reached maximum of 18 per cent in the mid-sixties that has not been subsequently attained. Those who have taken any trouble about understanding the way our official estimates of savings and investments are prepared, know all too well that these estimates cannot be relied upon to that extent.

However, without paying attention to the detailed movements of the estimates, one can all the same accept the validity of a very severe decline of public investments. Nor need we doubt the comparisons crucial for his political economic analysis, namely that the rise in the capital output ratios, even for the same product, is higher for the public sector than for the private sector and that the situation is worse in the public sector enterprises run by the state governments than in those run by the Central government. Much of all these, the author is convinced, are the results of "political and administrative mismanagement".

### Network of Patronage and Subsidies

For all these familiar dimensions of the retardation phenomenon, the author sets forward an explanation which lies in the domain of politics and where lies whatever claim he may lay to originality. He presents the explanation in terms of a model of the Indian polity which distinguishes itself from the usual Marxist model of the same in two respects, namely the composition of the dominant classes and a certain autonomous nature of the State. The class model that he adopts is one that includes, in addition to the two dominant classes usually recognised in standard Marxian literature on India, namely big industrial capitalist and rich farmers, a third which he at times calls "the professionals in the public sector". As to the State, the author posits that he is talking of a "relative autonomy" of the State which goes much beyond the concept of "the State acting not at the behest of but for all practical purposes on behalf of the dominant proprietary class". We shall have some things to say about these two central planks of his model. But before doing so let us see the facts which he thinks are explained by the model.

The State is required to supply "massive doses of public investment in basic industries and infrastructural facilities" but is prevented from doing so by the frittering away of much of its investable surplus. This happens because the public economy has become "an elaborate network of patronage and subsidies". The author provides a most impressive account of the working of this network. Thus,

(a) Direct subsidies by the Central government on only three items, namely food, fertiliser and exports exceeded Rs 1,500 crore—"a figure which amounts to half of total gross capital formation in manufacturing in the public sector in that year".

(b) The amount of subsidies given by Central and state governments amounted to Rs 3,860 crore in 1982-83.

(c) The losses of public irrigation works amounted to Rs 450 crore in 1981-82; the losses of State Electricity Boards to Rs 600 crore; another Rs 200 crore was lost by the road transport corporations.

(d) The State has been maintaining a white elephant in the form of a vast army of salaried public servants—income accruing to civil and military personnel of the government multiplied nearly seven times between 1950-51 to 1980-81.

(e) "It has been estimated that about half of all demand for recoveries of advances to agriculture by public sector banks has remained overdue for sometime." Overdues to commercial banks were nearly Rs 1,000 crore in June 1982. "The overdues of primary agricultural credit societies amounted to about Rs 900 crore in June 1979."

(f) "Outstanding bank credit to large sick units alone amounted to Rs 1,500 crore by December 1981."

(g) The total expenditure at 1970-71 prices on police including CRP, BSF, CISF, etc, rose by 70 per cent between 1960-61 and 1981-82.

(h) Unaccounted hundreds of crores are eaten up by the MLAs and MPs whom the author characterises as "political middlemen who over the years have specialised in the profession of brokerage services".

(i) Some further reductions in the public funds take place because of the subsidies that have to be given to "some sections of unionised workers, small traders, and some other small propertied interests who take advantage of their large numbers to make their weight felt in the electoral politics of the country.

(j) There is of course the inefficiency of public sector units where political patronage counts more than merit.

"Efficient managers who fail to satisfy the Ministers' political clients are often arbitrarily transferred. Expensive projects are hastily initiated on grounds of political expediency or regional favouritism."

(k) On the side of workers, "over-staffing, feather-bedding, fake pay roles, absenteeism in regular hours and working only for overtime payments".

(l) Then there is sheer pilferage and plundering of public sector goods. "Just between April 1981 and January 1982 two million tons of coal valued at Rs 30 crore where looted from the Asansol-Raniganj coal-belt alone." Percentage losses in transmission and distribution of power exceeded 10 per cent in 1981-82.

This account of corruption and inefficiency is of course all too familiar. The author dismisses the suggestion, favoured by many, that all this is the results of the very existence of the public sector. "The success story of South Korea" he reminds us, "is not one of market liberalism. The Korean state is actively and pervasively interventionist." According to the author, the South Korean success is due to "the ability of the system to largely insulate the framework of economic policy-making from the clientelist demands of the political process".

The question then arises: why has India not been able to achieve that insulation? The author quickly rejects two possible explanations. Insulation does not imply lack of accountability. "In South Korea there is, if anything, excessive accountability of the public enterprise management to the executive leadership." Again, it is not India's having a representative government that is responsible for this state: "Japan manages to have a high degree of such insulation with a liberal democratic government." The author traces the failure of the Indian political leadership to achieve the necessary insulation of the economic decision-making to the nature and function of the Indian democratic system, which is " a subtle and resilient mechanism for conflict management and transactional negotiations among the proprietary classes with all their internal divisions and regional and social diversities". The form the democratic structure has taken in the country "has much to do with the political exigencies of bargaining within its heterogeneous dominant coalition".

### CLASSES AND THE STATE

One has not much difficulty with agreeing with most of this characterisation of the Indian politico-economic system as it functions. However, one is not persuaded that the author has provided any explanations in terms of the model that he puts forward involving three classes and a 'largely autonomous' State. If the frittering away of resources be responsible for the slow rate of growth of the economy, it is not at all clear how the fact of there being more than one ruling class may account for that. The multiplicity might explain a certain sectoral division of investments corresponding to the interests of these ruling classes. It does not explain why funds that could have been invested are spent by way of subsidies. Much of the facts relating to this wastage of investible resources indicates, if anything, the limited extent to which the ruling classes dominate over various other classes and interest groups. Whether the ruling classes number one or two or three does not seem to be relevant for their relative strength *vis-a-vis* non-ruling classes. The State is not shown to be autonomous—if anything it is shown to be highly vulnerable to pressures by all classes and groups, ruling and non-ruling.

We are much in sympathy with the idea that the white collar workers, government officers, business executives and professionals like doctors, engineers, etc, constitute a class of their own, sharing power with the other two ruling classes. The author however, creates confusion by referring to this class in different terms in different places. This class is certainly not confined within the public sector, as the author would hint at times, nor does it derive its power solely by virtue of its "licence giving powers".

The author is equally confusing in his concept of the State. The State is an abstract entity different from the bureaucracy, which carries out State policies by making use of instruments of State power; different also from the leaders of the government, who at any point of time, lay down the State policies; different again from the MLAs and MPs and other politicians who indeed act as brokers between different classes and interest groups on the one side and the bureaucracy and the leaders of the government on the other, for the distribution of patronages. In the author's writing these different actors get mixed up with each other referred to at times as "State elite", at other times as "the leadership", etc.

Finally, the author neither establishes nor makes any use of his idea of the State being much more autonomous than has been usually thought of. He does give plenty of figures for showing the very important weight in the economy carried by public sector investments. But however large the weight, that by itself cannot establish the validity of the theoretical proposition that "the state is today an important part of the economic base itself". As a matter of fact, to appreciate the idea that the state not merely acts *at the behest of* certain classes not only *on behalf of* those classes but as an autonomous "organisational actor", one has to be very clear as to what is meant by the State acting at the behest of or on behalf of or as an autonomous actor. On our part, we understand by the proposition that "class A is a ruling class" or "the State represents the interests of class A" nothing other than the following: "The policies and actions of the government are such as to further, in the long run, the interests of class A."

How exactly the State is made to serve class interests understood in the above sense is a matter about which very little research has been done. It is as well to admit that this is an area of darkness in the Marxian theory of the State. Decisions are taken by Ministers and other politicians. They are implemented by members of the bureaucracy. Of course, these individual actors may enjoy a lot of freedom of action. Yet, if it can be shown that the policies adopted and their implementation have been such as to serve the long-term interests of a certain class or classes, it would be perfectly correct to describe the State as serving those class interests. To talk about the autonomy of the State in such a situation neither adds anything to nor subtracts anything from our understanding of the situation.

It is as well to recognise that Marxists have indulged in a great deal of anthropomorphism with regard to the State. One talks as if the State has a mind and a will, acts like a human agent *autonomously* or *at the behest of* or *on behalf of* certain interests. Whereas the fact is that what are called State actions are nothing but the cumulative results of actions taken by individual human agents from cabinet ministers down to the clerk with respect to whom alone the question of autonomy is pertinent. Forgetting this distinction between the concrete and the abstract gives rise to no little confusion. Bardhan's book regrettably fails to avoid the trap. His main contribution in this respect is to make the reader aware of this problematic.

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REVIEW OF MANAGEMENT

# Organisational Functioning in Public Sector

### V Nilakant

**Public Sector Administration: New Perspectives** edited by Alexander Kouzmin; Longman Cheshire, Australia, 1983; pp 329.

IN recent years, research and writing on organisations have tended to focus on the organisation-environment interface. It is, as it were, an acknowledgment of the fact that a rational, goal-directed perspective has so far dominated the literature in the field of organisational behaviour. Researchers and practitioners are now moving into the area of strategic management which has sought to integrate individualist and structuralist perspectives in studying organisations [Tichy 1983; Quinn, 1980]. Pfeffer [1982] has provided a comprehensive review of the existing theories in this area. While most of these writings relate to business enterprises in the American context, there has been a void in literature pertaining non-business enterprises in other social contexts. The present book seeks to fill this gap.

The book is a collection of ten essays on various aspects of administration in the public sector, particularly in the Australian context. The underlying assumption is that existing literature on the phenomenon of administration in the governmental context is based on descriptions and analyses "from overly narrow and selective perspectives".

The book is divided into three parts. Part one contains four essays. These deal with the political-economic context of public sector administration in Australia. The second Part consists of three essays which focus on the individual actor within the political-administrative contexts. The thrid part of the book, containing three essays, focuses both substantively and theoretically on the relationship between technology and organisational control and effectiveness. Thus, the book seeks to combine a variety of perspectives each based on a particular level of analysis. These perspectives are intended for re-examining existing notions, constructs and concepts in alternative frameworks which could aid the understanding of the issues currently confronting the public sector system in Australia.

Stewart Clegg's essay on the 'Politics of Public Sector Administration' constitutes the first chapter of this book. Clegg's central thesis is interesting. Contrary to the pronouncements of supply-side economists and monetarists, Clegg argues that a large, expansive state is a functional to the requirements of a complex modern industrial society. Capitalist economy cannot be simply pruned to 'rational' shape or size. While developing his framework, Clegg draws upon Marxian and Weberian analyses supported by a case study of the Swedish attempt to maintain full employment. Clegg's contribution, in my opinion, is the use of the metaphor of sedimentation from geology to study organisational structures and relationships. According to Clegg:

> Intra-organisationally, different control rules evolve at different times, at different stages of functional complexity. Earlier rules may persist at specific levels in the organisation despite the development of more complex rules at a later date. They may be represented as a superimposed series, layered on top of each other . . . These layers also exist in a dynamic relationship with eath other (p 5).

Unfortunately, Clegg has not developed this construct of sedimentation in a substantive manner. Also, Clegg's arguments in support of his central thesis are laborious and long-winded. While they help to instruct and inform, they do not enlighten the reader.

Chapter two of the book, 'The Political Economy of the State in Australia' by Marian Simms deals with conceptualising the changing contours of public sector and examines the nature of the state in Australia in the context of descriptive and normative writings. The paper is useful as it affords a detailed overview of the current literature on these aspects.

## MYTH OF EFFICIENCY

Chapter three of the book, 'Democracy, Bureaucracy, and Mythology' by Elaine Thompson focuses on democratic myths that serve to legitimise the state. Thompson argues, with clarity, how bureaucracies develop a variety of goals that are detrimental to their performance as a responsive and efficient organisation. Dismissing the notion of bureaucratic efficiency as a myth, Thompson discusses the various factors which contribute to the ineffectivenesss of these organisations. These include "bureaucratic pathologies", design factors which emphasise over-specialisation and over-fragmentation and an aversion to change in the face of rapid technological changes.

Thompson quotes Benveniste to show that these technological changes "create excessive bureaucratic uncertainty which, in turn, results in bureaucratic fear. As the future becomes more uncertain, the bureaucracy becomes more rigid and rule-ridden. It therefore performs less well, and this accelerates the spread of the malaise". Thompson points out that despite these failings, the myth of efficiency is sustained. According to her, hierarchy, the central organising principle of bureaucracy, is not meant for efficiency but for control. Thus, bureaucracies are inherently anti-democratic and oligarchic in nature. In addition, "once the efficiency test is broadened to include the need for innovation and creativity in policy making, the nature of the administrative problem is exposed" (p 64).

Thompson goes on to discuss the transfer of the mythology of Westminster from Britain to Australia which has led to the transformation of democracy into an accountable oligarchy. Discussing the issue of public responsibility, Thompson rather forcefully states:

> So often public servants are judged for promotion not by their policy views but by their ability to perform practical tasks, such as drafting reports, chairing difficult meetings and, above all else, getting documents cleared quickly. The result of this is that centralising tendencies, together with pressures towards organisational conformity and conflict avoidance, are reinforced and give further legitimacy to the doctrine of ministerial responsibility (p 70).

Chapter four is a paper by Ian Thynne on 'Accountability, Responsiveness and Public Service Officials'. Thynne believes that there is a definite responsibility void within the Australian federal system of responsible parliamentary government. Thynne presents two contrasting views on the nature of responsibility and accountability of public servants. One school of thought views public servants as anonymous, apolitical and loyal instruments of ministerial authority. A contrasting view depicts public servants as being shrewd, ruthless and manipulative, self-seeking power-brokers. Thynne has examined the systems of control to which public servants in Australia are subject.

Thynne particularly focuses on accountability and responsiveness of public servants. Discussing the concept of 'management by objectives', Thynne believes that such systems have limited application since "the nature and quality of the performances of individual officers, and even units, are difficult to isolate and assess".

While discussing responsiveness of the bureaucracy, Thynne examines the notion of representative bureaucracy". The concept is based on the assumed link between a bureaucracy's social representativeness and its responsiveness to the community with which it interacts. According to Thynne, two propositions can be advanced:

> The first proposition is that during the course of their rise through the service, individuals from the lower social groups in the community are inclined to lose contact with the less upwardly mobile members of their group of origin and, consciously or unconsciously absorb the values and conform to the standards of behaviour of the new groups into which they move through their career successes. The second, and obviously related proposition is that there is no distinctive role

> in representing particular social groups' interests in the service to be expected of individuals from the same groups who have succeeded to senior service positions (p 97).

Thynne proposes three legislative measures in the Australian context to ensure responsibility and accountability of public servants.

Chapter five of the book is a paper by Paul Harris on 'Individuals in Organisations: The Limits to Obedience'. Harris is concerned with the sensitive question of "how should a public servant respond when asked to do something he or she regards as morally wrong?". Harris differentiates between three types of obligations—role-obligations, rule-obligations and agreement-obligations—and discusses the relations between obligations. Harris suggests that an individual's obligations as an official may conflict with other moral obligations. In this context, he examines the options available to an official who has decided that his or her obligations to the organisations are overriden by other moral considerations. These options are broadly classified into: (a) action aimed at change, and (b) action to preserve personal integrity. Organisational responses to individual action are also discussed.

### GOVERNMENT BUREAUCRACY

Chapter six of the book is perhaps the most relevant for an Indian audience. The paper titled 'Government Bureaucracy: Capacities for Learning and Implementation' by Nitish De is based on a study of five departments of the Government of India conducted during 1975-77. The study employed multiple methods of data collection—questionnaires, interviews and study of records. The questionnaires covered a variety of issues ranging from organisational climate to internal *versus* external control orientation. De concludes:

> On the whole, locational incompatibilities, the limited vision about the mission of the truncated task and the social power distance among functionaries lend support to sub-optimal group processes at work. As such, the shared experiences from group working do not adequately contribute to generate a learning culture (p 136).

Perhaps, more interesting than the questionnaire data are data collected through interviews and a study of files (records). The picture that De paints of the Indian bureaucracy is remarkably close to the situation obtaining in many public sector service and industrial organisations in India. Typically, the senior levels complain about unending pressure of work, are involved in routine decisions, and fail to pay attention to the developmental needs of their subordinates. Their inability to view the work system in its totality contributes to their lack of sensitivity and a lack of innovation. There is either a tendency to blame the subordinates or to pretend that 'everything is working well'.

It is abundantly clear that bureaucrats lack managerial expertise. I was hoping to find concrete suggestions in De's paper about the type of managerial inputs that would contribute to innovation and creativity. De, however, speaks of the tremendous resistence to change and the development of "internal logic of an involuted culture". Clearly, then, managerial will, which is the pre-requisite for change, has to be fostered and developed through political change.

De's paper is thought-provoking in that it raises a number of fundamental issues that are pertinent to both practitioners and academics. His conclusions and analysis of the situation are thoughtful. The issues listed are to be typically found in most organisations. The question remains, however, as to the options that are available for changing these organisations. In my view, De could have instead focused on the 'doer' *versus* 'reviewer' culture that is prevalent in most organisations. A bureaucrat is more comfortable in a 'reviewer' role than in a 'doer' role. Changes in recruitment policies, career planning, appraisal systems and promotional policies may be necessary to convert reviewers into doers.

Chapter seven of the book is a paper by Desley Deacon on 'Women, Bureaucracy and the Dual Labour Market: An Historical Analysis'. Deacon divides the workforce into a strong primary and weak secondary market. Deacon argues that the unionisation of the workforce in the primary market has resulted in exclusion of women from this market and in the delegitimisation of their position in the work place. Deacon presents statistical and historical data to support her contention that such ideologies concerning women's work are prevalent even in the public service.

### POLITICS AND TECHNOLOGY

The eighth chapter is a paper by Richard Dunford on 'Politics and Technology: Unravelling the Connections'. Dunford views the relationship between technology and politics as incestuous. Dunford draws upon the case of introduction of new technology in telecommunication in Australia in 1978, to support his argument that technology is not value-neutral. Some of the issues raised by Dunford are indeed profound and need to be studied intensively:

> Control and efficiency usually co-exist rather than conflict, hence the political centrality of conceptions of efficiency . . . Ultimately, the central issue will often devolve to one of political contestation over the relative significance of efficiency, itself a site of contestation, and the value attached to control by the human agents in a production or administration process over the nature of that process (194).

Perhaps, the best written piece in the book is a paper by Thomas Smith on 'Australia's Nuclear Future' which constitutes the ninth chapter of the book. With remarkable clarity, Smith explores the fundamental issues concerning the introduction and management of atomic power facilities, nuclear weaponry systems and uranium enrichment plants. These issues relate to managerial, regulatory and policy problems. Smith points out that our knowledge about managing such complex, high-risk facilities has not kept pace with the technological sophistication of the production process. Smith has raised a number of fundamental questions regarding the transfer of technology, introduction and management, economics and regulatory aspects of nuclear technology. Even though these pertain to the Australian context, in my opinion, they are equally applicable in the Indian context, particularly in the context of the Bhopal tragedy.

The last chapter is a paper by Kouzmin on 'Centrifugal Organisations: Technology and 'Voice' in Organisational Analysis'. Kouzmin, on the basis of a review of the organisational behaviour literature on technology, concludes that research has tended to overstate convergence among findings and has understated the ideological and reflexive problems involved in theorising. Kouzmin calls for a reconstituted technology variable but provides few clues as to how this could be done. The last section of his paper which seeks to provide an alternative framework could have been more elaborate. Also Kouzmin's style of writing would win him few admirers. In order to be understood, Kouzmin has to be re-read several times.

On the whole, while the book has raised some basic questions about public sector organisations, it does not offer any new radical perspective for change. The core issues of hierarchical structure, control and efficiency have been discussed *ad nauseum* in the literature of organisational behaviour. What is now needed is an alternative model for change. That bureaucracies are hierarchical, value control over efficiency and are non-innovative and resistant to change is too well known to be elaborately discussed once again. The challenge before academics is to offer alternative forms of organising work in effective, humane, efficient and productive ways. However, the contribution of the book in providing some fresh insights into organisational functioning cannot be denied or underestimated.

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# Concentration and Marketpower in Indian Automotive Tyre Industry

Sunil Mani

*Though industrial concentration at the firm and business house levels has been studied, no attempt has so far been made, in the relevant literature, to relate effects of rising concentration to market conduct variables like the pricing behaviour of firms.*

*The purpose of the present paper is to trace the rising concentration in the tyre industry and its resultant effects on the pricing behaviour of firms. The industry which was dominated by MNCs has now come to be dominated by Indian business houses and the recent horizontal and vertical integrations by some of the firms have added a new dimension to the concentration. The government's effort to deconcentrate the industry has been effectively neutralised by these developments.*

## INTRODUCTION

INDUSTRIAL concentration refers to the size distribution of firms that sell a specific product or a group of products. It is usually regarded as a significant dimension of market structure because it is thought to play an important part in determining market power and thence business behaviour and performance.

Industrial concentration is one of those aspects of the Indian manufacturing sector which have received special attention. Interest in the studies of concentration stems from the potential value for competition and anti-monopoly policies. There are basically two lines of research that has taken place in this area. The distinction between the two lies in the unit of reference: for one, it is the controlling unit such as the firm or still higher unit such as the business house; for the other, it is the technical unit such as the plant or factory while in the former there are many studies,[1] in the latter area there is just one study.[2]

In the above literature the focus has been mainly on the level and to a certain extent the determinants of concentration *per se*, at the product/industry/business house/plant levels. In standard micro-economic theory monopoly capitalism is criticised on the ground that increasing industrial concentration leads to unduly low outputs and excessive high prices and profit. So there is a need to examine the relationships between concentration and certain dimensions of market behaviour and performance. Of course a large body of literature exists in the west, quantitatively testing the relationship between concentration and profitability, often, at the inter-industry level.[3] But no attempt has been made to relate the effects of concentration in a specific industry to such dimensions of market conduct or behaviour as pricing behaviour and to various dimensions of performance. Here in this paper we are concerned this aspect, i e, to examine the effects of concentration on one dimension of market conduct, *viz*, the pricing behaviour of the firms in the Indian automotive tyre industry. Our choice of this industry is due to the fact that it is one industry which has been heavily concentrated, and has attracted much public attention in recent times.

The history of the tyre industry begins with the year 1936, when the first tyre plant was established in the country. Thereafter, analytically, one can divide the evolution of the industry into three phases on the basis of concentration in production.

Briefly the first phase is from early 1930s upto early 1960s when there were only two manufacturing firms. This was a period of rather heavy concentration in production. The second phase is from the early 1960s to the mid-1970s when the government licensed more units. This phase also marks the entry of Indian firms into the industry, which led to a drastic reduction in concentration and hence to a certain degree of competition. However after a short time competition gave away to collusion in price fixing and output sharing on the basis of an agreement between the firms. In fact the significance of this phase is that the collusive agreement between the firms was formal or written as opposed to tacit agreements usually found in oligopolistic industries. Finally in the third phase, which commences with the mid-1970s, we see the entry of Indian business houses into tyre manufacturing. With the horizontal and vertical integrations that has become characteristic of this phase, we see that concentration is once again on the increase.

The paper is divided into four sections. In the first section, we describe the genesis of the Indian tyre industry, with a view to providing the basic background against which the industry evolved subsequently. Thereafter in the subsequent three sections, we analyse the three phases. Finally the last or the fifth section deals with the policy implications of the study.

## I

## The Genesis

The Indian rubber goods manufacturing industry is of comparatively recent origin. The end of the first world war marked the beginning of the industry and it was in 1920 that the first rubber plant in the country was established for waterproofing of fabrics. Thereafter a few concerns grew in quick succession in Bengal Presidency and elsewhere. But it was only in the 1930s that the manufacturing of tyres commenced in India. There were many favourable factors which led to this. Broadly they can be classified as general and specific factors.

On the general side, there was the availability of adequate quantities of raw rubber at extremely low prices. This was the result of an International Rubber Regulation Agreement (IRRA) which operated between 1934 and 1942 and of which India was a member. By restricting the export of rubber through quotas, it raised the world price of natural rubber and maintained it at a level considerably above the minimum price obtained hitherto; at the same time as a result of the quota system, a substantial portion of the indigenous production could not be exported and this became available at relatively low prices for internal consumption. Another factor was the availability of cheap labour. Thus these two favourable factors having a direct impact on the cost of production, of rubber products in general, in terms of cheap inputs (raw material and labour) paved the way for the growth of the industry.

Dunlop Rubber Co, was the first to establish a tyre plant in the country;[4] the plant was set up in 1936 at Calcutta. Apart from the above mentioned general factors, there were certain more proximate or specific causes in prompting Dunlop to set up its plant. First and foremost was the stores purchase policy of the Government of India which gave preference to products of domestic manufacturers (including subsidiaries of foreign companies operating in India) made from domestic raw materials.[5] A large proportion of Dunlop's business was done with the government and other public bodies, and so this policy of favouring domestic firms induced Dunlop to set up its plant. Secondly the imposition of revenue tariffs on imported tyres and the cost of freight between the foreign sources of supply and the Indian territory was another factor.[6] Thirdly the growth of nationalist feeling from the early 1920s led to a consideration of ways to strengthen the firm's local identity and specifically the Swadeshi movement prompted the company to consider establishing a local rupee capital company instead of selling its products through an agency.[7] Finally the expanding Indian tyre market and the anticipated moves of a rival company, *viz*, Good Year was still another factor.[8] Thus we see that government-policy and oligopoly-induced factors, go a long way towards explaining the domestic investment by Dunlop. They were soon followed by Firestone Tyre and Rubber Co, a US based MNC, with a plant at Bombay in 1939. This was the genesis of the Indian tyre industry, which as we see, began as one dominated by subsidiaries of MNCs.

In this section we have seen the basic background against which the automotive tyre industry evolved in India. We shall now concentrate on its subsequent evolution. We begin with the first phase—a phase of heavy concentration.

## II

## First Phase, 1936-1960

The phase begins with the year 1936, when Dunlop established its plant. The structure of the industry was such that there was rather heavy concentration in production, namely, in the hands of two manufacturers. In addition there were two more, purely, trading firms, *viz*, Good Year and India Tyre and Rubber Co (ITR).[9] Both these firms were using Dunlop's manufacturing facility. There were many inter-company arrangements between these three firms (i e, between Dunlop, Good Year and India Tyre and Rubber). The arrangements could be described as follows.

Good Year had arrangements with Dunlop in respect of several markets, according to which one of them manufactured tyres and tubes for the other where it had a prominent position. In India the agreement between Dunlop and Good Year was entered into in 1937 whereby tyres and tubes bearing Good Year brand names were manufactured at the Dunlop's plant, the technological specifications and mould being supplied by Good Year, while the capital investment required to provide the basic manufacturing facilities was furnished by Dunlop. The products were charged to Good Year on a cost plus basis, the profit margin being open to revision each year. A similar agreement was entered into by Dunlop with ITR in 1938, the terms of which were similar to the above. These kind of arrangements were a common business reaction to the economic vicissitudes of the 1930s and was found in many industries.

This arrangement conferred two kinds of advantages on Dunlop: first it ensured that its plant worked at its full installed capacity, second it precluded any form of meaningful competition between these three firms.

The concentration in production had its repercussions on tyre prices. This will be evident from the features of the pricing system which prevailed during that period. The main features of the pricing system were that:

(i) Tyres and tubes were sold at the same price throughout the country irrespective of the differences in transport costs from the place of production;

(ii) There was very little price differential between the manufacturers for the same type and size of tyres and tubes; and finally as a corollary of (ii); and

(iii) Competition between different manufactures were being carried out on the basis of quality and service and not of price.

It is quite clear that this system of uniform prices were the natural outcome of the organisation of the industry, which we have just described. The reciprocal agreements between Dunlop, Good Year and ITR precluded any form of price competition between these firms. They, therefore, had to act in unison. Firestone, the other manufacturing firm was also not in a position to engage in any price competition with the other three. In short there was a certain degree of tacit collusion between the firms. This could be explained as follows:

First of all Firestone had already 37 per cent of the market. Any reduction in prices by Firestone with a view to capturing other firms' market would have been of net advantage to Firestone only if they succeeded in securing additional business of sufficient volume to compensate for the reduction in their profit margin. All the firms, however, had large financial resources and were able to offset their losses in one market by gains in another. Consequently price cuts by one firm were likely to be matched by counter price cuts and this would have triggered off a series of price wars which would have proved costly to all of them.

Secondly, at the uniform price, Firestone made more profit than Dunlop since its cost of production was lower than that of the latter. In other words it means that at uniform prices and with a differential cost structure, the size of the profit margin earned by Firestone was higher than that of Dunlop. This will be evident from Table 1 which shows the net profit and the rates of profit to capital employed, for the period 1947 to 1953.

The rate of return of capital employed, in the tyre industry was much above the average obtained for Indian industries. The average percentage rate was only 8.1 in 1949, 8.8 in 1950 and 10.6 in 1951.[10] This shows the extent of profitability in the tyre industry.

Since price competition was ruled out

Table 2: Average Actual Prices Realised vis-a-vis Fair Prices

| Year | Excess ( + ) of Actual Prices Realised over Fair Prices (in Per Cent) |
|---|---|
| 1946 | + 21.79 |
| 1947 | + 18.90 |
| 1948 | + 15.26 |
| 1949 | + 9.28 |
| 1950 | + 7.70 |
| 1951 | + 6.88 |
| 1952 | + 11.24 |
| 1953 | + 8.52 |

*Source:* Tariff Commisssion, op cit, p 141.

Table 1: Net Profit of Dunlop and Firestone: 1947-1953

*(Rs in crore)*

| | Dunlop | | Firestone | |
|---|---|---|---|---|
| | Capital Employed | Net Profit | Capital Employed | Net Profit |
| 1947 | 3.14 | 1.17(35) | 2.29 | 1.22(53) |
| 1948 | 4.13 | 1.77(28) | 2.06 | 1.59(77) |
| 1949 | 4.80 | 1.28(27) | 1.89 | 1.30(69) |
| 1950 | 4.84 | 1.17(24) | 2.05 | 1.30(64) |
| 1951 | 5.71 | 1.40(24) | 2.52 | 1.74(69) |
| 1952 | 6.73 | 1.33(20) | 3.27 | 2.32(71) |
| 1953 | 6.63 | 1.25(19) | 3.54 | 1.68(48) |

*Note:* Figures in brackets indicate percentage of net profit to capital employed.

*Source:* Tariff Commission, Report on the fair prices of Rubber Tyres and Tubes, Bombay, 1955.

on these grounds, the only mechanism by which individual manufacturers could seek to expand their respective market shares was on the basis of competitive claims in regard to quality and after sales service. This resulted in excessive reliance being placed on publicity, personal liaison and service attractions of various sorts leading to a competitive increase in selling and distribution expenses (or what is called post-manufacturing expenses in modern parlance).[11] However since Good Year, ITR and Dunlop used the same manufacturing facility, there is a limit to the extent to which qualitative differences could exist between these producers. Thus the element of competition between firms being rather weak, gave them quite a leverage by which they could collude in price fixation and output sharing. This being the case, at the selling prices fixed by the firms they could earn very high profits.

This excessive profiteering attracted the attention of the government, which therefore asked the Tariff Commission in 1952, to undertake an enquiry into the tyre industry. The terms of reference were: (i) Whether prices charged by the tyre manufacturers between 1946 and 1953 were fair in relation to costs? (ii) What should be the fair prices of tyres and tubes manufactured by existing producers?

The Commission, by adopting Dunlop as the representative unit, determined fair prices for the industry as a whole on a uniform basis. These prices were then compared with the average actual prices realised by each of the firms during the period 1946 to 1953. Table 2 shows the excess of average actual prices realised by all the firms over the fair prices determined by the Commission.

The Commission thus found that the prices were excessive in relation to actual costs, on an average by about 12.5 per cent. This is further corroborated by the overall trading results of Dunlop and Firestone presented in Table 1. It was also found that for comparable types and sizes of tyres, the prices in the country were higher than those which prevailed in both UK and the USA.

Although the profits earned in any period are the net results of costs and prices, the manner in which the profits are utilised in any period can have significant effect on costs and prices in subsequent periods. It should be clear that although the firms earned substantial profits year to year, no effort was made by them to lower their prices in order to reduce their profits to a reasonable level. Instead these excessive profits were frittered away by declaring huge dividends and only a small proportion of it was retained in business. This is illustrated in Table 3.

Table 3 shows that while Dunlop retained 28 per cent of the amount available for distribution, the corresponding percentage for Firestone was only about ten. This low percentage for Firestone was due to the fact that it was a fully owned subsidiary of its US parent firm to whom it therefore remitted the entire dividend.[12] What is more striking is the virtual non-provision for reserves by Firestone inspite of its excessive profits.

It is thus clear that by declaring dividends at high rates, the firms have given away a good part of their earnings which could have been utilised for expansion and modernisation of thier business. Though they have retained a small portion, this might have only facilitated them to effect savings in interest and other elements of cost and thus enlarge their profit margin for the subsequent periods.

TABLE 3: AMOUNT AVAILABLE FOR DISTRIBUTION AND THEIR UTILISATION BY DUNLOP AND FIRESTONE, 1946-1953

*(Rs in lakh)*

| | Dunlop | Firestone |
|---|---|---|
| Amount available for distribution | 1000.46 | 1231.66 |
| Distributed as follows: | | |
| Extra depreciation | 68.39 (6.84) | 33.63 (2.73) |
| Bonus | 94.01 (9.40) | 31.74 (2.58) |
| Interest | 48.20 (4.82) | 4.10 (0.33) |
| Taxation provision | 362.17 (36.20) | 488.11 (39.63) |
| Reserves | 204.50 (20.44) | Nil |
| Dividends | 200.26 (20.02) | 554.94 (45.06) |
| Debenture issue exp | 7.76 (0.78) | Nil |
| Misc adjustments | 4.35 (0.43) | 30.29 (2.46) |
| Closing balance | 10.82 (1.08) | 88.85 (7.21) |
| Total | 1000.46 (100) | 1231.66 (100) |
| Amount retained | 283.71 (28.36) | 122.48 (9.94) |

*Notes:* 1 Figures in brackets indicate percentage of the amount available for distribution.
2 Amount retained includes extra depreciation, reserves and closing balance.

*Source:* Tariff Commission (1955), op cit.

The Commission also found that the tyre companies had received government assistance during the war for various projects, which enabled them to expand their manufacturing activities in certain directions without incurring the full capital cost involved.[13] Inspite of this, no effort was made by the firms to pass on these benefits to the consumers. In short the excess profiteering virtually amounted to siphoning off funds from the national economy.

As regards the second term of reference, *viz,* what should be the fair prices of tyres and tubes, the Commission by adopting the cost of production of Dunlop for the period April-June 1955, recommended a fair price. This was on an average, 11 per cent less than the actual prices which prevailed during that period. They also recommended a formula for price escalation to cover a rise in cost of production. Its report which was submitted in 1955 was accepted by the government. The prices fixed as per formula were to last till 1957. But they remained in force till 1963.

However the more significant recommendations of the Commission were the measures to deconcentrate the industry and thereby increasing the degree of competition in the market. For this it suggested two options before the government: first to explore the possibility of securing imports of tyres and tubes with a view to providing some measure of competition and; secondly to offer special assistance to Indian firms willing to enter this market, either independently or in collaboration with foreign enterprises. The government favoured the latter one as it was found to be a feasible and long term solution to the problem.

In view of the expanding market, the government allowed the existing firms to expand. However only Dunlop seized this opportunity by substantially expanding its Shahaganj plant and also by setting up a new second plant at Ambattur (Madras) in 1959. The desire to retain its market power might have prompted Dunlop to take this decision especially when seen with the proposed move of the government to expand the industry by inducting in more firms. The entry of these new firms, leads us to the second phase in the history of the industry.

## III

## Second Phase, 1960-1974

The commencement of this phase roughly corresponds to the beginning of

# SELF-RELIANCE
## IN STEEL PLANT ENGINEERING AND TECHNOLOGY

**Pioneer in steel plant consultancy in India**, DASTURCO has been closely involved in the planning, design and engineering of steel and allied projects for both the public and private sectors. It is consultant to several foreign governments, UNCTAD, UNIDO, World Bank and other international agencies.

### Integrated Steel Plants
For Visakhapatnam Steel Project—India's first coast-based steel plant—DASTURCO as the Principal Consultant is providing comprehensive design and engineering services. DASTURCO is also engineering consultant for ☐ Modernisation of TISCO, Jamshedpur ☐ Silicon Steel Project, Rourkela Steel Plant.

### Alloy and Special Steels
DASTURCO is the consultant to ☐ Alloy Steels Plant, Durgapur (initial plant as well as expansion) ☐ the Special Steels Plant, Salem ☐ Firth Sterling Steel, Nagpur etc.

*TISCO modernisation : Charging molten metal into the 130-ton LD convertor*

### Mini Steel Plants
India's first modern mini steel plant with advanced S-type curved mould continuous casting for Mukand Steel at Thane, Bombay was designed by DASTURCO as far back as 1959. Since then, DASTURCO has engineered a large number of mini steel plants in India and other countries ☐ Steel Complex, Feroke, Kerala ☐ Krishna Steel, Bombay ☐ Oswal Steel, Faridabad ☐ PT Badja Indonesia Utama, Jakarta etc.

### Sponge Iron Plants
For SIIL's sponge iron plant, Kothagudem—India's first DR plant based on non-coking coals—DASTURCO has provided comprehensive design and engineering services.

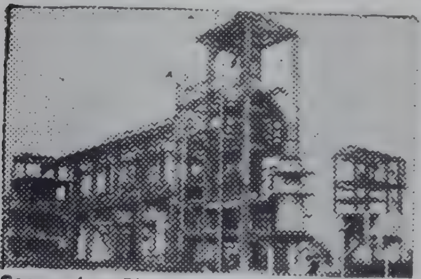
Now, it is consultant to the Governments of Gujarat and Maharashtra for their two gas-based sponge iron plants.

### Superalloys
Midhani's Superalloys Plant, Hyderabad—one of the most sophisticated and complex metallurgical plants in the world—was designed and engineered by DASTURCO.

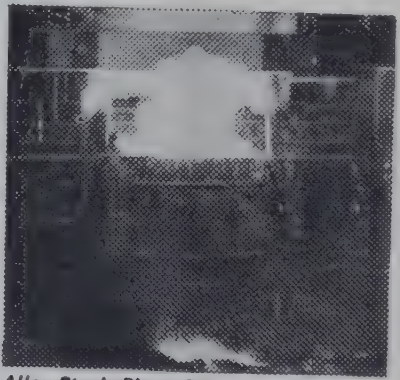
### Export of Know-how
As in India, DASTURCO is actively assisting steel development in the Arab world, South-East Asia, Africa and Latin America. Among the numerous assignments handled, the largest and most prestigious is the Misurata Iron and Steel Complex, Libya, now under construction, for which DASTURCO is the Principal Consultant. Currently, DASTURCO is also the Project Consultant for the Trengganu Direct Reduction/Electric Arc Furnace steel plant of HICOM, Malaysia. In Venezuela, DASTURCO provided design/engineering services for SIDOR plant expansion.

DASTURCO is the consultant to the Government of Oman for their first integrated steel plant (DR/EAF) and rolling mill. In Egypt, DASTURCO recently prepared a Master Plan for the development of the steel sector up to 2000 AD. And now, for the Government of Mongolia, DASTURCO is drawing up detailed plans for the establishment of the steel industry in the Republic.

*Superalloys Plant (Midhani), Hyderabad: Plant, general view*



*Sponge Iron Plant, Kothagudem : Direct reduction unit with waste gas cleaning facility*



*Alloy Steels Plant, Durgapur : Tapping of liquid steel from the 50-ton arc furnace (Stage-1 Expansion)*

*VSP—Rolling mill area : Roll shop column and equipment foundations*

**DASTURCO**
*Total Engineering—*
*Concept to completion*

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*CONSULTING ENGINEERS*
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the Third Five-Year Plan. The target for tyres for the plan period was fixed at three million.[14] And subsequently five new units were licensed. Of this Good Year and Ceat were subsidiaries of foreign MNCs and the remaining three (Premier, MRF and Inchek) were Indian companies with foreign technical collaboration, though MRF had a minority equity participation by its foreign collaborator. We will now explain the manner in which these units came about.

Though the target for the Third Plan was fixed at three million, for reasons best known to it, the Commission originally recommended only a capacity of 2.2 million tyres. And the view was that this could be taken care of by the existing firms, *viz*, Dunlop and Firestone, and the three new units that had already been licensed—Premier, Ceat and Good Year. Later on the Commission revised its estimates upwards by 0.60 million to 2.8 million. As a result two more new licences had been issued to Madras Rubber Factory[15] and to General Tyres (whose name was later changed to Inchek Tyres). However in view of the continued demand for tyres, the two established firms (Dunlop and Firestone) made a new representation to the government, conceding the probability of considerable improvement in the demand for tyres and therefore recommending a target of four million tyres for the Third Plan period. The government welcomed this appraoch and agreed with their view and expansion licences were issued to Dunlop and Firestone[16]—a clear violation in spirit of the Tariff Commission's recommendations.

TABLE 4: FEATURES OF THE NEW TYRE UNITS

| Sl No | Name of Company | Form of Management | Technical Collaborator | Location of the Plant |
|---|---|---|---|---|
| 1 | Good Year | Public limited company with majority participation by Good Year Tyre and Rubber Co, USA | Good Year Tyre and Rubber Co, USA | Ballabgarh, Haryana |
| 2 | Ceat | Public limited company with majority participation by Ceat Gomma SPA of Italy | Ceat International S S Laussane Switzerland[1] | Bhandup/Bombay, Maharashtra |
| 3 | MRF[2] | Public limited company with majority participation by the Mammen Mappilai Group and minority equity participation by the technical collaborator | Mansfield Tyre and Rubber Co, USA | Thiruvottiyur/Madras Tamil Nadu |
| 4 | Premier | Public limited company with majority participation by C S Desai[3] | US Rubber Co (Uniroyal) | Kalamassery/ Ernakulam, Kerala |
| 5 | Inchek | Public limited company with majority participation by K N Mookerjee | Techno Export Foreign Trade Co, Czechoslovakia | Kankinara/Calcutta West Bengal. |

*Notes:* 1 Ceat International SA Switzerland is a wholly owned subsidiary of Ceat Gomma SPA Itlay and the former is in charge of the technical collaboration of the latters' overseas plants. Under an agreement, the American manufacturer, General Tyre and Rubber Co agreed to make their technical improvements available to Ceat Gomma SPA which in turn makes these improvements available to the company (i e, Ceat India). It may also be mentioned that the house of Tatas did have a small shareholding in Ceat Tyres (A Second Tier concern).

2 Madras Rubber Factory was already engaged in the production of Cambel back or tread rubber, used in retreading tyres.

3 The licence for Premier Tyres was initially obtained by a Kerala based banker named K P Mathew. However due to financial difficulties it had to be passed over to C S Desai—a Bombay based stock broker who along with the Kerala state government (the state government holds about 33 per cent of the paid-up capital of the company) implemented the project.

The capacities though sanctioned after licensing the four units mentioned earlier, could be implemented by the existing producers and one of the new ones, *viz*, Good Year, by the time the other four new units went on stream in view of the formers' command over financial and technical resources. As a result of all these expansions and the new units going into commercial production, there was a temporary glut in the tyre market during the period 1963 to 1967. Consequently the new Indian units and Ceat Tyres passed through enormous difficulties, their capacity utilisation being only about 30 per cent.[17] The consumers preference was for Dunlop, Firestone and Good Year, names which had been well established in the Indian market for over quarter of a century.[18] As a result the profitability of these new firms suffered immensely.

Table 4 illustrates the features of these new units. In view of their higher initial capital investments and consequent higher interest and depreciation charges, the new units requested the government to sanction some excise duty concessions.[19] However the government sanctioned only a token reduction, working out to about Rs 4 to 5 lakh per year. With these gentle proddings in new units were able to stand on their on by 1967.

In 1968, as a result of the increased production of vehicles and the consequent spurt in demand for tyres, the tyre market underwent a major change. The temporary glut was reversed to a situation of marginal shortage which finally resulted in the emergence of a sort of seller's market. These conditions prompted the manufacturers to reconsider their independent positions on price and output decisions. Specifically this meant whether or not to act in collusion to arrive at a consensus on these decision variables, instead of competing with each other. The new firms, being not yet well established in the market thought it more prudent on their part to join hands with the established manufacturers. All the available qualitative evidence suggests that Dunlop, which was the oldest and the largest firm, took the lead to form a cartel of the existing producers.[20]

In this context it is important to digress a bit into the theoretical explanations for this kind of collusive behaviour as opposed to other options available to the manufacturers. One way of avoiding the uncertainty arising from oligopolistic interdependence is to enter into collusive agreements. There are two main types of collusion, cartels and price leadership. Both forms generally imply formal (written) or tacit (secret) agreements. However open collusive action is commonly illegal in most countries at present. Successful collusion encourages oligopolistic co-ordination by strengthening the participants financially. Once most firms in the industry have gained sufficient financial strength, price wars and vigorous competition offer few rewards. Higher returns can be obtained by formal or tacit co-operation.

The variety of collusive pricing arrangements in industry is limited only by the bounds of human ingenuity. Some are casual and short lived, e g, the spontaneous meetings called to terminate price wars. Others endure for years held together by an elaborate organisational web and binding written contracts.

The Indian tyre industry consisting of eight firms (including ITR which continued as a purely trading firm using Dunlop's manufacturing facility) during the post-1967 period, can quite justifiably be characterised as a cartel with formal or written collusion. We will substantiate this below.

As a result of the changed market conditions and specifically those emanating from the seller's market which had emerged by that time, the tyre manufacturers, who were hitherto acting on their own, decided to cartelise. In order to facilitate co-ordination among themselves, they jointly gave rise to an elaborate written agreement, prescribing clearly a code of conduct to be followed in matters of mutual interest. This agreement was known as, "The General Code of Conduct for Members of the Automotive Tyre Industry of India". This comprehensive agreement touched upon the following issues: (1) price fixing in concert; (2) limiting, restricting or withholding output or supply in a mutually agreed manner; (3) restricting persons or classes of persons to whom tyres are sold; (4) resorting to an agreed distribution system and restricting appointment of dealers of one's own choice by the member tyre manufacturer; (5) collective agreements relating to terms or conditions of sale other than pricing, like credit policy, mode of transport, method and place of advertisement, etc; and (6) allocation of area or market for the disposal of tyres.

TABLE 5: EXPANSION IN INSTALLED CAPACITIES IN 1969

*(In lakh Nos)*

| Name of Company | Existing Installed Capacity | Expansion Licensed | Total |
|---|---|---|---|
| 1 Dunlop | NA | 2.50 | — |
| 2 Ceat | 4.00 | 2.50 | 6.50 |
| 3 MRF | 3.60 | 2.50 | 6.10 |
| 4 Inchek | 3.00 | 3.00 | 6.00 |

*Source:* Shetty, H P, "Tyre Industry of India", Polymer Publications, Bombay, 1976.

It would not thus be an overstatement to believe that the code of conduct was made as elaborate as perhaps "human ingenuity can devise". An examination of the code of conduct shows that it tended to bring about manipulation of prices, and affected the distribution of tyres in the market. Briefly through the code, the tyre manufacturers had completely eliminated competition among themselves. Thus though with the licensing of new units, the concentration in the industry had come down, these collusive practices effectively nullified any benefit that would have accrued to the consumer as a result of the increase in the number of units.

In view of the shortage of tyres, the government decided to lift the industry out of the "Banned List"[21] and allowed the existing manufacturers to substantially expand their existing installed capacity. Excepting for Firestone, Good Year and Premier, all the rest seized the opportunity to substantially expand their capacity.[22] Table 5 gives an indication of this expansion.

As before, once these expansions were fully implemented by the existing firms, the government further decided to issue something like 14 letters of intent. As many as five of these were taken by State Industrial Development Corporations and hitherto they have remained unimplemented. Of the remaining 9, one was issued to Premier Tyres—an existing firm. Among the rest Modi Industries, JK Industries, Ruby Rubber Works and South India Export Co Pvt Ltd have converted them into licences subsequently and have gone into commercial production, on varying dates, since the mid-1970s. Nothing much is known about the remaining four, which were taken by either individual entrepreneurs or existing private corporate companies.[23]

TABLE 6: TRENDS IN LICENSED AND INSTALLED CAPACITY

*(In lakh Nos)*

| | 1971 | | 1972 | | 1973 | | 1978 | |
|---|---|---|---|---|---|---|---|---|
| | L | I | L | I | L | I | L | I |
| Dunlop | 14.49 | 18.00 | 14.49 | 18.00 | 17.21 | 18.00 | 17.21 | 18.00 |
| Ceat | 6.50 | 6.48 | 6.50 | 6.48 | 8.50 | 8.48 | 8.50 | 8.48 |
| Good Year | 6.00 | 7.28 | 6.00 | 7.28 | 6.00 | 7.28 | 6.00 | 7.28 |
| MRF | 6.10 | 6.10 | 6.10 | 6.10 | 14.00 | 8.00 | 14.00 | 10.50 |
| Premier | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 6.00 | 4.00 |
| Inchek | 9.00 | 5.50 | 9.00 | 5.50 | 9.00 | 5.50 | 9.00 | 5.50 |

*Notes:* 1 L = Licensed; I = Installed.

2 In 1973, the MRF was issued a licence for 3.90 lakh tyres plus a fresh licence to the tune of 4 lakh tyres and tubes per annum for setting up a new plant at Goa.

The expansion by the existing units did not make any perceptible impact upon the supply position in the market as a result of the code of conduct which was being pursued vigorously by the existing firms. It may be quite reasonable to speculate that through this expansion the existing firms not only capitalised on the ever rising demand for tyres, but also successfully preempted the recepients of the letters of intent from entering the tyre market by creating an impression of glut if the latter too entered the market.

However this did not proceed without interruption. In December 1971, the Registrar of Restrictive Trade Agreement (RRTA), of the then newly formed MRTPC instituted an inquiry into this alleged cartelisation by the tyre companies. Incidentally this was the first enquiry conducted by the MRTPC since it was formed. The Commission commenced its enquiries in 1972.

Though between 1968 and 1973, the manufacturers were not allowed to increase prices, the 'Code of Conduct' helped them to bring about manipulation of prices and conditions of delivery. In November 1973, however, they announced a joint price hike on grounds of increases in cost of production. However the government reacted sharply and imposed statutory control on prices (for the first time since 1963, when prices were decontrolled consequent to the improved supply position) and compelled the industry to revert to pre-November 1968 prices.

But in 1974 the government once again decided to decontrol the prices. The reason for this change in policy was stated thus: "The difficulties of enforcing price control on the end-product at a time when the prices and availability of essential raw materials for that product were fluctuating, are well known. Under these circumstances, the government have decided that formal price control imposed in November 1973 on certain categories of tyres and tubes should be withdrawn and conditions created for augmenting production rather than refixing prices now and revising them further at short intervals in response to the raw-material prices."[24]

The 'conditions for augmenting production' reflected itself in terms allowing the existing manufacturers, to further expand their capacity. All the units were also allowed to exceed their respective licensed capacities by 25 per cent in case they have the extra built in capacity or if the same can be achieved by the installation of balancing equipments. Table 6 gives trends in licensed and installed capacities for the period 1971 to 1974.

In short the government's effort to increase the installed capacity was, by and large, taken advantage of by the existing producers themselves. This helped them to continue their collusive practices, though quite tacitly, in view of the ongoing MRTPC enquiry.[25]

In 1975, the cartel received a severe jolt in the form of one of the recepients of the letters of intent, M/s Modi Industries Ltd, converting it into a licence and deciding to enter the market. The entry of the Modis, the first Indian business house to enter the tyre industry has completely altered the working of the industry and with this we enter the third and the latest phase in the evolution of the industry.

## IV

## Third Phase, 1975-1984

The characteristic features of this phase are the entry of Indian business houses into tyre manufacturing and the resultant competitive struggle in the industry and the vertical and horizontal integrations which have shown itself in rising concentration. Simultaneously we also see the exit of important MNCs like Firestone, Ceat and, of late Dunlop. The industry is undergoing a succession of changes, all having their impact on the pattern of competition within the industry and also affecting the market power of certain firms.

The Modis started their commercial activities in late 1974. Within a period of two years or so, i e, by 1977, they were able to achieve a significant share of the market, and became a strong force to be reckoned with. Being a new entrant, the Modis found that it was not in their interest to join the cartel.[26] Many reasons could be attributed to this. First of all the existing cartel had uniform distribution and pricing policies and therefore joining the cartel would mean being subservient to the interests of the cartel. The Modis had, therefore, to develop their own independent and effective sales network, since the existing dealers were threatened with black listing if they sold Modi tyres. Consequently a large proportion of their dealers were totally new to the business; older dealers who were dissatisfied with the cartel in which certain dealers were given preferential treatment, also joined them. Secondly given the dominance of cartel, there was a perennial shortage of tyres in the market, since production was also restricted to ensure higher unit value realisation. Thus the consumer had no choice and had to purchase all brands of tyres at virtually the same price and the general quality of tyres available in the market was extremely bad. Nevertheless because of the artificial shortages, tyres and especially truck tyres were sold at a premium. As stated earlier, one of the provisions of the 'code of conduct' was that the market was parcelled out among the members of the cartel. By mutual agreement the market share in each state for each type of tyre was predetermined and the dealers directed accordingly. Hence there was absolutely no competition between the firms and therefore not much of enthusiasm was shown by them in giving effect to the important technological changes that have been taking place in tyre design and manufacture and specifically in the introduction of nylon tyres.[27]

Sensing the mood of the market, the Modis came out with a product which was technologically superior coupled with an independent and effective sales network. So it was not difficult for them to make inroads into the market. The impressive rise of the Modis is also sometimes attributed to their taking full advantage of the various concessions/reliefs extended by the Central and state governments and streamlining of their operations for achieving higher production, etc.

Like the new Indian tyre firms in the second phase, the Modis too requested the government to sanction excise duty concessions on the plea of heavier capital cost and consequent incidence of interest and depreciation charges. But unlike the

TABLE 8: MARKET SHARES OF THE VARIOUS GOENKA UNITS

| Industry | No of Goenka Units | Percentage Market Share |
|---|---|---|
| 1 Automotive tyres | 2 | 35 |
| 2 Carbon black | 3 | 60 |
| 3 Nylon tyrecord | 1 | 24 |
| 4 Rubber chemicals | 1 | 46 |
| 5 Bead wire | 1 | 90 |
| 6 Tube valves | 1 | 90 |
| 7 Rubber machinery | 2 | NA |

*Note:* Market share is defined as the share in total industry production.

TABLE 7: INPUT MANUFACTURING UNITS UNDER GOENKA HOUSE

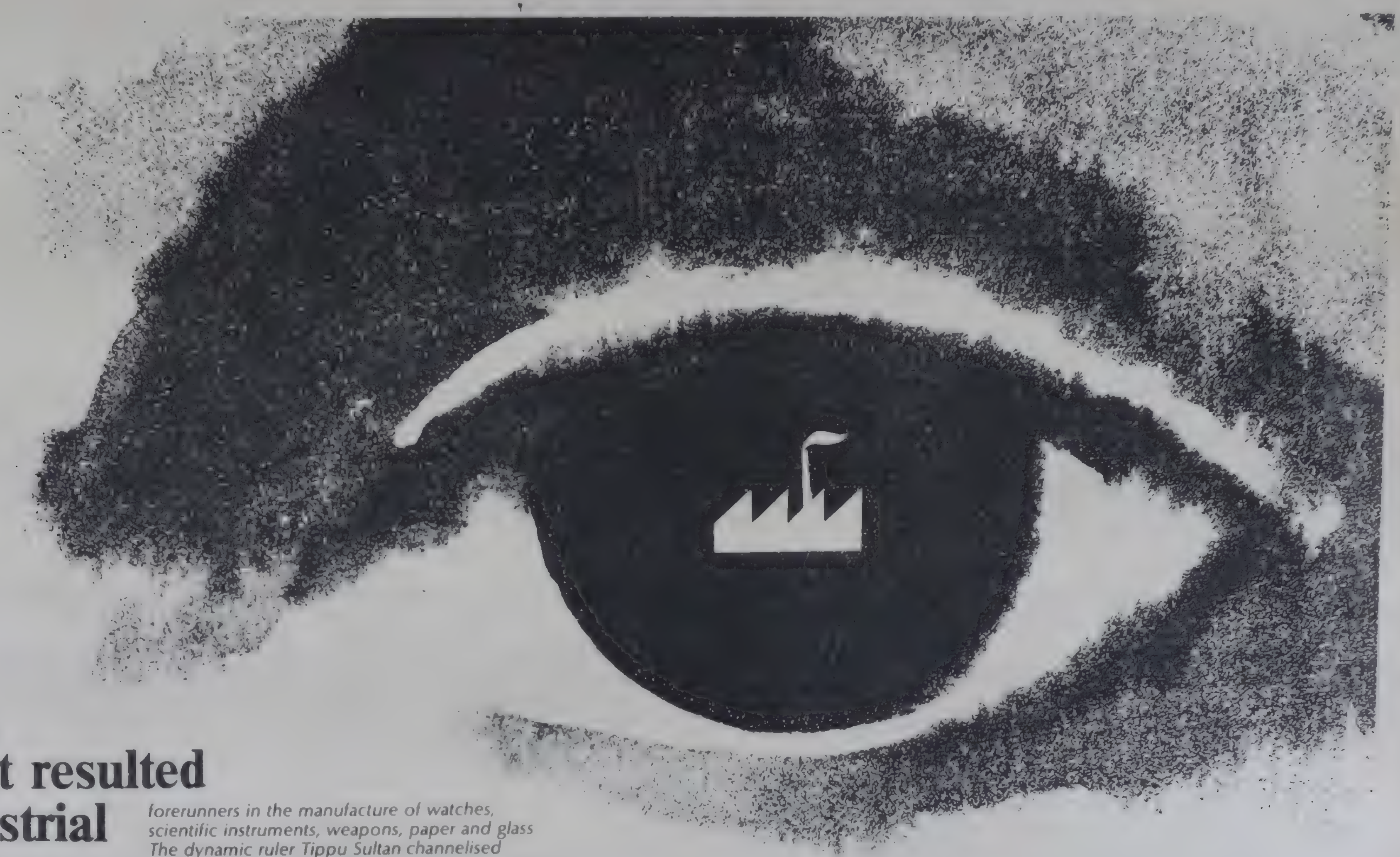
| Sl No | Year of Promotion Take Over[1] | Name of Unit | Product | Capacity Statistics (In '000 tonnes) | |
|---|---|---|---|---|---|
| | | | | Licensed | Installed |
| 1 | 1960 | Phillips Carbon Black | Carbon black | 36 | 36 |
| 2 | 1961 | Schrader-Scovill Duncon | Tyre tube valves | 12.8 | 12.8 |
| 3 | 1962 | National Standard Duncan[2] | Bead wire<br>Tyre moulds | 9.2<br>100 Nos | 9.2<br>100 Nos |
| 4 | 1978 | Oriental Carbon Black | Carbon black | 28 | 28 |
| 5 | 1979 | Gujarat Carbon | Carbon black | 20 | 25 |
| 6 | 1983 | National Rayon Corporation | Nylon tyrecord | 5 | 5 |
| 7 | 1984 | Alfred Herbert (India) | Tyre machinery | | |
| 8 | 1985 | Bayer (India)[3] | Rubber chemicals | 10.3 | 7.8 |

*Notes:* 1 Nos 1 through 5 were promoted by the Goenkas and 6 through 8 were acquired by them through take overs.

2 NSD has received government approval for a new plant for bead wire manufacture and another for manufacture of rubber machinery. The company's application for licence to manufacture steel tyrecord (with an installed capacity of 3,000 tpa) was recommended for grant of licence by the MRTPC and the letter of intent is awaited.

3 Bayer AG, Western Germany still holds about 51 per cent of the equity of Bayer (India).

4 Goenkas also hold about 1875 shares in Harrisons Malayalam—Cochin based largest natural rubber plantation in the corporate sector.



# Karnataka. Where foresight resulted in an Industrial Revolution

Karnataka's industrial heritage dates back to its colourful history. Canals, built during the Vijayanagar Kingdom at Hampi, even today form part of the Tungabhadra Irrigation Project proving that feats of engineering skill are very much part of Karnataka's heritage.

Tippu Sultan later moulded Karnataka's growth with his innovative concept of State-supported industry. Sir M Visvesvaraya, the genius of Karnataka, turned Tippu Sultan's Hydro Electric Project into a reality—the first of its kind in Asia. This magnificent impetus saw the emergence of Karnataka as an industrial trend setter and a force to be reckoned with. Karnataka, blessed with rich natural resources, has many firsts to its credit, being: forerunners in the manufacture of watches, scientific instruments, weapons, paper and glass The dynamic ruler Tippu Sultan channelised the State's overseas trading enterprise and also laid the foundations of sericulture that has today brought Karnataka to the forefront in this agro-based industry. From as far back as 1780, these industries set up with state support have been part and parcel of Karnataka's everyday life.

In 1930, Sir M Visvesvaraya set up the country's first Directorate of Industries and made a bold pioneering effort into steel that is today Visvesvaraya Iron & Steel Limited. This was possible because, the then Maharajas of Mysore shared his enthusiasm and patronised his efforts.

400 large and medium size industries and over 44,000 small scale units with a total investment of Rs 11,220 crores and a disciplined labour force of over 800,000 comprise our state, throbbing with industry.

Karnataka is proud of what it is today. Thanks to great people, great minds and great visionaries whose foresight promised us a bright future.

Karnataka—
continuing a tradition of industry

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14/3A Nrupathunga Road Bangalore 560 002

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earlier attitude of the government, when only a token concession was sanctioned, this time they announced an attractive scheme of excise duty relief.[28] This gesture by the government vastly helped the Modis in pricing their products on par with the established companies; while at the same time it brings out the preferential treatment given to units belonging to business houses *vis-a-vis* those of individual entrepreneurs.

It is also surprising that the Modis, who had a licensed capacity of just 4 lakh tyres and tubes (and an installed capacity of 4.55 lakh)—which worked to just about six per cent of the total industry capacity, could achieve a significant share of the market by 1978. This was mainly due to their very high capacity utilisation, touching almost 80 per cent in the first year of operation and thereafter in excess of installed capacity by about 40 to 60 per cent. They (the Modis) attributed this to the very high levels of productivity achieved by them, while there is no doubt that they also had certain in-built excess capacity.[29] All these factors jointly helped the Modis in busting the cartel and thus enlarging its market power.

The 'success story' of the Modis encouraged some of the other recepients of the letters of intent like JK (Singhania House) and Apollo (Raunaq Singh)[30] to enter the market. Both started their commercial operations in 1977. In fact it is quite interesting to note one of the promoters of JK Industries was JK Synthetics (a manufacturer of nylon tyre cord)—the first instance of vertical integration in the tyre industry. Of course this tendency of forward and backward integrations has become more pronounced in the early 1980s and the rationale for this seems to be the desire to increase the market power of each firm by having control especially over the input, and in certain cases, the output market too.

To take advantage of the rising demand for two wheeler and three wheeler tyres, Falcon Tyres came up in 1975, for the exclusive manufacture of these items. It is interesting to note that it came up in technical collaboration with MRF—the first case of horizontal transfer of technology in the industry. Finally Vikrant Tyres was set up in 1980 for the manufacture of different kinds of tyres. The letter of intent for this company was taken in the early 1970s (along with Modi, Apollo and JK) by a Madras based private firm named South India Export Co Pvt Ltd. The original promoter ran into financial difficulties and the project was finally implemented by the active co-operation of Karnataka Industrial Investment Corporation. It was thus the first tyre company in the joint sector.

Thus of the four major tyre companies which came up in the 1970s, three of them were promoted by business houses. None of the State Industrial Development Corporations which had taken letters of intent along with these firms in the early 1970s, have implemented their projects; hitherto supposedly due to lack of adequate financial resources.[31] However all those three business houses were assisted by public financial institutions and nationalised banks (e g, 38, 35 and 29 per cent of the total capital cost of Apollo, Modi and JK respectively, were met by the institutions and banks). The precise reasons as to why the SIDCs did not implement their projects at a time when there was enough scope for new units need to be looked into. Non-viability of their initial (proposed) scale of operation could not have been a factor as all the units, with the exception of the Modis, were of three lakh capacity and have later on substantially expanded their capacities in varying magnitudes once they came into commercial production.

Meanwhile in 1976, after protracted proceedings, the MRTPC inquiry was completed. The Commission found sufficient evidence for cartelisation and hence

TABLE 9: STRUCTURE OF THE INDIAN TYRE INDUSTRY (AS ON 31-3-1984)

| Sl No | Name of the Firm | No of Plants | Licensed Capacity | Installed Capacity | Actual Production | Technical Collaborator |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1 | Dunlop India[1] | 2 | 23.05 | 22.55 | 17.32 | Dunlop UK (for only passenger radials and certain industrial products) |
| 2 | India Tyre and Rubber[2] | Nil | 1.06 | 1.06 | 0.82 | Dunlop India |
| 3 | Ceat | 2 | 21.12 | 14.10 | 20.21 | Yokohoma Rubber Company, Japan. |
| 4 | Bombay Tyres International (Firestone) | 1 | 11.00 | 11.00 | 11.10 | Continental, W Germany |
| 5 | Modi Rubber | 1 | 18.92 | 13.50 | 10.77 | Continental, W Germany |
| 6 | MRF | 4 | 18.00 | 18.00 | 12.20 | B F Goodrich and Co, USA. |
| 7 | Good Year[3] | 1 | 11.74 | 9.00 | 6.23 | Good Year Tyre and Rubber Co, USA. |
| 8 | Premier | 1 | 6.00 | 6.00 | 2.03 | Had T C with Uniroyal, USA till 1978. Ever since on its own. |
| 9 | JK Industries | 1 | 13.12 | 8.84 | 5.07 | General Tyres International Corporation, USA. |
| 10 | Apollo[4] | 1 | 4.00 | 4.41 | 2.94 | General Tyres International Corporation, USA. |
| 11 | Vikrant | 1 | 10.00 | 7.50 | 3.51 | Avon Technical Services, UK. |
| 12 | Tyre Corporation of India (Inchek) | 1 | 5.00 | 5.50 | 0.10 | Nil |
| 13 | Falcon[5] | 1 | 12.00 | 8.00 | 5.85 | Nil |
| 14 | Srichakra[6] | 1 | 6.00 | 4.00 | — | Nil |
| 15 | KTC[7] | 1 | 5.50 | Project under implementation. Expected to go on stream in June 1985. | | |

Notes: 1 Sl Nos 1 through 3 are under the management of the Goenkas and 4 to 5 under that of the Modis.
2 Wholly owned subsidiary of Dunlop India till 1979. Uses DIL's manufacturing facility.
3 Good Year is the only MNC in the tyre industry now.
4 Government approval has been received for setting up a new plant with an installed capacity of 8.25 lakh tyres at Gujarat.
5 Sl Nos 13 to 15 manufacture only 2/3 wheeler tyres.
6 Commercial production commenced only in November, 1983.
7 KTC is a joint sector project with Kerala State Industrial Development Corporation and P V Chandran who, among other things, owns rubber plantations, as joint promoters.

passed a "cease-and-desist" order against the tyre companies.[32] This led to the formal breaking up of the cartel. By this time with the strong challenge provided by the Modis and with the increase in the number of new firms, we see a fall in concentration. As noted above, Modis soon emerged as the price leader, beating even well established names like Dunlop.

The industry during the late 1970s and early 1980s affords a classic example of price leadership being used to establish a price structure which tended to yield collusive profits. The Big Four (*viz*, Modi, Dunlop, Ceat and MRF) selling from 70 to 73 per cent of industry output, clearly recognised their mutual interdependence. This was quite evident from a price increase effected by all the companies together in March 1978.

Once again this attracted the attention of the MRTPC, which instituted an RTP enquiry on 6-7-1978. The main complaint was that the tyre firms were all acting in concert while fixing prices of tyres and tubes. The enquiry has since been disposed of vide order dated 24-3-1983. The respondent firms have given undertakings assuring that they will not indulge in any concert in fixing prices at any time.

A higher installed capacity than the projected demand for all kinds of tyres made licensing of new units difficult to justify. It should also be borne in mind that licensing remains the main barrier to entry (in most industries) in the Indian manufacturing sector. Since there is no substitute for tyres, the tyre manufacturers enjoyed a certain degree of discretion in choosing the price of their product.

However such discretionary powers have become increasingly constrained, in these days, especially due to two factors. First, is the technological changes in the retreading system, which can cut deep into the demand far new tyres from the replacement market. This could be explained as follows:

The demand for tyres originates from two kinds of markets, original equipment and replacement with the former constituting ⅓ and latter ⅔ of the total demand. Because of the high price of tyres, consumers in the replacement market and especially those for passenger car tyres, have been increasingly turning their attention to retreading their old tyres than purchasing a new one.[33] But the latest technological developments in retreading systems and especially the cold process pressured retreading have considerably enhanced the retreadability factor and might in the years to come pose a serious challenge to the demand for new tyres from the replacement market.

Second it is the stiff consumer resistance which has constrained the abilities of the tyre manufacturers. Various consumer organisations like the All India Motor Transport Congress—an apex body of truck operators in the country—have been in the vanguard of such resistance movements. The government has also referred, complaints against tyre companies, received from various quarters to the MRTPC. There are at present 8 RTP enquiries going on either against all the companies or against certain individual firms relating mostly to pricing behaviour. Very recently the government has even appointed a full-fledged Committee on Tyres and Tubes (known as the Satyapal Committee) to make a comprehensive study of the industry.[34] Among the terms of reference are, "to review and recommend rationalisation and improvement of distribution system of tyres after looking into the complaints thereto". Finally the BICP has also been involved in making cost of production studies, from time to time, to see if price increases effected are justifiable. However even with all these government surveillance machinery, the industry has been proceeding on its own course, which can have serious repercussions on the future pricing behaviour of the industry.

These changes have become very pronounced in the 1980s—changes which are altering the degree of concentration in the industry and affecting the market power of certain firms. Inchek Tyres, one of the three Indian firms which came up during the second phase ran into severe managerial and technical difficulties which finally resulted in its nationalisation by the Central government. Now known as the Tyre Corporation of India, it has become the first public sector company in the industry. Dissatisfied with the provisions of the FERA and more due to the financial position of its parent firm, Firestone decided to sell off its Indian subsidiary. It was acquired by the Modis in 1981 and by virtue of this it was able to control approximately 25 per cent of the market.[35]

In the same year Ceat was taken over[36] by the Goenkas (K P Goenka House)—a Calcutta based business house, which has acquired a reputation for take over in the country. Very recently the Goenkas have taken control over Dunlop too and consequently have emerged as the largest group in the industry, controlling about 35 per cent of the industry's output. As a result the Modis and Goenkas, would be controlling about 60 per cent of the market which would mean that the concentration in the industry is once again on the increase.

It may be quite natural that the Goenkas have virtually integrated, forwards, into tyre manufacturing as they already had controlling interests in certain inputs used in the tyre industry like carbon black, bead wire and tube valves. Recently in a spate of take overs, the house has extended its control over other inputs like nylon tyre cord, tyre machinery and rubber chemicals.

Tables 7 and 8 illustrate the house's control over the various inputs.

Tables 7 and 8 clearly bring out the predominant position of the Goenka's in the industry. All these will have important implications for the future growth of this group and might pose a serious threat to the Modis in wresting the leadership. Modis too, on the contrary, in their attempt to retain their market power have been trying to integrate backwards and have therefore taken letters of intent for the manufacture of nylon tyre yarn and steel tyre cord. A vain attempt was also made to take over Firestone's equity holdings in the leading synthetic rubber manufacturing unit in the country.

Very recently two more business houses have either entered the market or in the process of entering it: Srichakra Tyres belonging to the TVS Iyenger Group has already commenced commercial production while Kesoram Industries and Cotton Mills, belonging to the House of Birlas has received a letter of intent for the manufacture of one million tyres and tubes per annum. For both the houses it is a backward integration from vehicle manufacturing (Sundaram Clayton and Ind-Suzuki in the case of TVS and Hindustan Motors in the case of the Birlas).

Table 9 illustrates the present structure of the industry.

## V

## Policy Implications

We thus see that the government has tried to deconcentrate the industry by licensing more units. However the collusive practices, and of late the horizontal and vertical integrations, have effectively neutralised this policy. The result has been that the concentration in the industry which had declined for a while, especially in the early part of the second phase, is once again on the increase. Even for the short periods when concentration had declined, the collusive practices of the firms in either of the cartel or price leadership variety, have resulted in abnormal prices being charged.

Another important feature is the exit of some of the original and well known MNCs like Dunlop, Firestone and Ceat. But this has however to be seen in the context of the severe recessionary conditions obtaining in the western tyre industry and the consequent impact of it on the operations of their respective parent firms.

### Notes

[This paper forms a part of my Ph D dissertation being submitted to Jawaharlal Nehru University. In working out the ideas contained in this study I have drawn liberally from my contribution in a joint paper entitled, "Competitiveness in the Indian Tyre Industry: 1936-1984", by myself and P K Michael Tharakan. I am also grateful to Chiranjib Sen, K K Subrahmanian, D Narayana and R Nagaraj for discussing various aspects of the present paper. However the remaining shortcomings are of course mine.]

1 The literature on business house concentration is quite vast. However the following two studies are quite comprehensive in their scope and coverage. Chandra N K (1979), 'Monopoly Capital, Private Corporate Sector and the Indian Economy: A Study in Relative Growth, 1931-76', *Economic and Political Weekly*, Vol XIV, Nos 30, 31 and 32 (Special Number), pp 1243-1272. Ranganekar, D K (1982), 'Growth of Big Business Houses', *Business Standard Annual*, pp 9-18.

2 See Sandesara, J C (1979), 'Size of the Factory and Concentration in the Factory Sector in India, 1951-1970', *Indian Economic Journal*, Vol 27, No 2 (October-December), pp 1-34.

3 For a fairly detailed survey of concentration-profit relationship, based on the US manufacturing industry, see Weiss, L S (1974), 'The Concentration—Profits Relationship and Antitrust', in Harvey J Goldschmid, et al (ed), "Industrial Concentration: The New Learning", Little, Breson and Company, Boston, pp 184-233.

4 The Dunlop Rubber Co Ltd, of England commenced their trading activities in India as importers and distributors of their tyres and tubes in 1898. However in 1926, Dunlop Rubber Co (India) Ltd was floated as a public limited company for taking over these activities. Till 1936 these activities were confined to importation and distribution of tyres and tubes.

5 Tomlinson, B R (1978), 'Foreign Private Investment in India, 1920-1950', *Modern Asian Studies*, Vol 12, No 4, p 669.

6 Ibid.

7 Jones, Geoffrey (1984), 'The Growth and Performance of British Multinational Firms before 1939: The Case of Dunlop', *Economic History Review*, Vol 37, No 1, February 1984, p 50.

8 Ibid.

9 The Good Year Tyre and Rubber Co of India Ltd was registered as a trading company in 1922. Prior to that date Good Year products were sold throughout India through distributors, but after 1922 the business of distribution was taken over by the company.

India Tyre and Rubber Co, of Scotland commenced distributing their products in India through distributors in 1930. In 1938, it was incorporated as an Indian company, from which date distribution of their products was handled by the company itself. Though it had become a wholly owned subsidiary of Dunlop UK as early as 1933-36 it was only in 1979 that it became one of Dunlop India's.

10 See, "Report of the Taxation Inquiry Commission" (1955), Government of India, Vol 1, p 122.

11 The tyre manufacturers have been consistently inflating their selling and distribution expenses, right from the beginning. This was because this item or what is termed at present as Post Manufacturing Expenses (PME) were not exciseable. However recently (i e, October 1983) the Supreme Court ruled that the tyre companies (among others) have to pay excise duties, not just on current manufacturing costs, but also on post manufacturing expenses, as the total of both go to determine the final selling price. The arrears on excise duty from tyre companies (PME cases) as on 15-7-1984 works out to Rs 186.57 crore. No individual cases having a bearing on PME pertaining to tyre industry has yet been decided by the Supreme Court or the High Courts.

12 Firestone Tyre and Rubber Co started their import business in tyres and tubes in India in 1930. They established themselves as a manufacturing concern in 1939. Firestone was a private limited company with a paid-up capital of Rs 20,000 made up of 200 shares of Rs 100 each, all of which are held by the Firestone parent company in USA. For all practical purposes the Indian company functions like a branch of a parent company obtaining funds for capital expenditure (when needed) from the latter and remitting all surplus profits to the parent company as dividends without maintaining a reserve fund. In addition, the domestic subsidiary also paid royalty to the parent firm at the rate of 1.5 cents per each 100 lbs of all products manufactured in the Indian plant, for having access to the research facilities of the parent firm.

13 The products manufactured under these projects were mostly sold to government or under government's instructions at negotiated prices. At the end of the war, the firms took over many of the plants by paying for them and there is no evidence that the plants were sold to them at concessional rates. See, Tariff Commission (1955), op cit, pp 125-128.

14 The target was not fixed at one stretch.

15 Madras Rubber Factory or MRF as it has later come to be called was established in 1946 for the manufacture of toy balloons and since 1953, it started the manufacture of camel back or tread rubber. For a good account of the early history of MRF and specifically how the tyre project came about, see Philip, K M (1977), "Memoirs of a Working Life", Polymer Publications, Bombay, pp 91-174.

16 Firestone applied for SE licence in August 1961 and a letter of intent was issued in September, 1962. The condition attached was that the company should have Indian participation to the extent of 40 per cent. The firm agreed in August 1964 to have 30 per cent Indian participation. The company however did not comply with the necessary formalities and hence the letter of intent was cancelled in August 1968. This only shows the aim of the firm was only to pre-empt new entrants and thus create an artificial barrier to entry. For details, see, "Report of the Industrial Licensing Policy Inquiry Committee", Main Report, Government of India, 1969, p 92.

17 See, Philip, K M (1977), op cit, pp 168-169.

18 Even the request by the new Indian companies to give a preferential treatment to them in state purchases and especially those by the state transport undertakings was not heeded. This behaviour of the Government of India is in sharp contrast to the stores purchase policy of the British government which favoured only local companies.

19 See, Philip, K M (1977), op cit, p 170.

20 It is quite interesting to note that there were parallels to such collusive behaviour as early as 1929 in the British tyre industry. In 1929 Dunlop took the lead in establishing the Tyre Manufacturers Conference (TMC); to provide machinery for joint consultation within the industry, to eliminate price cutting and to regulate distribution. The conference was instrumental in restricting competition, chiefly by establishing recommended prices; limits were agreed on 'wasteful' advertising. Identical prices, to be followed by all producers and distributors, were set for the same size and type of tyre in the replacement market; an Investigation Department of the British Motor Trade Association 'staffed mainly by retired police officers' was used to enforce the set prices. For details, see, Prais, S J (1981), "Productivity and Industrial Structure", Cambridge University Press, 1981, pp 210-212. It is quite plausible that the "code of conduct" for the Indian tyre industry was based on the British one.

21 See, ILPIC Report (1969), p 92.

22 We had already seen above that Firestone was not interested in bringing down its foreign equity holdings and was therefore not interested in expanding its capacity because if it were to expand it had to comply with the government stipulation about its shareholding. However it is not known as to why Good Year did not expand, but it should also be borne in mind that while Good Year is the largest tyre company in the world, its Indian subsidiary has been consistently "lying low". Premier was to expand in the early 1970s.

23 They were as follows:

| Name | Letter of Intent Issued on |
|---|---|
| 1 Jaswant Worah, Dhanbad, Bihar | 25-11-1970 |
| 2 Universal Tyres Limited, Allahabad, UP | 25-11-1970 |
| 3 Premier Rubber and Cable Industries, Bombay | 8-7-1971 |
| 4 K Kalappa, Hyderabad, AP | 9-7-1971 |

Among these, Universal Tyres belongs to

the House of Birlas. It is quite surprising to note that this firm was issued a licence in August 1961, and according to the ILPIC Report it was revoked in March 19, 1968, for non-implementatin of the same. In 1974, the company surrendered the letter of intent issued in 1971, upon reassessment of the scope and demand for automobile tyres.

24 NCAER, "A Study of Price Control and Impact of Excise Duty on Selected Industries", New Delhi, 1978, p 99.

25 In the meantime, the All India Motor Transport Congress, New Delhi, complained to the Commission in 1972 that all the 8 tyre companies were fixing prices in concert, making discrimination in dealings, restricting and withholding supplies of tyres and making a disproportionate supply to some dealers and discriminating against the others, and that some of them were dumping, on dealers, accessories and other motor vehicle parts not manufactured by them at exhorbitant prices as a condition for the sale of tyres. On the basis of a preliminary investigation by the Director of Investigation, the MRTPC instituted an enquiry in November 1974. Some of the allegations, particularly those of price fixing in concert and discriminatory dealings, were common to this and the other earlier enquiry.

26 See, Modi Rubber Ltd, 5th Annual Report, 1974-75, p 4.

27 There was of course a shortage of nylon tyre cord which would have hampered a smooth change over from rayon to nylon tyres.

28 For a preliminary account of this scheme and the subsequent schemes and the estimated benefits claimed by the various companies, see, Ninan, T N (1984), 'The Excise Exercise', *India Today*, Septembr 15, pp 122-24.

29 See, Modi Rubber Limited, 8th Annual Report, 1977-78, Director's Report, p 4, wherein they refer to a study by IIT, New Delhi and National Productivity Council, of the capacity analysis and utilisation and of the factors which enabled the Modis to obtain substantially higher productivity from their plant without any additional plant or machinery being installed. According to the report, "both these organisations have confirmed that higher productivity has been achieved by us through our assiduous efforts in effecting improvements and innovations in the manufacturing techniques, increase in manning levels, continuous working, overall optimum utilisation of men, machines and materials and harmonious labour relations and without installation of additional plant and machinery".

30 The letter of intent for this firm was obtained by Ruby Rubber Works Limited, a Kerala based cycle tyre firm, the promoters of which had considerable interests in rubber plantations. The promoters of Apollo ran into financial difficulties and hence joined hands with Raunaq Singh in implementing the project.

31 Press reports refer to Gujarat Industrial Development Corporation, joining hands with a Bombay based private firm by name Nirlon Synthetic Fibres and Chemicals (which manufactures among other things nylon tyrecord) in implementing a tyre project, with an installed capacity of one million tyres and tubes per annum in a phased manner. Similarly one also learns APSIDC is implementing a tyre project with APSRTC. However official confirmation is lacking on both these projects.

32 See, MRTPC, New Delhi, "Restrictive Trade Practices Enquiry No 1 of 1971", April 19, 1976.

33 For instance the price of passenger car tyres have registered the highest compound annual growth rate of 13 per cent between 1971 and 1984. However it has registered the lowest rate of growth in output which works out to just 3.65 per cent per annum during the same period.

34 For a comment on the terms of reference of this committee, see, Mani, Sunil (1984), 'Tyre Industry: Taking the Buyer for a Ride', *Economic and Political Weekly*, Vol XIX, No 27, July 7, p 1013.

35 The Union Industry Ministry gave the green signal to the Modi-Firestone deal in late 1981 despite representations made by the Bombay Taximen's Union and the employees of Bombay Tyres to take over the company, reportedly offering Rs one crore more than the Modis.

36 In the late 1970s Ceat's parent firm, Ceat Gomma SPA, Italy ran into a series of financial difficulties and therefore decided to phase out tyre manufacturing operations which were no longer financially viable. As a result 11 per cent of the shareholding of Ceat India was passed on to Indian shareholders and in that process the Goenkas took over the company.

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# The 'Macro-Economic' Study of the 'Public Enterprise Sector'

**Ramaswamy R Iyer**

*Faced with sub-optimal performance by public enterprises and the strains which this imposes on the national plan and the budget, we can either consider how best that performance can be improved, or assume that public enterprises as a class are bound to be less efficient than private enterprises and recommend privatisation. Those who have no doctrinal discomfort with the notion of public enterprises will take the first course; and those who believe that the market is the norm and that any deviation from it (including the advent of the state into business) is a 'distortion', will tend towards the second course.*

*In terms of practical recommendations in a given situation the two groups may possibly find themselves in agreement. Those who believe in a mixed economy could be mindful of the need to keep the growth of public enterprises within manageable and monitorable limits, to conserve scarce financial and managerial resources for important purposes and activities, and to shed public investments of no great consequence. Those who basically believe in free market economies and minimum state intervention could also be realistic enough to accept the position assigned to public enterprises in the strategies of many developing countries, and to concede that ways and means must be found to improve the performance of public enterprises while keeping them public, and that privatisation can at best be a remedy of the last resort, to be applied only in a very limited number of cases.*

*And yet a difference in attitude and bias remains; and it is this which becomes evident in the terms in which 'the macro-economic analysis of the public enterprise sector' is advocated by some.*

## I

IN the field of public enterprises, a new kind of study has made a tentative advent in recent years, *viz*, the macro-economic study of the public enterprise sector in developing countries. The tentativeness arises from methodological difficulties and not from any doubts concerning the nature and significance of this kind of study. The argument for such studies runs as follows. Over the years public enterprises have been growing in number, size and importance in most developing countries. Their share of the national output has been increasing. They account for a substantial part of the national investment. There are massive transfers from the government budget to public enterprises in many countries not only towards new investments but also to cover working capital needs or current deficits. Public enterprises are thus of considerable consequence in the national planning and budgeting processes, and in a number of cases they contribute significantly to the budget deficits or external debts of the countries concerned. It follows that the macro-economic aspects of the existence and activities of public enterprises need to be studied; the results of such studies would be of interest to those responsible for planning or budgeting or the management of the external debt as well as to students of the economy in general; they would also provide a basis for the formulation not merely of macro-economic policies in general but also of policies towards public enterprises themselves.

That seems a fairly straightforward, almost self-evident argument; and yet with a little reflection the surface simplicity disappears and unsuspected depths become evident. While not questioning the validity of the general tenor of the argument summarised in the preceding paragraph, this note will endeavour to examine some obscurities and complexities, and to signpost the conceptual, logical (and ideological) quicksands that lie below the surface.

## II

The quotation marks within which the two key expressions in the title have been placed indicate some reservations; the doubts regarding the two expressions are in a way interrelated, and can be summed up in the question: "What is 'the public enterprise sector' and what is the 'macro-economic' study of it?" The macro-economic study of an economy is a clearly understood discipline—an important part of economics: one can study output, consumption, saving, investment, capital formation, internal transfers, etc, in the economy. One can also understand the importance of the disaggregation of the national accounts by segments of the economy or categories of activity or actors such as production/infrastructure/services; agriculture/industry; specific industries; firms/households/individuals; and so on. But how does the category "public enterprise sector" fit into this system? Is it an economic category at all? Is it not rather an organisational category belonging to public administration or management studies, and extraneous to macro-economics? It is often argued that national accounts do not distinguish between the public and private sectors, and need to do so. But how is this disaggregation to be achieved? By distinguishing between "public" and "private" units in (say) an industry? But what is the difference from a macro-economic point of view between, say, a private sector steel plant and a public sector one? Both will buy input materials (or have captive sources), draw utilities from public systems (or have captive supplying plants), employ skilled and unskilled workers, produce finished products (adding value in the process) and sell them to users, industrial or individual. A steel plant is a steel plant whether in the private sector or in the public sector and has the same kind of interrelationships with other economic activities in either case (and steel is steel, and value added is value added in either sector). The only difference is in the pattern of ownership (and/or control). While the national accounts can be disaggregated by industry, and we can examine the interrelationships of, say, the steel industry, and "disaggregation" between "public" and "private" within this seems to import an extraneous category into the area of macro-economic analysis.

But of course the recommendation of such disaggregation is not based on any presumption of a qualitative difference between "value addition" in a public sector plant and that in a private sector plant in a given industry. The aim is rather to arrive at economy-wide totals of value addition (say) in public enterprises in all areas of activity (public sector steel plants, fertiliser plants, engineering units and so on). Leaving aside for later consideration what we can do with such magnitudes, the question to ask at this stage is: how to arrive at such magnitudes? The thought that his note would put forward in this context is that the "public enterprise sector" is merely the totality of public enterprises in an economy, and has no other conceptual or structural significance; and that the best means of obtaining figures for "the public enterprise sector" as a whole is to follow the logic of the expression and put together the figures relating to all the public enterprises. In other words, we need not start with the national accounts, try to disaggregate them for a category which is not a logical or economic category at all, and perplex ourselves with all kinds of conceptual and methodological questions; we need merely start with enterprise accounts and aggregate the figures relating to the totality of public enterprises. (It will of course be necessary to bring the figures of diverse enterprises to a uniform basis for aggregation; and to effect a reconciliation of these figures with corresponding figures in records maintained in the Administrative and Finance Ministries).

The observation that "the public enterprise sector" is not a logical category at all may seem surprising. The point being made is not that there are differences in the definitions of "public enterprises" in different countries, or (from time to time or industry to industry) even in the same country; or that it is difficult to determine the precise combination of public ownership and control which should be adopted as the criterion for categorising a unit as a public enterprise. We are all familiar with these problems, but there are workable definitions in use. What needs to be noted is that all these are definitions of "public enterprise" and not of "public enterprise sector". The "sector" is merely an agglomeration of public enterprises. But in what sense is this a "sector"? One can understand the distinction between the rural and urban sectors; the agriculture and industry sectors; the manufacturing, trading and service sectors; the large-scale and small-scale sectors; the corporate and non-corporate sectors; but what precisely is the public enterprise sector? The purpose and objectives for which public enterprises are established vary so much, and there are so many different ways in which they come into existence, that together they cannot be said to form a "sector" of the economy in any structural or taxonomical sense. (The public/private sector distinction is of course something that one can grasp. In that distinction "public sector" is a much wider concept than "public enterprise sector" and encompasses the totality of public systems including the government.)

We shall revert to the legitimacy of the concept of "public enterprise sector" later when considering the question of performance evaluation. Meanwhile, the point sought to be made is that if we want to study the "macro-economic" aspects of public enterprise operations, we shall do well to start at the enterprise level and aggregate the figures drawn from enterprise accounts. The result may indeed be a magnitude having macro-economic significance, but it could be built up from "micro" levels.

## III

Even with that re-defined approach the aim is still to arrive at aggregate figures relating to the totality of public enterprises, as these are felt to be magnitudes of some macro-economic significance. The question to be considered next is: What purposes can they be made to serve?

If our aim is to study the role or roles of public enterprises in socio-economic development in developing countries then we have to recognise that macro-economic studies can tell us very little. Public enterprises are established for a wide range of purposes and objectives and they are expected to play a multiplicity of roles. Among the aims and goals of national planning are the following: the promotion of industrial development and economic growth; the development of the infrastructure needed for such growth; the channelling of investments into areas and activities not favoured by private investment; the stabilisation of the supplies and prices of some essential commodities; export promotion; import substitution; the promotion of self-reliance whether in regard to certain basic industrial and constructional materials such as steel or non-ferrous metals or agricultural inputs like fertilisers or vital defence requirements, or in regard to technology; the building-up of trained industrial, technological and managerial manpower; the conservation and planned utilisation of scarce natural resources; industrial dispersal and the development of as-yet-undeveloped regions; the generation of employment; the fostering of small-scale industry and entrepreneur development; the ensuring of social control over important sectors of the economy and vital industries (the "commanding heights"); the prevention or abatement of monopoly power and influence over the economy on the part of large private (domestic) groups or transnationals; and so on. Public enterprises are often established as instrumentalities for the achievement of one or more of these objectives. At the same time, they are also (often) expected to generate resources for re-investment, function as model employers, promote the welfare of their employees, provide medical, educational and other facilities not only to their workers but also to the people in the areas surrounding their plants, show a concern for emvironmental protection, serve as promoters of certain national policies such as adult education or family planning, etc. They are also sometimes thought of as modernisers and as instruments of social transformation. Any study of the "role" of public enterprises will have to identify which of the items in that long enumeration apply in a given case and then proceed to examine how well or ill the role (roles) has (have) been played. Clearly, a macro-economic study would be relevant to only a few of the aspects listed above.

The macro-economic study of public enterprises in the aggregate can mainly tell us two things: (a) the size and extent of the public enterprise presence in the economy as a whole or in specific segments of the economy (e g, in particular industries); and (b) the flow of resources from the government to public enterprises and *vice versa*. The usefulness of this kind of information and the need for macro-economic analyses for this purpose need to be looked into somewhat more closely

Indicators such as share in the national output or investment can give us an idea of the magnitude of the "public enterprise sector". This is a measure which is relevant only in a mixed economy. In a fully socialist state, the aforesaid magnitude has to be by definition close to 100 per cent; there is little room for private enterprise except perhaps in agriculture and in small-scale retail trade and minor services. In a country with a political philosophy which envisages a private sector as well as a public sector, and which has definite ideas regarding the position which public enterprises should occupy and the kind of influence they should exercise in important segments of the economy, studies which give an indication of the magnitude of the public enterprise presence should certainly be of interest; and it is reasonable to suppose that such a macro-economic analysis would be an important basis for policy decisions in such a system.

Even in such a context, however, we must be careful not to entertain exaggerated notions of the practical importance of such studies. Most developing countries have a good knowledge of the existing configuration of public enterprises and private sector units (including large domestic industrial groups as well as foreign companies and transnationals); the extent of power and/or influence wielded by the latter; the effectiveness of their own control and regulatory policies and instruments; and the adequacy or inadequacy of the pace of new investments in certain directions: and in the light of that knowledge, form their judgment as to where the regulation and guidance of private activity needs to be supplemented by direct public investment or by a strengthening of the existing public enterprise presence. Such judgments are often based on direct knowledge of events and developments and do not await macro-economic analyses, though such analyses are bound to be useful in periodical reviews of position and policy.

Where a very substantial public enterprise presence has been brought about as a matter of policy, macro-economic magnitudes will tell the government only what it knows already. It is only in those cases in which there has been an inadvertent slide towards a higher public enterprise presence than planned, that the magnitudes brought out by macro-economic studies can tell the government something new; even in such cases, however, the excessive growth of public enterprises would have made itself felt in other ways, such as increasing drafts on the budget for new investments, strains on the administration and managerial capabilities, etc. (Theoretically, a macro-economic study could also lead to the conclusion that there should be more public enterprises; but one suspects that most of those who stress the importance of macro-economic analyses of the public enterprise sector for policy reviews and decisions would be surprised and uncomfortable, if the decision were to increase the public enterprise presence!)

Further, assuming that a macro-economic analysis shows that public enterprises account for x per cent of the GDP or y per cent of the value added in a given industry, what follows? An overwhelming public enterprise presence may be an indicator of the socio-political complexion of the country; but in such a case, one could have known that complexion in advance of any macro-economic analysis. In most cases, however, public enterprises are brought into being as instrumentalities of certain public purposes, and the mere fact that public enterprises account for a certain share of the national output or investment is of no great significance; we have to go on to examine how effective they have been in subserving the intended purposes and objectives.

Size is also not necessarily an indication of strength or influence. The relative importance of public enterprises in two countries cannot be guaged by a comparison of the respective shares of public enterprises in national output or investment in the two countries. A country may build its public sector around an existing private sector, and limit public investments with reference to the availability of financial resources and entrepreneurship in the private sector; and yet the public enterprises in that country may be as strong and influential as those in another country with a bigger public-enterprise share in output and investment.

Lastly, macro-economic magnitudes must of necessity ignore qualitative considerations. Let us take a hypothetical case of two countries with one public enterprise each, the share of the public enterprise in the national output being the same in the two countries; can we infer that the position or importance of the "public enterprise sector" in one country is similar to that in the other? How would this inference be affected if we found that the public enterprise in one country was a fertiliser plant and that in the other was a cosmetics plant?

But such "cross-country comparisons" can be highly misleading and are probably unrewarding exercises. If, as has been argued, there is an enormous diversity of public-enterprise characteristics, features and circumstances even within one country, the diversities between one country and another are even greater; and the "public enterprise sectors" of two countries cannot really be compared. Comparisons are indeed possible (and often very useful)—with due attention to local circumstances and factors—in regard to organisational and structural patterns, patterns of government-enterprise relationships, personnel policies, management styles, modalities of control, accountability agencies and arrangements, etc, between one country and another. However, cross-country comparisons of macro-economic magnitudes and relationships pertaining to public enterprises are beset with so many pitfalls, and need such a weight of caution and interpretation, that one wonders whether they are worthwhile at all.

In any case, such comparability cannot be assumed in advance. It is sometimes argued that methodology and criteria for macro-economic analyses should be so devised as to facilitate cross-country comparisons at a subsequent stage. This presumes the possibility of such comparisons. The macro-economic study of public enterprises in a country is in itself sufficiently difficult not to need the complication of an advance plan of comparisons with other countries. Such a study has to be necessarily country-specific; the best course would be to proceed with the assemblage of enterprise-level data and build up aggregates, and at a later stage to attempt comparisons with other countries, if such comparability exists.

Further, it must be borne in mind that it is the individual enterprise which, as an economic actor, has an impact on the economy. A large public enterprise—say, a large steel plant, or the national shipping line or airline, or a large mining organisation or power-generation complex, or a state trading organisation with a large turnover—is certainly likely to have a significant impact on the economy; but so will a large private sector organisation: the impact arises from the importance of the activity, the complex interactions with other economic actors and the sheer magnitude of the operations, and not from the fact that the unit is in the public or in the private sector. There is indeed a case for disaggregating the national accounts not merely by segments like agriculture or industry or services, or by particular industries, but also in such a way as to exhibit separately very large organisations having a significant impact on the economy. As a matter of fact, most of them may be public enterprises, but this is not necessarily so; we all know the importance of the large corporations in the USA (e g, the saying "What is good for General Motors is good for America"), but even in developing countries there are large private sector corporations or complexes whose existence and operations are of considerable consequence to the economy. But when we speak of the impact of "the public enterprise sector" we are unconsciously (or consciously) attributing the impact, not to the nature and magnitude of the activity, but to the fact that it takes place in public enterprises. The implication is that the impact would have been different, had the same activities taken place in the private sector. This in turn frequently carries the further (and not so very subtle) implication that that alternative situation would have been better for the economy.

## IV

All those reservations were meant to qualify but not to deny the statement that indicators of the size and extent of the public enterprise presence derived from macro-economic analyses can serve certain useful purposes. Let us consider next the usefulness of information regarding resource flows between the government and public enterprises. The planners, in estimating the resources available for the plan, are interested in determining the extent to which they can reckon on the generation of resources by public enterprises. The Finance Ministry officials in their budgetary exercises need to know the likely drafts on the government budget by public enterprises. It is essentially from the planning and budgetary points of view that aggregate figures relating to public enterprises as a whole are necessary and useful. By the same token, however, this information is so necessary a part of the planning and budgetary exercises, that it is already being obtained in most countries. As a matter of routine public enterprises are asked for projections of deficits/surpluses, fund requirements for projects under construction, and other relevant information needed for national planning and budgeting. There are certainly deficiencies in the availability and quality of data, and there is need for improvement in their timeliness and reliability. What is needed , then, is not so much the development of new methodologies or indicators, as improvements in the data already identified as needed. This is not to deny the usefulness of macro-economic analyses of public enterpirses from the government's budgetary point of view. Indeed, here we come to the heart of the matter: it is the concern with deficits, subsidies and losses that provides the main motivation for "macro-economic" analyses of public enterprises. Those who urge such studies are primarily interested not so much in the "role" or roles played by public enterprises in the socio-economic development of developing countries, as in the role played by them as contributors to the budgetary deficits or aggravators of external debt-servicing problems. The key words often used are "macro-economic impact", "drain on the budget", etc. Public enterprises are essentially perceived as drags on the economy and it is that perception which lies behind much of the advocacy of macro-economic analyses of the "public enterprise sector". Thus in many cases a negative attitude to public enterprises colours the advocacy and practice of macro-economic analyses of those enterprises. It is of course entirely possible for a concern about budgetary deficits to be combined with a positive attitude towards public enterprises and an unreserved acceptance of the role or roles envisaged for them by many developing countries; but that combination is not often found.

However, we need to look a little more closely at the expression "public enterprise deficits". That is a summary and general description of the financial results arising from a multiplicity of factors; and the mix of factors varies from enterprise to enterprise. The following are some of these:

(i) the quality of the original (governmental) investment decision leading to the creation of a public enterprise or the undertaking of a new project (if the investment decision was illconsidered or unsound, there are limits to the extent to which subsequent good management can overcome the consequences of that decision);

(ii) governmental policies such as the subsidisation of inputs or outputs, restraints on public-enterprise pricing, etc;

(iii) bureaucratic or political interventions in executive action and decision-making in public enterprises, and the erosion of the autonomy of the managements;

(iv) extraneous circumstances such as the prevalence of nation-wide or even international recession leading to marketing difficulties or even cut-backs in production, infrastructural problems (such as the inadequate availability of power supplies or coal or rail-transportation facilities) which affect the production and marketing plans of manufacturing public enterprises, industrial action by workers, and so on;

(v) factors which are within the control of management, and the quality of the management.

Each of these accounts for a part of the final result and we cannot lump all these components together under the umbrella term "public enterprise deficit". In so far as the deficits are attributable to the unsoundness of the origianl investment decision or to governmental policies regarding subsidisation of public-enterprise pricing or to governmental interventions in executive action or decision-making by public enterprises, we are assessing the performance not of public enterprises but of the government: the "economic impact" here is not that of "the public enterprise sector" but of the government as economic policy-maker and administrator. (As regards external factors such as demand recession, infrastructural problems and so on; these are bound to affect both public and private enterprises. It is rather difficult to distinguish between "external" factors and factors within the control of the management. To a considerable extent, good management consists in managing both these, and in internalising factors which are at first sight felt to be external.) It is that part of the deficit in any given case which is attributable to poor management and to an inability to cope with "external" factors, which can be truly described as the deficit contributed by the public enterprise in question.

It is of course individual enterprises and not "the public enterprise sector" which are well or badly managed. This will be elaborated further in the next section. Meanwhile, the above analysis seems to point to the conclusion that "public enterprise deficits" call for a study not of "the macro-economic impact of the public enterprise sector" but of (a) governmental economic policies; (b) the quality of investment-decision-making in government; (c) the relationship between the government and public enterprises; and (d) the quality of management of individual enterprises. But of course it is quite clear that when economists of a certain persuasion use the expression "the macro-economic impact of the public enterprise sector", they really have in mind the larger question of state intervention in the economy and the use of the instrumentality of public enterprises in this context, and not merely the question of the performance of public enterprises; on the other hand, when governments—particularly the finance ministries—talk about the deficits contributed by the public enterprise sector, they tend to use this phrase as a convenient hypostatisation which could be held responsible for a substantial part of the budget deficit overlooking the government's contribution to and impact on the performance of public enterprises. Certainly, some public enterprises are a drag on the economy, and drastic decisions are called for in such cases; but this is evident enough even without "a macro-economic analysis of the public enterprise sector". Governments of reasonable competence know which enterprises are making heavy drafts on the budget and having an adverse effect on the economy, and if they are unable or unwilling to take drastic decisions, the reasons are likely to be complex and of a socio-political nature; and governments which do not even know which enterprise is making what kind of a draft on the budget, have to make basic improvements in their budgeting and in information flows from the enterprises, and are unlikely to be able to undertake sophisticated macro-economic analyses, or to use such analyses if made by an external agency.

## V

Apart from their usefulness in the budgetary context, macro-economic studies of "the public enterprise sector" are also said to be useful for assessing the performance of the sector. That brings us back to a question referred to earlier in a different context: in what sense is "the public enterprise sector" an entity, i e, something more than the totality of public enterprises? When we use expressions like "evaluating the public enterprise sector" we are making one of two assumptions, *viz*, that all public enterprises put together form an entity with a performance of its own which can be judged; or that while the "public enterprise sector" may not be a separate entity, public enterprises as a class have a common (or average) standard of performance which can be measured and compared with that of private enterprises (again, considered as a class). What is the warrant for either assumption?

As already mentioned, in measuring the performance of public enterprises allowance must be made for the impact of government policies and interventions; but once such adjustments have been made, it would be logical to suppose that performance will vary from one public enterprise to another in relation to the quality of the management. It seems hardly likely that all public enterprises in a country will be managed equally well or equally badly: there will be extremely good performers and extremely poor performers, and a whole range in between. How then can we lump them all together and talk about the performance of the "public enterprise sector" as a whole, as if it were one vast corporate entity?

In the private sector too there are good, bad and indifferent performers, and we normally do not try to assess the performance of the private sector a whole (except that in talking about the performance of the public enterprise sector as a whole, we tend to contrast it unfavourably with a putatively more efficient private sector). We do of course refer to the performance of a whole industrial/commercial complex which may contain a number of companies but is united by a common controlling group; and it may be argued that "the public enterprise sector" is also a similar group united by common ownership by the government. But the analogy is misleading. In the private sector, a group is in a way under a common management; the different companies in the group have their own legal existence, their own boards of directors and substantial autonomy in operational matters, but there are certain matters like major investments which are decided by the top management of the group as a whole (say, through a holding company with its own board). The managerial performance of such a holding company can indeed be evaluated, quite apart from the performance of the subsidiaries. There is no such holding company controlling the totality of individual public enterprises; or if there is one, it is the government itself. Between the government and the individual public enterprises there is no intermediate corporate entity called "Public Enterprise Sector Ltd"! The macro-economic evaluation of the public enterprise sector must thus necessarily become an evaluation of the government's economic management. But if we do wish to undertake that kind of assessment, we have to evaluate the performance of the total government system (policies, strategies, and implementation both by government departments and agencies and by public enterprises). We can evaluate the preformance of individual public enterprises; we can study the total economic management by the government; but we cannot evaluate "the public enterprise sector".

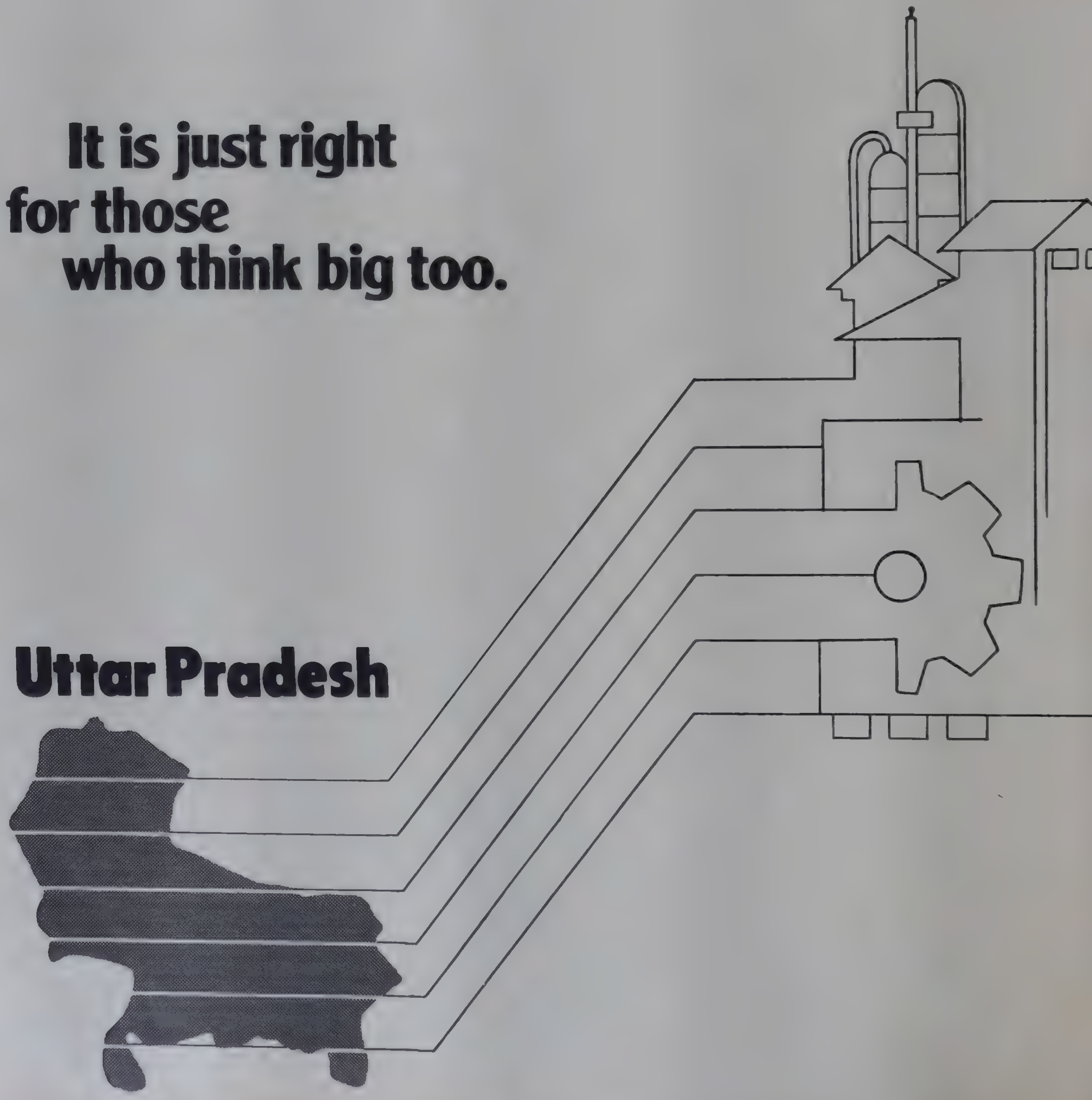
It would be perverse to deny the observable and widely acknowledged fact that—shining exceptions apart—public enterprises are in general less efficient in the utilisation of the investment resources entrusted to them, less cost-effective in their operations, than private sector units. The proposition being put forward here is that there is no warrant for presuming that this is an ineluctable characteristic of an entity called "Public Enterprise Sector Ltd". If indeed we do find that after making allowances for governmental policies and non-commercial objectives, public enterprises, while differing from one another in regard to quality of management, are also in general less well-managed than manufacturing or business concerns in the private sector, then we have to consider why this should be so. Surely it is reasonable to look for the cause in that which is common to public enterprises and distinguishes them from private enterprises—*viz*, ownership and control by the government? Unless we presume that managers in public enterprises as a rule are inferior to managers in the private sector (and there seems to be no warrant for such a presumption, even though salary levels in the public sector in many developing countries are lower than those in the private sector), we have to examine the factors which tend to depress managerial performance in public enterprises, such as a lack of clarity (and changes) in regard to goals and objectives, inadequate autonomy, the erosion of such autonomy as is nominally granted through excessive bureaucratic interference and intervention, too minute an overseeing by the legislature (and sometimes improper interferences by politicians), accountability concepts and procedures which are preoccupied more with process than with the result, more with isolated action and decisions than with the over-all achievement of assigned tasks, and a negative attitude on the part of agencies and authorities enforcing accountability which inhibits or even paralyses managerial decision-making and executive action. Contrariwise, we must also take note of the fact that the threat of collapse which imposes a salutary discipline on the private sector is absent in the public sector, as public enterprises are rarely if ever allowed to die; that they have (inspite of governmental procedures and delays) an easier access to investment resources than units in the private sector (and consequently a weaker motivation for economising on their use) and that if they face liquidity problems governments sooner or later help them out. On the personnel front, public enterprise managers usually do not have the same incentives or disincentives as those in the private sector; if they do very well they are not necessarily rewarded, and if they do badly, they do not face severe consequences (though if they take an action or decision of doubtful propriety or procedural correctness, they do face unpleasant consequences even if their over-all record of performance is good).

It may be argued that the preceding paragraph in fact amounts to an enumeration of factors which are common to all public enterprises and which distinguish them as a class from private sector units. Yes indeed, but this does not prove the existence of an entity called "Public Enterprise Sector Ltd" which can be evaluated, as will be clear from the following.

First, in spite of these common factors (which do not impinge with the same intensity in all cases) there is a wide range of enterprise-specific factors and problems. In some cases changes in top management personnel may be called for; in others, the enterprises may need consultancy assistance in regard to technological or marketing or personnel problems; a few may need changes in product mix or supplementary investments; some may be struggling with difficult and intractable problems of a long-term nature and may need relief by way of debt-rescheduling or tax concessions; and some may be beyond redemption and may have to be closed down. The enumeration of such possibilities can go on, but the point is clear; any evaluation of the performance of public enterprises has to be done at the enterprise level. There is no such thing as the evaluation of the public enterprise sector as a whole.

Secondly, when an analyst projects figures and relationships such as "return on capital" or "debt-equity", "inventory-turnover" or "capital-output" ratios for all public enterprises together, he is misleading himself and others by a false analogy. These are measures of managerial performance which can be applied only at the corporate level of individual enterprises, and cannot be extended to a mythical corporate entity comprising the totality of public enterprises.

Thirdly, while it is entirely natural and appropriate that both the national planning organisation and the finance ministry should be concerned at the relatively low level of return on the total investment up-to-date in public enterprises, and the aggregate figure is not without significance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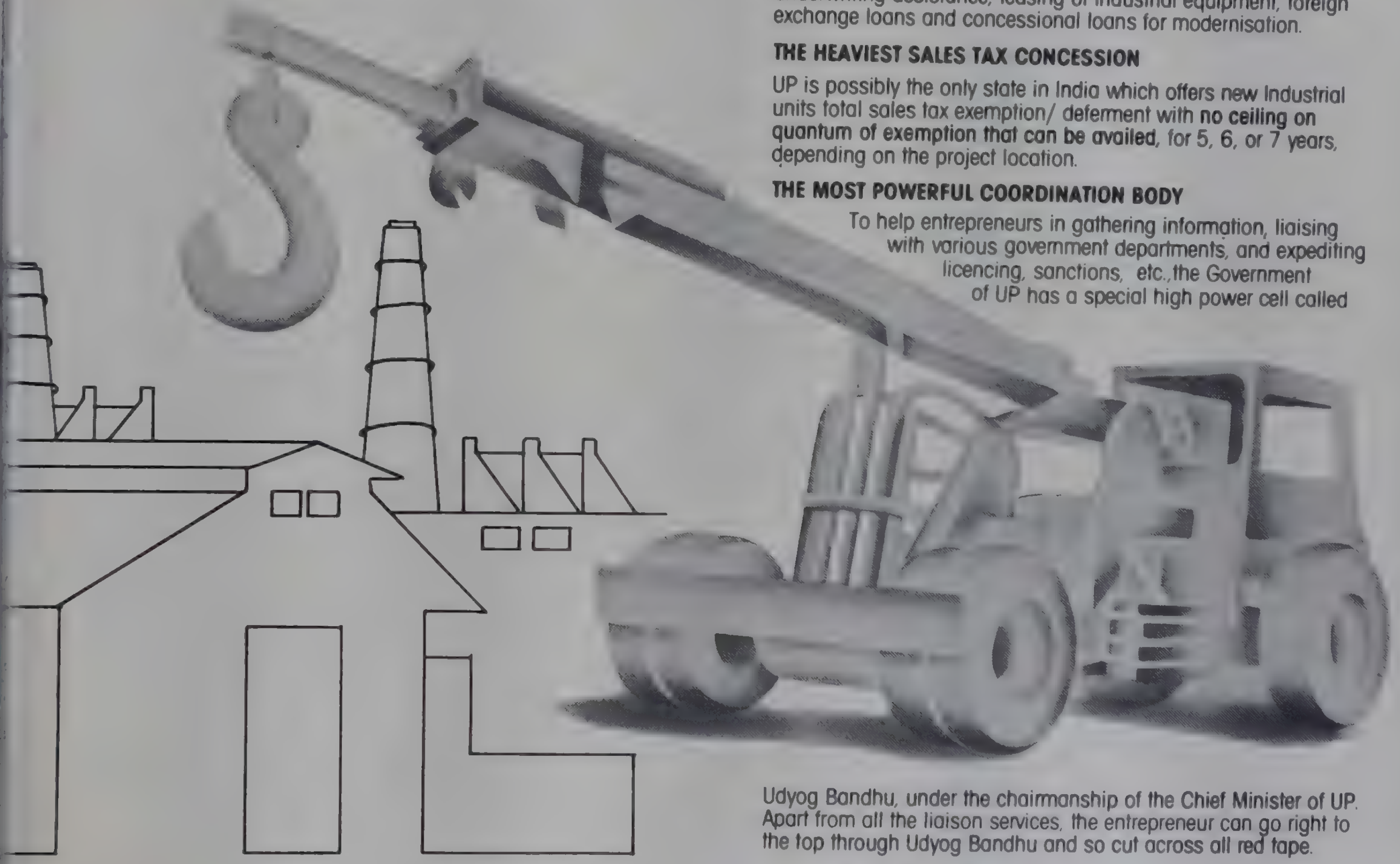

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in this context, the over-all deficit or low return is merely an indication that all is not well and that the matter needs to be looked into; for any actual evaluation we must look at the performance of individual enterprises. An aggregate positive return may conceal very large losses on the part of individual enterprises and encourage complacency; and an aggregate negative return (or low positive return) may obscure large profits made by particular enterprises and may tend to promote adverse judgments on public enterprises in general, demoralising even the successful ones.

## VI

But surely (it may be argued), despite all those qualifications and reservations it cannot be denied that macro-economic analyses will provide useful material for policy reviews and decisions by governments? It would be foolish to deny self-evident propositions: we are always better off with information than without, and decisions are always better if based on analyses rather than on hunches. However, what we are considering here is not governmental macro-economic policy-making in general, but specifically policy reviews and decisions in relation to public enterprises. What kinds of decisions are these? The following are some which come to mind:

(i) reviews of pricing policy and a consideration of enhancement or of release from restraint—in those cases in which the prices of the output of public enterprises have been kept depressed by governmental action;

(ii) reviews of subsidisation levels, and a consideration of enhancement, reduction or elimination;

(iii) reviews of governmental policies in regard to modalities of project implementation (such as the maximum utilisation of indigenous engineering, equipment supply and project management capabilities, or the allocation of packages of foreign exchange from certain easily available aid sources even if this means buying know-how and equipment not of the best), if it has come to be felt that these have led to time- and cost-over-runs and need to be subordinated to the over-riding need to ensure project completion within the approved cost and time-schedule;

(iv) an examination of the manner in which the governmental machinery impinges on the performance of public enterprises and a reappraisal and re-ordering of the relationship between the government and pubic enterprises;

(v) a review of personnel policies in relation to the top management of public enterprises—the selection processes, tenures, remuneration levels—and of the structure and composition of the boards of directors;

(vi) the establishment or improvement of systems for the monitoring and evaluation of the performance of public enterprises.

The list can be extended, but that should be adequate by way of illustration. It will be seen that it involves a mix of economic, public administration and management issues; but which of these require a macro-economic analysis of "the public enterprise sector"? Pricing and subsidisation policies certainly need to be considered with reference to their macro-economic—or shall we just say "economic"?—effects, but these have to be considered specifically in relation to particular industries or commodities—say, steel pricing or fertiliser subsidisation or power tariffs. Each of these is a major separate exercise requiring economic analyses—but none of them involves a reference to a postulated "public enterprise sector".

Governments in mixed economies may also wish to consider or re-consider their policies in regard to public investment or disinvestment, the place assigned to public enterprises in their development strategies and the proper mix of public and private sectors. In this context, information regarding the share of public enterprises in the national output or investment, or in the output or investment in particular industries, will certainly be useful; but even here the importance of such macro-economic magnitudes and relationships should not be over-stated. Questions such as whether there should be further public investment in a particular industry, or whether one or more existing public enterprises should be partly or wholly thrown open to private ownership, or whether private investment may be allowed in an area earlier reserved exclusively for the public sector, are usually considered by governments partly with reference to ideological considerations; partly in the light of their knowledge of the nature and composition of the private sector groups in the industries in question and the exercise (actual or potential) of politico-economic power by them, and their (the governments') perceptions of the consequences of allowing further private investment in these areas; and partly with reference to the resource constraints and the desirability of leaving some investments to be undertaken in the private sector, financed at least in part by recourse to resources which are supplementary to those available to the government. In considering whether in a given area—say the steel industry or the fertiliser industry—public enterprises have reached a "commanding" or at least influential position, and whether the field could be left to private investment for the time being, governments may indeed take note of the fact that public enterprises account for a certain percentage of the output or investment in that industry, but they are likely to be guided to a much greater extent by their direct knowledge of the facts and circumstances of the industry.

Governments are also likely to be guided by the consideration that a large and growing body of public enterprises makes enormous demands on the available pool of technological and managerial manpower resources and imposes severe strains on the government's own administrative machinery by way of onerous responsibilities for co-ordination, monitoring, control and evaluation. Considering the severe (financial) resource crunch, the difficulty of finding competent managers to run public enterprises, and the still greater difficulty of equipping the supervising ministries with the necessary monitoring capabilities, there is a great deal to be said for keeping the public sector within manageable limits and leaving as much as can be safely left to the entrepreneurial, resource-raising and managerial capabilities of the private sector. This is another "policy" aspect likely to engage the attention of governments in developing countries—those which believe in a mixed economy and envisage a role for the private sector. This again is a fairly obvious proposition (except to those ideologically committed to the exclusive instrumentality of public enterprises for socio-economic development) which is likely to be valid for most developing countries: there is hardly any developing country which does not face a resource crunch or in which the available managerial/administrative capabilities are not under a strain. This caution against an over-extension of either governmental or public-enterprise bureaucracies need not be arrived at through the route of macro-economic analysis.

Governments also need to review from time to time the operation of the usual tools of economic regulation and administration, such as systems of industrial approvals, statutory price controls, import control regimes, exchange control and exchange rate policies, etc; but these are questions of general economic policy and strategy, and not specially questions relating to public enterprises.

## VII

It is time to gather the different strands of the argument together.

(i) The importance of macro-economic analyses for a consideration of economic policy issues by governments, and for the planning exercises of the body responsible for national planning, is self-evident. However, the stress on "macro-economic studies of the public enterprise sector" arises out of a mixture of legitimate concern, conceptual confusion and ideological bias.

(ii) It is certainly true that many public enterprises make heavy drafts on the national Budget and are a drag on the economies in question. It is also evident that in general the return on the total investment in public enterprises made by many developing countries has been low, causing concern to both the planners and the finance ministries. But the low returns on investments in public enterprises in the aggregate and the large losses of individual enterprises are evident enough without macro-economic studies.

(iii) Further, such macro-economic studies relating to public enterprises are of limited value, as they can give us mainly an idea of the size and extent of the public enterprise presence in an economy or in an industry, and of the total surpluses or deficits generated by all public enterprises together (and both these kinds of information can be arrived at through the aggregation of enterprise-level figures without macro-economic studies or the disaggregation of national accounts).

(iv) Macro-economic magnitudes and relationships (such as the share of public enterprises in national output or investment), while useful from the planners' and the Budget-makers' points of view, cannot tell us much about the role or roles assigned to or played by public enterprises in socio-economic development or the place occupied by them in the national life: that kind of understanding of public enterprises can only be derived from detailed studies of the evolution and position of individual enterprises.

(v) Nor can macro-economic studies assist in the evaluation of the performance of public enterprises, which has necessarily to be done separately for each enterprise; there is no such corporate entity as "Public Enterprise Sector" mediating between governments on the one hand and individual enterprises on the other, with a performance of its own which can be evaluated. Any aggregations of figures for public enterprises as a whole can be very misleading, as (a) by implication it assumes the existence of an entity consisting of the totality of public enterprises; and (b) by offsetting the losses of some and the profits of others it obscures the performance of individual enterprises.

(vi) Efforts to improve the performance of public enterprises have to be directed at individual enterprises, and have to consider problems specific to particular enterprises or affecting groups of enterprises; at the same time governments have to undertake an examination of the manner in which their own administrative machinery impinges on the performance of public enterprises. The postulation of a concept of "Public Enterprise Sector" with a macro-economic "impact" tends to divert attention both from enterprise-specific problems and from the responsibility that governments themselves bear for the performance of public enterprises in general.

(vii) Governments certainly need economic analyses as the basis for policy decisions of diverse kinds but that is a general proposition relating to all economic policy-making and planning. Specifically in relation to public enterprises, governments may have to consider questions of pricing policy, levels of subsidisation, policies in regard to the approach to project implementation, etc. Each such question has to be separately considered with due regard to the economic and other consequences of different policy options. Many of these questions are enterprise-specific or relate to particular groups of enterprises or industries, and few of them call for macro-economic studies of "the public enterprise sector". As for a review of the government's relationship with public enterprises and of the factors which affect managerial performance, such as excessive bureaucratic interference, counter-productive accountability concepts and procedures, etc, these belong to the fields of public administration and management; and the general perception that public enterprises are hampered by inadequate autonomy and the impact of the governmental machinery does not need macro-economic analyses.

(viii) Macro-economic magnitudes and relationships such as share of public enterprises in the national output/investment or in the output/investment in particular fields of industries, may be of some use when governments begin to consider the size and spread of the public enterprise presence, the public-private mix in specific areas, and the desirability and feasibility of changes; but even here the decisions are likely to be governed much more by general socio-political considerations and a direct knowledge of the facts and circumstances of particular industries (including the presence of large private groups or of transnationals and the extent of influence wielded by them) than by macro-economic percentages.

(ix) As for the general proposition that governments should keep the growth of public enterprises, and indeed of the public sector in general (including departmental operations and agencies) within manageable and monitorable limits, this is valid for most countries, and is a self-evident proposition which does not need to be—and cannot be—derived from macro-economic studies of "the public enterprise sector".

(x) The recommendation to undertake "macro-economic analyses of the public enterprise sector" arises essentially from a concern at budgetary deficits and balance of payments problems—a concern which is legitimate, but is often accompanied by a discomfort with all state intervention in the economy, including the establishment of public enterprises. Recommendations for "macro-economic studies of the public enterprise sector" are often in effect recommendations for studies of state intervention.

## VIII

Two kinds of misreadings of this paper are possible. The first is that the paper is anti-macro-economics, and that the writer has a non-specialist's hostility to a specialist discipline; the second is that the paper is an apologia for public enterprises. There is really no room for either misreading, and a careful look at the paper will dispel such wrong impressions.

A possible response to the paper on the part of some may be to say: "Yes indeed, we are talking about state intervention; when we refer to the macro-economic impact of the public enterprise sector, we are quite aware that we are talking about the impact of state interventionism. We do want to draw people's attention to this". But if state intervention is what one has in mind, why not say so? Why refer to "the public enterprise sector"? Moreover, all states intervene in the economy and in a number of ways; it is impossible to cost the whole of state interventionism. What one can do is to cost each particular policy or act of interventionism—particular subsidies or price controls, specific public investment decisions, etc. To talk of "state interventionism" as a whole and its "impact", or "the impact of the public enterprise sector", is to assume tacitly that state intervention and public investments are deviations from the "norm".

It can of course be argued that the expression "the public enterprise sector" is a reference to state interventionism of a particular kind, i e, intervention through public investments and the instrumentality of public enterprises; and that there are other and better means of intervention available, such as incentives/disincentives through credit and taxation policies, guiding or controlling private sector activity through direct controls or indirectly through various mechanisms, etc. However, as already mentioned, the case for less direct public investment and for greater recourse to other forms of intervention (direct or indirect), could well be urged on the basis of considerations such as the need to minimise the draft on the budget, to avoid over-straining the managerial and monitoring capabilities available in public enterprises and in the governmental system and to make full use of the energy, initiative, financial resources and man-power and managerial capabilities available in the private sector in the cause of national development: this does not require macro-economic studies of the public enterprise sector.

It is rather puzzling to find even economists from socialist countries urging the undertaking of macro-economic studies of the public enterprise sector. One can only suppose that they have allowed themselves to be persuaded by the advocacy of those who are basically unenthusiastic about both state intervention and public enterprises. Perhaps a shared professional interest in the potentialities of the discipline and the capabilities that certain techniques and methodologies seem to promise, tends to blur the perception of attitudinal differences.

Faced with sub-optimal performance by public enterprises and the strains which this imposes on the national plan and the Budget, we can either consider how best that performance can be improved, or assume that public enterprises as a class are bound to be less efficient than private enterprises and recommend privatisation. Those who have no doctrinal discomfort with the notion of public enterprises will take the first course; and those who believe that the market is the norm and that any deviation from it (including the advent of the state into business) is a "distortion", will tend towards the second course. That is of course too sharp a contrast. The first group (i e, those who believe in a mixed economy) could be mindful of the need to keep the growth of public enterprises within manageable and monitorable limits, to conserve scarce financial and managerial resources for important purposes and activities, and to shed public investments of no great consequence (for instance, in hotels or bakeries or shoe-manufacture or contraceptive plants—but such illustrations are fraught with risk: each one of these could conceivably be of strategic importance in national planning in certain countries under certain circumstances). The second group (i e, those who basically believe in free market economies and minimum state intervention) could also be realistic enough to accept the position assigned to public enterprises in the strategies of many developing countries, and to concede that ways and means must be found to improve the performance of public enterprises while keeping them public, and that privatisation can at best be a remedy of the last resort, to be applied only in a very limited number of cases. In terms of practical recommendations in a given situation the two groups may possibly find themselves in agreement. And yet, a difference in attitude and bias remains; and it is this which becomes evident in the terms in which "the macro-economic analysis of the public enterprise sector" is advocated by some.

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# Managerial Trade Unions

**E A Ramaswamy**

*Managers and officers are increasingly banding themselves into collectivities of associations which are gaining the aspect of trade unionism. This paper seeks to present the extent of this phenomenon, the underlying factors responsible for it, the problem of recognition and the associations' response, union-association relations and likely trends in the future.*

THE Indian manager is getting collectivised. Managers and officers from such diverse organisations as manufacturing enterprises, commercial banks, insurance companies, non-banking financial institutions, research and development laboratories, electricity boards, trading corporations, the merchant navy and the civil service are banding into collectivities which are gaining the aspect of trade unionism, The word 'manager' is not the only possible label for this diverse group of people. Industry employs managers; the civil service and merchant navy have officers, as do the banks and insurance companies; research institutes and laboratories employ scientists and technologists; and engineer is probably the right appellation when it comes to electricity boards and sections of commercial airlines. Although called by different names and doing varied jobs, it is quite clear that these men and women have a great deal in common. They belong to the higher echelons of the organisational hierarchy where they are expected to bring knowledge and discretion to the job. They are as different from white collar groups such as clerks, draughtsmen, technicians, salesmen and laboratory assistants whose tasks are routine and repetitive, although non-manual, as from the blue collar which is paid for the exertion of physical effort. The label given to this diverse group by the ILO is 'professional worker'. Peter Drucker refers to them as knowledge workers. The people in question often call themselves officers, especially in India. We may simply title them managers. Our calling them managers will not set definitional controversies at rest. While the core of the category may be clear, there is much room for debate at the periphery as to who is included or excluded. However, there is no need to be hamstrung by definitional problems which this essay does not seek to resolve.

There is a semantic problem concerning the label for the collectivity as well, although this is more readily disposed of. Typically, managers prefer to think of themselves as belonging to associations rather than trade unions. Officers' associations is, in fact, the popular nomenclature in this country. The claimed difference between associations and unions does not lie in their ends since they both exist to protect and advance the work interests of their members. The difference lies in the means. Whereas trade unions aggressively demand, the associations with their solid roots in middle class values set out preferring the method of representation. Managers, have, however, been forced by the ineffectiveness of this method to bargain in the manner of trade unionists. With the exception of groups such as civil servants who are bound by civil service conduct rules, it is difficult to discern fundamental differences in the *modus operandi* of unions and associations. Even though managers may not replicate all the methods of their workmen, the difference between the two is one of degree than of kind. The phenomenon that we have is managerial trade unionism. Strictly speaking, the terms 'association' and 'trade union' can be used synonymously. However, we will refer to combinations of managers as associations so that they are readily marked off from combinations of workmen.

Given the present state of knowledge, it is impossible to estimate with any precision the spread or density of managerial unions. Organisations of managers appear to have been in existence for decades, with associations of merchant navy officers, airline pilots and flight engineers dating back to the period around Independence. Civil servants have similarly been organised for a long time. The early associations were, however, quite different from their later-day counterparts. They were concerned with the advancement of professional interests, mutual benefit and welfare, scarcely ever bargaining the terms and conditions of employment. Thus, while associations may be said to have existed for long, they are certainly an emerging phenomenon in their present form as bargaining agents.

The proliferation of associations and the transformation in their character owe much to the rapid growth in the ranks of middle managers since the sixties. The phenomenal expansion in banking and insurance and the massive investments in public sector enterprise caused a spurt in their numbers. Growing numbers created the need for organisation while simultaneously providing the critical mass for viable formations. Bank officers pioneered by the State Bank of India have been in the forefront of this new wave. There is almost no public sector enterprise today whose managers are not organised. The steel plants; coal mines; petroleum refineries; rail, road, sea and air transport undertakings; manufacturing enterprises in engineering, chemicals, textiles, electronics and fertiliser; the entire banking and insurance industry; the many finance corporations established to induce industrial growth and recovery—in fact, the entire gamut of organisational activity—has come under the influence of the associations.

Contrary to popular impression, the private sector has not escaped the sweep of organising effort although it would be true to say that associations are less pervasive in the private than in the public sector. Associations have existed in the foreign oil companies long before they were nationalised. The best known and best-paying multinational enterprises in the field of pharmaceuticals, engineering chemicals and consumer products are organised. The list includes such firms as Glaxo, Pfizer, Guest Keen Williams, Indian Tobacco, General Electric, Metal Box and Indian Oxygen, to name only a few. Several large family-controlled enterprises are organised as well, instances of this being Tata Electric, Gwalior Rayon, Kamani and the Mafatlal group of companies. There also exist federations of managers' associations, the more prominent ones being the All India Confederation of Bank Officers' Organisations (AICOBOO), the All India Centre of Officers' Organisations (AICO), Steel Executives Federation of India (SEFI) and All India Power Engineers' Federation.

It would be hazardous to guess the number of associations or their membership. One estimate from the managers' movement places the number in the corporate sector at two hundred and their membership at 300,000.[1] This appears a reasonable guess, considering that several associations have a membership that would be the envy of many a blue collar union. The SEFI has 18,000 members and its counterpart in coal has even more. The associations in the Employees Provident Fund Organisation (EPFO) and Employees State Insurance Corporation (ESIC) have over 12,000 members. The banks and electricity boards which are excluded from this estimate would undoubtedly swell the numbers further. Both the sectors are highly organised, and the State Bank

Officers' Association (SBOA) alone has 40,000 members.

No less problematic than the extensity of organisation is the determination of the limits of association membership, or the boundaries of association constituency. At the base, associations take up from where white collar clerical and staff unions stop. At the apex they would evidently leave out the top layer of managers who may not join, or be acceptable to the associations. What lies in between these two points is association territory. While this manner of drawing the boundaries may be all right at a broad level of generality, vast differences can be discerned between different kinds of organisations, or even different enterprises in the same industry, if we get down to specifics.

The common pattern is a three-tier system where the blue collar have their union, the lower white collar comprising clerks, stenographers, office assistants, accountants, draughtsmen and such others have their union/association, and managers and officers have their own exclusive forum. But two-tier systems where the white collar staff team up with managers, as in some banks, or with the blue collar, also exist. What is uncommon is for the blue collar and managers to span the vast chasm separating them. A further source of variation comes from groups which straddle the dividing line between managers and white collar staff such as supervisors, secretaries and accountants. They commonly constitute the top crust of the staff union, but in a rare case they may make up the base of the managerial association.

At the apex the reach of the association varies from one organisation to another. In the commercial banks, association membership normally stops at the Regional Manager, which is a middle management position. Officers of the level of Assistant or Deputy General Manager would normally keep out, although a stray activist may retain his link with the association even after elevation to these ranks. Membership extends a little further in the Life Insurance Corporation where Zonal Managers are also organised. The steel plants and coal mines probably represent the ultimate, with association membership reaching right upto the level of General Manager. In the same category belong to ESIC and EPFO where a mere half-a-dozen managers in a total force of nearly 13,000 have stayed out of the association. The only discernable pattern at this level is for association membership to reach further in the hierarchy in the public than in the private sector. Even this constant is not without qualification. In a private sector power distribution company only eight managers out of a total of 300 remain outside, which is quite unusual for this sector. There is thus infinite variety with regard to both the floor and ceiling of association membership, making it hard to generalise.

### WHY MANAGERIAL UNIONS?

The common reaction to the growing collectivisation of managers is one of disbelief and puzzlement. Trade unionism evokes strong negative reactions among those charged with managing protest. After a century of existence, unions continue to be viewed as a disruptive force with little positive purpose. The top echelons of industry are perplexed that managers who make up the steel frame of the organisation should emulate their blue and white collar subordinates. Why should managers with a strong tradition of individual advancement, and aversion to trade union methods, feel the need to collectivise? The search for an explanation has taken bizarre directions. Some wishfully hope that their purpose, especially in the public sector, is to increase productivity, improve efficiency and function as the watchdog of the public interest. Yet others believe them to be cultural organisations, mutual benefit societies or harmless welfare oriented collectivities. That managers could be collectivising to grind the sectional economic and political axe, is rarely conceded. The frequently advanced argument is that it cannot be their intent to bargain, for whom will they bargin with? How can managers organise against themselves? Would they not suffer loss of credibility before workers if their own methods are no different from those of the latter? Would they not be hurting themselves rather than their bosses by choosing the path of conflict?

These views find expression in formal utterances by top managers as well as in their everyday interaction with the associations. Consider, for example, the expectations the Managing Director of a public sector firm has of the associations: "If officers' associations come forward to help the management improve performance and reduce problems, well, they ought to be accepted and even encouraged. When people organise into a group, the group possesses kinetic energy which can be put to use either for benefit or for destruction. My experience and interaction tell me that the leaders of the association are for constructive work like productivity improvement, quality assurance and fulfilling social obligations ... In fact, we can think of a score of other ways of putting the associations to use. We can give them assignments in various fields including manpower planning, feasibility assessment for new products, etc. We may use them to prop up our position in delicate matters with the Bureau of Public Enterprises and the government. All we have to do is to let them share some of our responsibilities, for which they seem so eager."[2]

The expectation that the associations would not, or should not, pursue sectional interests is carried to the realm of everyday interaction. In the words of a senior official of the managers' movement: "Today most of the associations have not been accorded official recognition. They are being meted out treatment once given to the pioneers of the trade union movement. There have been cases of victimisation resulting in the termination of service of office bearers in a few organisations, including the state-owned HAL and BHEL. Even the organisations which are willing to grant recognition insist that officers' associations must behave only as officers' clubs and that their constitution must be so written. They are not prepared to accept the associations on the same footing as the trade unions. Today the associations think of themselves as different from trade unions. But if the government and management continue to be intolerant, it is only a matter of time before the associations become trade unions."[3]

Managers unionise for much the same reasons as anybody else. Trade unions of managers have an essential and striking similarity with those of the blue and white collar. This contention will be amply borne out by the discussion that is to follow. To place matters in the right perspective, however, we shall first consider the situation in the industrialised west where managers have for long been organised.

A study of managerial unionism in eleven European countries by the European Association of Personnel Management offers a good base for building our arguments.[4] Like their counterparts elsewhere, European managers had traditionally thought of themselves as having a special relationship with the employer. As individuals they had easy access to the top functionaries of the organisation. The growth in the size of organisations, the vast increase in the numbers of managers and growing bureaucratisation put an end to that special relationship. Managers began to be administered as a group, but not in the total sense of the term. In other words, they had lost their identity as individuals but without the countervailing advantage of the power flowing from a group. As a result, "manual workers had, through their formal systems of representation, more direct and comprehensive access to the top management than they had themselves".[5] The resulting information rationing and information starvation put the manager at a serious disadvantage with regard to workers, and ushered in the era of the "managerial production line".[6] Some commentators go so far as to say that the consequence of these forces has been to reduce managers to a "technologically deprived, emasculated, disenfranchised and a relatively disadvantaged section of the employee population".[7] It was only natural that managers should redress the situation by organising themselves and wresting as a collectivity what they had lost as individuals.

The managers' desire for formalised say as a collectivity in the affairs of the organisation, while present in almost every situation, is especially pronounced where workers have gained wide-ranging participatory rights. The example of West Germany where co-determination has vested the workers with such rights is especially striking. Hartmann observes:

> Foremost among the issue mentioned by our respondents (in a survey of 305 'executive-grade' employees) was ... participation. Considering that the interviewees belong to levels presumably well endowed with powers of decision-making, the extent of such interest in participation must seem surprising; 87 per cent of our informants said they were concerned with "more participation", and no other issues were backed so widely ... Participation referred to all conceivable linkages to the decision-making process; for information to consultation and joint deliberation ... We infer that they consider more participation desirable because other groups have won formal representation—and therefore it is now their own due.[8]

Narrowing differentials are another source of concern to managers. The common experience in several European countries, especially those with a poor growth rate, is that blue and white collar categories gain significant pay increases through collective bargaining whereas the managers do not get matching benefits. Differentials have therefore narrowed. In addition, rapid changes in technology have caused in managers a sense of job insecurity. Workers are insecure as well, but their unions at least fight redundancies tooth and nail.

Managers with specialist professional qualifications, such as engineers, technologists and scientists, are also dismayed to find their career advancement blocked by generalists. It cuts the scientists and technologists to find that plum positions in specialist organisations are captured by generalists who are no more than mere administrators. One of the major platforms of the Institution of Professional Civil Servants in England—which, behind its misleading name, is really a trade union of professionals in government employment—is that specialists should have an equal share of the top jobs. The IPCS observed as early as 1929: "Who can expect the classical scholars who control the civil service to have a change of outlook and recognise the strengths of scientists and those with a professional and technical training?"[9] This observation still rings true, especially in this country where the generalists and specialists have been fighting a running battle. There is no doubt that myriads of engineers and scientists in such specialist organisations as the electricity boards and the Oil and Natural Gas Commission will strongly empathise with the IPCS. As an engineer from the ONGC acidly remarked: "The only organisation which generalist administrators have not so far headed is the Directorate General of Health Services!"

It will be seen that every pressure for collectivisation emanates from within the work organisation. Managers see in trade unionism the means of shoring up sagging differentials, fighting job insecurity and balancing the growing power of workers. In contrast, wider social considerations are strongly arranged against managers banding together. The social background of managers disapproves of the general ethos of trade unionism and the political ideology associated with unions. "They are presented with a conflict between what is industrially expedient and that which is socially permissible."[10] Managers are reluctant militants, creatures of circumstances forced to attribute greater salience to workplace considerations than social forces. As Fox perceptively observes, the view that managers would not collectivise to protect their work interests is not a natural law but a mere social convention.[11]

If we step back in time, it would be seen that the reasons adduced for unionisation by managers are not entirely unique to this category of personnel. Much the same reasons explain why white collar groups organised. White collar employees thought of themselves as having a special relationship with the employer, till that vanished with growing numbers and greater impersonalisation. In similar fashion, white collar work was perceived as skilled, allowing the individual considerable flexibility and freedom. It is now universally accepted that white collar jobs have become de-skilled, to use a phrase made famous by Braverman. Consider, for example, the following observation about draughtsmen: "... the design function is becoming increasingly dispersed over a wide range of more specialised jobs, which range from design engineer to production planning. It is extremely rare for the machine to directly take over a draughtsman's role; the demise of the latter is usually accompanied by the creation of several other roles at various levels of expertise but usually demanding skills that are much more specific to the work situation than the more generalised craft accomplishment of the draughtsman."[12] One of the most interesting recent works highlighting the de-skilling of white collar labour is the personal account by a computer programmer of how programming has become routinised and the programmer's work itself severely programmed by the employer.[13] The aura and mystique have gone out of programming and their place taken by monotony and tight control. It is no wonder scholars now routinely speak of white collar *labour* and white collar or clerical *factories*. In the words of one "... the office is now a highly mechanised place and large numbers of clerical jobs can be characterised as feeding paper at one end and collecting it at the other".[14]

Salary differentials have narrowed even as freedom, flexibility and craft skill and pride have evaporated. A great deal of evidence can be mustered to show that the white collar have lost monetarily in absolute terms as well as in relation to the blue collar. And, in common with managers, the white collar too have had problem shedding their inhibitions and taking to the path of trade unionism. As C Wright Mills observes of America: "In the minds of the white collar workers a struggle has been going on between economic reality and anti-union feeling. Whatever their aspirations, white collar people have been pushed by twentieth century facts towards the wage-workers' kind of organised economic life, and slowly their illusions have been moving into closer harmony with the terms of their existence."[15]

Collectivisation to bargain the conditions of employment appears inevitable for any group of employees which experiences impersonality, division of labour, powerlessness and other related attributes inherent in large scale factory and office organisation.

With this backdrop of forces underpinning the organisation of managers, we can now move over to the specifically Indian context. A good peg to hang several coats is offered by a survey of managerial perceptions in a large public sector corporation in the field of high technology manufacturing. The survey itself is somewhat elementary, but it has great significance in that the effort has come from a pro-

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fessional researcher but the top management of the enterprise. Alarmed at the declining morale of managers, the management decided to conduct a survey. A questionnaire was administered to a sample of 130 managers out of a total force of over 1,500. We have access only to the tabulated results of the survey and not the raw data, and the responses to some salient questions are given in Table 1.

The results of the survey speak for themselves. For a high technology industry which is constantly updating, the extent of job satisfaction is quite modest. Many highly qualified engineers are engaged in routine jobs and file pushing, and not a few perform tasks more appropriately done by draughtsmen. There is more widespread dissatisfaction with compensation. More than a third of the managers view the top management as bureaucratic and rule-bound, which is perhaps to be expected in the public sector. That twenty of them see the management as autocratic is even more damaging. Only ten per cent find the management willing to participate with their own managers. Not many feel that merit counts for much in the organisation. About half of the respondents say that 'other factors' weigh, which is another way of saying that psychophancy, political jockeying and similar other methods pay. Commenting on this aspect of the survey, one highly placed manager remarked that the organisation had become so large that the top bosses did not really know how their managers were performing. The Managing Director had no personal knowledge even of senior managers.

A fair number feel that they participate in setting the goals of the section or department, but the problem here is that more people feel responsible for goal achievement than claim to participate in goal setting. It is not surprising that the majority find the delegation of powers inadequate. An overwhelming majority is quite clear that the policies of the organisation will not help achieve the goals it has set for itself. That a mere two individuals consider the morale of the managers high eloquently sums up the situation.

In more general terms, managers are troubled by a number of salient issues. The foremost among them appears to be compensation policy. The normal expectation is that the wage/salary pyramid of the organisation should correspond to the status pyramid. This notion has come under such serious threat that many managers feel that there is no compensation pyramid at all. In some cases, a column has replaced a pyramid, meaning that monetary gain accruing from a promotion may at best be marginal. Elsewhere, the pyramid may actually appear inverted, at least with regard to certain categories of personnel. It is far from uncommon for lower and middle managers to earn less than their formal inferious. The Life Insurance Corporation which has for long been famous for subordinates earning more than their superiors is by no means unique.

There has been a sharp increase in blue collar wages in recent times. Aggressive union bargaining has significantly pushed up wages, bonus and fringe benefits. A survey of the wage structure of the pharmaceutical industry in Bombay by the Union Research Group (URG) shows the average monthly wage including allowances, but excluding bonus and overtime, to range between Rs 1,381.95 to 1,933.43.[16] Pharmaceuticals, however, is no longer the best paying industry Bombay, which distinction has now be wrested by chemicals. There are chemi firms in the famous Thane-Belapur b where minimum—not average—wa range around Rs 1,600. The attractive p is accounted for in good measure by t leapfrogging dearness allowance.

Formally bargained benefits tell onl part of the story. Organised overtu which finds no mention in wage contra has emerged as a major additional ben fit. Overtime has long ceased to be method of meeting unforeseen conti gencies. Although the vast variety of ove time practices cannot be gone into he some significant trends merit mentio One prominent development is f workers to absent themselves in a plann and pre-arranged way so as to create ove time opportunities for each other. Ma

TABLE 1

How satisfied are you with the following?

| | Job Content | Remuneration and Perquisi |
|---|---|---|
| Highly satisfied | 40<br>(30.8) | 14<br>(10.8) |
| Just satisfied | 70<br>(53.8) | 80<br>(61.5) |
| Not satisfied | 18<br>(13.8) | 35<br>(26.9) |

How do you view the top management of the company?
(multiple choices permitted)

| | | | |
|---|---|---|---|
| Bureaucratic | 50<br>(38.5) | Professional | 27<br>(20.8) |
| Amateurish | 33<br>(25.4) | Participative | 13<br>(10) |
| Autocratic | 20<br>(15.4) | Innovative | 6<br>(4.6) |

What, in your opinion, contributes to success in this organisation?

| | |
|---|---|
| Performance | 44 (33.8) |
| Seniority | 21 (16.2) |
| Other factors | 64 (49.2) |

Do you feel that delegation of power is adequate to improve your effectiveness?

| Yes | No |
|---|---|
| 56 (43.0) | 69 (53.0) |

How do you view your participation in setting the goals of your section/department and your responsibility for meeting them?

| | Yes | No |
|---|---|---|
| Participate in goal setting | 77<br>(59.2) | 47<br>(36.2) |
| Responsible for goal achievement | 93<br>(71.5) | 22<br>(16.9) |

Do you think that the present policies and procedures of the organisation help in achieving the goals?

| Yes | No |
|---|---|
| 28 (21.5) | 80 (61.5) |

How do you rate the morale of the individual manager?

| High | Fair | Low |
|---|---|---|
| 2 (1.5) | 72 (55.4) | 55 (42.3) |

irms pay four times the normal rate for vorking Sundays and festival holidays. Another practice is to demand overtime 'or performing critical and urgent tasks uch as machinery maintenance and rectiication of breakdowns. In SAIL accouning staff demand overtime for opening and closing of accounts, which is a job hat comes up almost every month. In ome cases workers demand and get overime even when they do not work *over ime*, that is, for completing a job during hift hours. In an extreme case, a worker on casual leave may be paid overtime!

It would be rash to conclude that all vorkers in the organised sector are so generously compensated. Within the organised sector there are enormous variaions between regions, cities, industries or even firms within the same industry. The JRG survey shows that average wages within the same industry can vary by as nuch as 40 per cent. Stretching further, one can show that the very firms which pay top-of-the-shelf wages to their permanent workers pay a measly fraction of the noney to temporary and casual workers loing the same work. Even multinationals re known to operate an entire shift with underpaid casual labour. The point then s not so much that all workers in the rganised sector earn enviable pay ackets, but that there definitely exists a ection in the blue collar labour force vhose earnings are impressive.

The wage skew appears far more serious n the private sector. This may come as a urprise, considering the freedom and lexibility they have to redress this kind of nequity. The reasons for this compensaon distortion are several. There is no oubt that the highest wages for blue ollar work obtain in the private sector. The employer would be quite willing to ay the workers an additional five hunred rupees if he gets increased producvity in return. It is well known that he dramatic wage settlements by Datta amant and R J Mehta extracting subantial monetary benefits are often in the rivate sector, and that these settlements ave equally dramatic productivity auses. In contrast, the public sector, aught in the bureaucratic web of the BPE nd the controlling ministry can offer no nore than a modest raise. Opportunities or overtime, at least of the legitimate ind, also appear to be more widely revalent in the private sector. Because nis sector is careful to avoid overmaning, a lot more opportunities for addional work come the way of workers. The ublic sector with its flabby labour force ffers fewer opportunities. It is of course ue that the private sector compensates its managers better, but the skew remains nevertheless. The complaint of managers often is not so much absolute inequity as relative inequity. They may not be dissatisfied with compensation *per se*, but dislike being paid less than their inferiors.

A simple method of assessing the state of differentials is to examine the data published by companies under Section 217 (2A) of the Companies Act, 1956, as amended by the Companies (Particulars of Employees) Rules, 1975. This law requires firms to publish in their annual report a list of all employees earning more than Rs 36,000 per annum. Remuneration is defined to include wage/salary, bonus, commissions, employers contribution to provident fund, leave travel entitlement and various other kinds of allowances. The number of employees figuring in this list has grown so enormously in some firms that they now publish it as a supplement or pull-out to the annual report. Glaxo Laboratories has 2,100 employees figuring in the list. National Organic Chemicals, although engaged in the process production of chemicals with its advantage of low labour intensity, has a list of 1,026 names. The Andhra Valley Power Supply Company has a list of 917, comprising 97 managers, 349 supervisory staff, and 471 blue collar workers and clerical staff. It would be easy to add to this illustrative list. A feature common to most firms is that a significant number of blue collar workers such as fitters, welders, mechanics, boiler operators, machine operators, drivers, watchmen and even an occasional sanitary worker find inclusion. No less pronounced is the presence of white collar clerical staff such as storekeepers, accountants, stenographers and secretaries. Blue and white collar employees earning impressive salaries have frequently put in several years of work, but rarely have high educational qualifications or technical diplomas. Western India Match Company, for instance, has a large number whose designation is listed as unskilled worker with educational qualifications stated to be unknown.

Table 2 distributes the 644 employees listed in the annual report of a Bombay tyre manufacturer by gross yearly earning and formal status in the hierarchy so as to highlight the kind of skew that can occur. Of the 2,500 blue collar workers, 148 figure in the list. The highest blue collar wage is Rs 63,000 paid to a turner. Some other examples are worth citing. A mechanic earns Rs 62,000; driver Rs 60,000; boiler attendant Rs 58,000; watchman Rs 49,000; helper Rs 48,000; and janitor Rs 47,000. A large number of clerical employees also figure in the list, some earning over Rs 75,000. Many storekeepers, accountants, and timekeepers earn around Rs 55,000. Secretarial salaries range around Rs 60,000. By contrast, many managers at the lower and middle levels with such titles as territory mananger, office manager and operating manager find themselves earning less than drivers, machine operators, storekeepers and secretaries. Some poorly paid managers are young and inexperienced, but this is not always the case. A few examples from among the managers would reinforce the point. A maintenance engineer with an engineering degree and eight years experience earns Rs 58,000. An applications development manager with a master's degree in technology and ten years experience grosses Rs 66,000. A product manager with a bachelor's degree in technology and master's in management earns Rs 70,000 after ten years of work. There are younger shift engineers and in-

TABLE 2: DISTRIBUTION OF EMPLOYEES LISTED UNDER SECTION 217 IN A FIRM BY EARNING AND POSITION IN THE HIERARCHY

| Earning (in Thousands of Rupees) | Blue Collar Workers | Clerical Staff | Lower Management | Middle Management | Top Management | Total |
|---|---|---|---|---|---|---|
| 45-50 | 105 | 34 | 60 | 3 | | 202 |
| 50-55 | 24 | 28 | 45 | 5 | — | 102 |
| 55-60 | 15 | 30 | 49 | 9 | — | 103 |
| 60-65 | 4 | 18 | 36 | 10 | — | 68 |
| 65-70 | — | 7 | 17 | 17 | — | 41 |
| 70-75 | — | 5 | 10 | 24 | — | 39 |
| 75-80 | — | 1 | 8 | 12 | — | 21 |
| 80-85 | — | 1 | 7 | 9 | — | 17 |
| 85-90 | — | — | 1 | 14 | — | 15 |
| 90-95 | — | — | 1 | 6 | — | 7 |
| 95-100 | — | — | — | 2 | — | 2 |
| Over 100 | — | — | — | 17 | 10 | 27 |
| Total | 148 | 124 | 234 | 128 | 10 | 644 |

*Notes:* 1 The data pertain to the year 1981.
2 No employee is listed in income range of Rs 36,000-45,000.

dustrial engineers grossing just around Rs 50,000. The inversion of differentials is not unique to this firm. Nor are the cases cited exceptional, dramatic though they may sound. Such instances can be had in abundance in the high wage segments of the organised sector. The general trend is for younger managers to earn less than some of their subordinates. Managers with greater experience may find that the differential is still in their favour, but the edge is so slight as not to count.

There are a few caveats to the figures published in the annual reports. One is that certain reimbursements which are not of a regular or recurrent nature, as for example medical expenses or leave travel find inclusion. This could boost the earnings of some individuals in certain years and distort the picture. The other is that many private sector firms, especially family-owned ones, make cash payments to managers which do not enter the account books. This could be either a regular monthly payment or a once-a-year payment at festival time. It would be impossible to build this income into our calculations for obvious reasons. In private, managers express the view that while cash payments are indeed received they are not such as to redress the wage skew and re-establish the pyramid.

Narrowing differentials have not infrequently contributed directly to association formation. Consider, for example, the experience of a private sector fertiliser plant in South India. The personnel manager narrated how managers reacted to compensation policies: "We bargain a wage settlement with blue collar workers every three years. Whenever the workers bargain a raise, managers are given a few increments to keep up the differential. We slipped on this between 1976-80. Workers bargained two settlements during this period but managers got no benefits because the company was not doing well. As a result, 105 of the 2,000 workers got into the annual report whereas many of the 300 managers found no place in it. Our managers are well paid compared to other firms in the region, but they were losing in relation to the workers. Soon we had an association on our hands."

In some cases the force of the association has been moderated by attacking the problem of differentials. The General Manager of an old British company in Calcutta with varied business interests narrrated their experience: "We have a thousand managers, 600 of them in the middle and junior levels. This group formed an association in 1974. We don't think there is anything wrong in that and we do have a consultating relationship with them. By 1977 we decided to have a close look at their problems. We realised they had a genuine grievance over differentials. The basic wage and salary were all right, but dearness allowance was playing havoc. We promised the association that differentials would be examined and their grievances redressed every five years. There has not been much problem since then. In fact, we no longer see the association as a major force in the organisation."

The strategy of preempting the collectivisation of managers by granting suitable increases to the junior and middle levels is slowly gathering ground. The need to grant such a raise is beginning to figure as an input while considering blue collar demands. In an occasional case association leaders may be asked to be present while bargaining with the union, although there is widespread fear that they would push up blue collar wages in order to help themselves to a larger raise.

The policy of giving a raise to managers without their having to clamour for it has obvious limitations. The ceiling for managerial salaries on the Board of Directors is decided by the government, the present limit being Rs 10,500 per month. The constant upward revision of lower and middle management salaries could bring them close to the top management who are pegged to the ceiling and create a problem of differentials at this level. Moreover, it is only the private sector which has some freedom of action with regard to managerial salaries. The public sector with its centralised decision-making and considerations of parity with civil servants permits little elbow room to the top brass of the individual enterprise. Finally, the ability to pay is not judged in the abstract. Within broad limits, the determination of the precise quantum of payment is a function of the pressures brought upon those who take the decision. So long as this is so, different yardsticks are bound to be applied to the determination of workers' wages and managers' salaries. Managers may get a balancing raise when business is good. When business is bad, the top brass could still cave in to union pressure and concede a raise but apply the axe on managers. It would be idle to expect that bargaining and non-bargaining groups would be treated alike.

A second major issue after the question of differentials is the perceived need for protection from militant trade unionism. While union power may be felt in the boardroom once in three years, the every-day business of trade unionism between contracts is aimed more at junior and middle managers. They are the ones responsible for the nuts and bolts of industrial relations, translating managerial decisions into action. And it is these managers who are in the direct line of union fire. There is a growing feeling at this level that for the top brass industrial relations are a matter of expediency rather than of well thought out policy. The fifties and sixties saw the management going all out to beat down the unions. In the seventies and eighties they appear to have swung to the other extreme of unprincipled surrender, at least in the eyes of the middle ranks. In this atmosphere, junior managers may be readily cannibalised to make up with the union. Managers lower down the hierarchy are uncertain how to go about dealing with unionised labour. There is in any case no coherent policy to be followed. This style, or the lack of it, is derisively called in some circles as "somehow" management because the only advise that comes forth from seniors is to manage somehow. If the young manager should decide to chargesheet an offender, his boss may drop the charge on grounds of expediency. Laxity on his part might, on the other hand, evoke the comment that he is not sufficiently firm.

A further irritant is the impression that the top management want to convey the 'no' to the trade unions through the middle ranks, but step in and take the credit when the reply is an 'yes'. Workers naturally think that the top management is broadminded and benevolent, and it is the petty officials in between who create all the trouble. The junior manager is made out to be the villain of the piece although he is only acting out his assigned rôle. Overall, the middle ranks of managers seem convinced that they cannot count on support from above with regard to the union even when they have acted in good faith towards the organisation.

The manager of a general insurance company cited a specific instance to argue this point: "The erosion of the power of managers to manage is one of the principal reasons why they organise. One of our senior officers took disciplinary action against a subordinate for gross misconduct. It would have been a crime to let that fellow get away with what he did. But the top management revoked the punishment under union pressure. They pulled up the officer for acting in haste and advised him to be more tactful in future. Our officers want to know what this 'tactful' handling of industrial relations really means. There are no clear instructions. An officer can always be accused of being too harsh or too soft depending on how the boss wants to look at it. This kind of hypocrisy is typical of the top brass in the entire public sector. Our officers felt that the only way they could safeguard themselves was by forming an association. I think they are fully justified."

The common impression in the middle ranks is that evasion is probably the best policy in dealing with organised labour. Even if they follow the beaten track and keep out of controversy, managers at this level may still have to bear the brunt of union wrath in difficult times. Middle managers have been exposed to a great deal of harassment by irate workers when they themselves have not been at fault. Such treatment has been meted out by union members from the entire range of skill spectrum—by white collar groups as well as by the most unskilled of blue collar labourers. In the coal mines managers have been assaulted by organised gangs engaged by mafia-like trade unions. A minor grouse against an individual manager can explode into violence against managers in general. In the banking sector, at the other end, officers have come in for heavy barracking at the hands of the clerical force. In between, industrial workers can go on a spree over poor canteen food, inter-union squabbles, an industrial accident and a host of other reasons. Junior and middle managers offer a ready target of attack because they are the men on the spot who are considered to symbolise the management. The association is seen to offer a measure of protection against such treatment. Bank officers, for instance, hold the need for protection as a salient reason for association formation. Emboldened by the presence of a back-up, bank officers have taken jeering clerks by the scruff of the neck and given back a dose of their own medicine. The general feeling in many sections is that intimidation by the lower ranks has declined because the men know that the manger is not alone.

The idea of workers' participation in management has been in the air at least since the introduction of works committees by the Industrial Disputes Act, 1947. There has been much controversy over whether participation should be allowed to take root through voluntary effort by labour and management or made mandatory by statute. The government periodically threatens to bring forth legislation that would compel employers to adopt the participatory style, sending shivers down the spine at least of private sector management. The nationalised banks and major ports have workers' representatives on the Board of Directors. Those who understand the spirit and substance of participation are generally agreed that the country has not moved beyond the realm of rhetoric. But that the rhetoric is kept at high pitch is beyond question. This strident call for worker participation is not fortuitous, nor is its introduction even in a limited way gratuitous. The workers have established themselves as a force and so everyone is looking for ways to incorporate them into the system. Junior and middle managers feel that the faceless and voiceless entity of the organisation is not the unionised force but themselves. After all, workers do participate even without participatory schemes. Collective bargaining is itself a form of participation, and this right to participate workers already possess in ample measure. The government and the management who are so concerned to further enlarge this quantum scarcely give a thought to the manager's need to participate in management. A management consultant sums up this dualism as stepmotherly discrimination of managers and grandmotherly pampering of workers. An association periodical from the Electronics Corporation of India caricatures this in a cartoon as the two faces of management—smiling and benevolent towards the unions but stern and hostile towards the associations. The lesson that the managers draw is that they need an organisation to focus attention on their problems.

Job security is another major area of discontentment. In the view of managers, unionised workers are virtually assured of lifetime employment. One of the hardest things in Indian industry is to terminate the services of a worker. Even if the management go ahead with the dismissal in the face of union pressure, the chances are that a court of law will order reinstatment. Having used bargaining power to secure their own employment, workers are now demanding preferential recruitment of their children. Many enterprises offer employment to one child or near-relative of a retiring worker. In some cases there are explicit provisions to this effect in collective contracts. By contrast, a manager can be sent away on payment of three months' notice salary. There is no need for a chargesheet or enquiry, and no opportunity need be given to him to defend himself. Even in the public sector where the civil service is the referent for so many aspects of managerial employment, the manager does not have the job security of a civil servant. The acuteness of the problem comes out in the following observation by the President of the Federation of Officers' Associations of Central Government Industries in Bangalore (FOACIB): "I know from my personal experience and as Member of Parliament that our officers in the public sector do not have job security ... The Class I officers of the IAS have protection under the Constitution. The top management personnel have their terms and conditions of appointment under a contract. But, for strange reasons, the officers employed in the public sector undertakings have been left high and dry. Because of this, there have been many grievances. Till recently there was no method at all of seeking redress. Now the High Courts have started admitting cases of officers in the public sector. I don't know if this is the real solution. Since litigation is a long drawn process, I doubt if some of the cases will be decided during the lifetime of the litigant. Legislative provision for executives is very necessary."[17]

The promotion policies of organisations have also had their effect on association formation. The nationalised banks have to fill by promotion three-fourths of the positions at the lowest point in the officer category. Many organisations promote employees from the ranks to the managerial cadre as a matter of personnel policy even though there is no explicit compulsion. Another common practice is to attack the problem of stagnation through a change of designation while letting the job itself remain unchanged. A sales assistant may be designated as assistant sales officer, or a sales officer as sales manager. Many in industry believe that designations make much difference to the morale of the incumbent, that redesignation as manager would relieve the frustration of a man who has for long borne the label of officer. Promotion from the unionised to non-union categories is also a method of weaning an activist from his union or depriving the union of its leadership. Well known pharmaceutical firms have made extensive use of this strategy in their bid to weaken the union. All these policies, whatever their intention, have the consequence of creating a cadre known popularly as "promotee officers". This category of officers have often been in the forefront of association formation. These employees find it difficult to reconcile to the loss of power they have experienced as union activists and members, and association formation comes naturally to them.

The many reasons for association formation which we have considered point to the existence of a category of employees who fall between two stools—that of worker and of manager. While they are obviously not workers, they are also not managers in that they do not have the power and influence normally associated with managers. The crux of the matter is their lack of influence in the affairs of the organisation and in their own affairs as members of it. This sense of powerlessness as individuals is an important reason why they seek power through the collectivity. In a significant sense other apparently unconnected problems such as erosion of differentials can also be traced back to the lack of power.

The significance of power is highlighted by the reach of association membership to the level of General Manager in the public sector whereas it rarely transcends middle management in the private. The underlying reason is that in the highly bureaucratised public sector there is an acute sense of powerlessness at fairly high levels. As a private sector manager remarked: "Power means different things in the two sectors. In the public sector they think of it as power over people whereas for us it is more over things. In the private sector, a manager who has an idea would be listened to. The idea wouldn't be accepted merely because it comes from him, but it wouldn't be dismissed off hand. In the public sector controlled by the distant BPE, even the GM may have no say over things. And power over people has vanished everywhere with unionisation. So what are they left with?"

The overall situation in which managers find themselves is succinctly summed up in the following observation by an industrial relations consultant with long and varied experience: "The term 'worker' has always meant those who are answerable and accountable for their own work, as opposed to managers who are accountable for the work of others under their charge . . . Under the Industrial Disputes Act, all the personnel in industry are classified as either managers or workmen. Whether such simplistic division of personnel into only two classes at all conforms to the realities of the situation is a point to ponder . . . Manager is one who is responsible for producing results through others under him and who has the authority to change any system in the organisation whenever necessary for producing the results. If such power to change the system is the essential hallmark of a manager, it is felt that many of the officers, executives and administrators having imposing titles and designations, and surrounded by status symbols and enjoying several perks may not after all be managers in the real sense of the term because they do their work only in accordance with the systems given to them without any authority to change them."[18]

The term 'officer' appears to some as a title for this category. By usage and convention the label might well gain this connotation although its etymological justification is doubtful. "Thus officers are those personnel who are neither managers at the top nor workers at the bottom but are somewhere in between engaged in the work of execution, administration and supervision—but not direction or control—in accordance with and under the systems and policies ordained for them by the managers. It is only by courtesy and not logic that such middle-level personnel are euphemistically called middle-level managers."[19]

### The Problem of Recognition

It is one thing to form an association and quite another to have it recognised. Managers are finding it an uphill task to get themselves accepted as a collectivity. Banking is among the few industries that have extended formal recognition, usually as a sequel to determined collective action by managers. Recognition of the right to form a trade union and immunity from individual accountability for collective action were among the major demands to be backed by the historic seventeen days strike by managers of the State Bank of India in 1969. The experience of the banking industry is clearly atypical. In most other situations, managers have not preferred the methods of bankmen, and their associations enjoy neither *de facto* nor *de jure* recognition. The absence of *de jure* recognition should not come as a surprise because there is no statutory compulsion on employers to recognise any kind of combination, whether of workmen or of managers. Without any kind of *de facto* recognition, however, the associations find it impossible to pursue their objectives. The common reaction of Chairmen and Managing Directors to association leaders who want to present a memorandum or push a grievance is the stern admonition not to behave like garrulous trade union leaders.

Leaving out the banking sector and a few other isolated instances, the reaction of management to association formation ranges from outright hostility to informal consultation. With exception, the private sector brings up one end with implacable antagonism and the public sector the other with some form of consultation.

Many private sector organisations have mercilessly sacked the activists to nip the movement in the bud. Multinationals and family-owned firms alike have followed this practice, although the hostility of the latter is understandably more intense. The Managing Director of a private sector firm explained how he smashed the association: "In a set-up like ours, associations would cause enormous damage to the organisation. Our managers went so far as to register themselves as a trade union. I found the fellows who took the initiative to file the application and asked them to explain why they were away from the office without permission. The attendance register showed them all to be present in the office that day. Caught on the wrong foot, they maintained that they were not in fact absent. The signatures on the registration application must then be forged, I argued. They had no choice but to write to the Registrar that the signatures were not theirs. We then informed all the managers that a fraud had been perpetrated by registering the association on forged signatures. Could they trust such men to lead them, I asked. With this the association collapsed."

A more moderate response, once again from the private sector, was narrated by the Personnel Manager of the firm: "Our first reaction when we got wind of the happening was that our officers should not be allowed to do this. We were concerned to somehow prevent the formal registration of the association. I spoke to the ring leaders besides asking the departmental heads to reason with them. The leaders pointed to some anomalies in the wage structure, especially with regard to some individuals. We saw the point of what they said and immediately constituted an informal forum to look into the problem. Our view was that a formal association was not needed since an informal forum could do the job just as well. However, the ring leaders got together secretly and registered the association under the Trade Unions Act. Soon elections were held and office bearers chosen. We called the president and secretary and impressed on them that their action would harm the organisation as well as their own members. They seemed convinced by what we said, but reported back that they were under pressure to remain as a formally registered association. At this stage the management decided not to have any truck with them. The leaders tried to establish communications, but we were not willing to deal with them in their capacity as association spokesmen. We simultaneously persisted with efforts to resolve the problems through the informal forum. The association now started addressing formal letters to the management. We took a conscious decision not to reply to them. We have tried not to be vindictive towards the activists. They got the usual increments after the annual appraisal.

The association is now getting close to the trade union. While negotiations were under way with the union over the charter of demands, the association president was having frequent meetings with union leaders. When a settlement was eventually signed, we made it known that the officers would also get some benefits. We are reviewing the remuneration policy and improving the channels of communication. The problem persists, however. The chief instigators are some promotees from the ranks. The association and the union have discussed the possibility of putting up a joint front. They may gang up against the management."

The public sector presents a more varied picture. There are occasional instances of formal recognition and more frequent ones of informal consultation and negotiation. The change of heart has usually come about after abortive attempts at crushing the movement. The Hindustan Aircrafts (HAL) has extended formal recognition to the association. The Indian Petrochemicals (IPCL) has actually signed a settlement covering salaries and benefits. The document is significantly titled "Record Note of Discussions between IPCL Management and IPCL Officers' Association". It is not a formal settlement like the one signed with trade unions for reasons we shall soon examine. The Steel Authority of India (SAIL) consults the association over the salaries and benefits of managers, but announces the consensus as its own decision rather than a bipartite settlement. There are also formal quarterly meetings attended by the highest functionaries of the management and the association to resolve routine problems such as promotions, transfers, etc. The Chairman of SAIL presides over the meeting which is attended by the four Directors of Personnel, Technical, Commerce and Finance and two association representatives for each major establishment. Association leaders attend these meetings at Delhi or Calcutta at company expense. So much significance is attached to this forum that the association took serious exception to the absence of the Chairman on one occasion. Bharat Heavy Electricals (BHEL), Hindustan Machine Tools (HMT) and Hindustan Cables also have periodic meetings to discuss problems, but they are not as formalised as at SAIL. In the Electronics Corporation of India (ECIL) the association has modified its constitution in response to management pressure, providing for regular meetings of the general body, proper maintenance of minutes and their circulation, etc. But the management continues to play the familiar public sector ball game of seeking permission from above before recognition can be granted.

The public sector also has cases of outright hostility as in much of the private sector. The top brass of several public sector corporations are implacably opposed to any truck with the associations. One of them argued in a seminar that "in the style of management we practice in our country, there is no need for an officers' association". An association spokesman hit back that the "style of management is the villain and not the hero of our environment", and went on to demolish the manager's contention that associations were unheard of in the west.[20] The government's own policy seems to be to have no more than an informal dialogue with the associations. The BPE has confidentially advised public sector management against formal recognition.

A major difficulty associations face in forcing even informal acceptance is the nebulous position they find themselves in before the law. With their strong middle class sensibilities, managers prefer to adopt methods that are lawful, but the legal system offers them little help.

The Trade Unions Act, 1926, recognises the right of managers to combine in pursuit of common interests. Although trade unions are normally understood as collectivities of manual workers, there is nothing in law to restrict the usage to this category of personnel. According to the Act: "Trade Union means any combination, whether temporary or permanent, formed primarily for the purpose of regulating the relationship between workmen and employer, or between workmen and workmen, or between employer and employer, or for imposing restrictive conditions on the conduct of any trade or business, and includes any federation of two or more trade unions." Associations of managers easily fit into the first category of combination to regulate the relationship between workmen and employer because the term "workmen" is itself defined as "all persons engaged in trade or industry" and includes the manager as well. Under the Trade Unions Act, in sum, managers are also workmen and possess the right to combine to regulate the relations between themselves and the employer. By virtue of being trade unions, the associations enjoy immunity from any civil and criminal liability arising from the conduct of trade disputes. The ultimate test of whether associations of managers qualify as trade unions of workmen is registration under the Act by the Registrar of Trade Unions. The fact is that associations do seek, and obtain, such registration. Indeed, some of the older associations which had earlier registered under the Societies Act now prefer to be governed by the Trade Unions Act.

If associations enjoy the benefit of being trade unions, they also suffer from the disabilities of the latter. Indian trade union legislation enables combinations of workmen to exist as lawful associations, but does not require the employer to take cognisance of them. There is yet nothing on the statute books to compel the employer to recognise the union.

The Industrial Disputes Act, 1947, makes up partially for the shortcomings of the Trade Unions Act by providing the institutional mechanism for resolving the conflict between employers and workmen. A trade union of workers can have access to the processes of conciliation, arbitration and adjudication to settle an industrial dispute. That these processes do not meet the requirements of present day industrial relations is common knowledge. What is significant, however, is that even these imperfect procedures are not available to managers because the Industrial Disputes Act does not consider them as workmen. The Act defines 'workmen' as those who commonly perform work of a manual, clerical or technical nature. Supervisory work merits inclusion only where earnings are below Rs 500 per month.[21] Managers are obviously excluded from the purview of the definition. As far as the Industrial Disputes Act is concerned, managers are contract employees whose relation with the employer is governed by individual contract in terms of contract law, and the violation of contract by either party is to be taken to the civil court of the land. They are deemed to be outside collectivism, which means that officers are deemed in law as not having a community of interests.[22]

The overall legal position, thus, is that managers are recognised as workmen by trade union legislation and entitled to form a trade union, but cannot claim recognition by the employer because the law itself is silent over the question. Nor can they raise an industrial dispute before the labour department because they are denied access to the machinery created under the Industrial Disputes Act on the ground of their not being workmen.

### THE RESPONSE OF THE ASSOCIATIONS

Caught in this cleft, associations have pursued several strategies to assert themselves. One method is to claim that managers do in fact perform jobs done by workmen and that they are, therefore, workmen as defined by the Industrial Disputes Act. In the Indian Oil Corporation a shift superintendent claimed to be a workman on this ground. The court observed in this case: "The categorisation of an employee as a workman under Section 2(S) of the Industrial Disputes Act, 1947, depends upon the substantial part of the work performed by him. If an officer, as part of his duty, is required to perform substantial skilled, semi-skilled, unskilled, clerical or manual work, then he has to be called a workman."[23] The court ruled that the officer in question was engaged in such work and declared him a workman. A similar case was disposed of in the same manner in Burmah Shell. Both the cases pertain to individual managers fairly low in the hierarchy who could establish that they were performing jobs of a manual and clerical nature. Whether managers higher up in the ladder can win such a case remains to be seen. An interesting case claiming the collectivity of managers to be workmen is being fought in Engineers India (EIL), a public sector consulting firm. Significantly, the bulk of the employees of EIL are highly qualified engineers and technologists trained in the best educational institutions. The outcome of this case would no doubt be keenly watched. A verdit favourable to the association could open the floodgates for similar claims elsewhere.

A second strategy is to form federations in the belief that they would wield greater clout than individual associations. The bank associations have federated to the AICOBOO at the apex; the power engineers have the All India Power Engineers' Federation; an assortment of associations have affiliated to the AICO; and there are at least two federations of associations in the Central public sector undertakings—one at Bangalore and other at Hyderabad. What was missing was a body that would federate the associations in public sector undertakings all over the country. Stressing the need for such a body, the President of the Federation of Officers' Associations of Central Government Industries in Bangalore (FOACIB) argued: "The cause for many of the present day ills suffered by the officers, I feel, is the absence of a national body. Though most of the two hundred and odd public sector undertakings have officers' associations functioning in them, the voice of this significant and important section of the working force is not being properly heard at the highest quarters. The experience of FOACIB in this regard has confirmed this feeling. When the Central government announced the Constitution of the tripartite committee on DA for public sector undertakings, it approached the Honourable Union Minister for Labour for representation. Pat came the reply: "the forthcoming national conference has limited participation from bodies of an All India character. I regret that it has not been possible to include your participation in it." It is high time that we effectively organised ourselves into an apex body at the national level".[24]

These views were expressed in a conference organised in 1983 by the associations in public sector industries. The conference in fact went on to form a national body by the name National Federation of Officers' Associations of Central Public Sector Undertakings (NFOA). One of the tasks assigned to the NFOA was to take up with the Central government the question of recognising the associations through legislation.

The third strategy is to seek leadership from outside. It would be an obvious exaggeration to say that the associations are in the grip of outside leaders the way the trade unions are. Many powerful associations are determined that leadership should emerge from the ranks. On the other hand, it is quite easy to cite instances of outside leadership being sought. The association in the Indian Oil Corporation has been led by such luminaries as Rajni Patel and Subramaniam Swamy. The President of FOACIB is a Congress MP. The President of its counterpart in the Hyderabad public sector is also a Congress MP. When the associations of public sector undertakings in Bangalore and Hyderabad decided to form the NFOA, they unanimously resolved that the presidents of the two federations should "jointly approach Rajiv Gandhi, MP, and request him to be the president of the NFOA". There are also several cases of the trade union and association in an enterprise having a common president from outside. The incidence of outside leadership is generally more marked among the federations than among individual associations at the level of the enterprise. Overall, the trend appears to be for the associations to move in the direction of outside leadership.

It is paradoxical that managers should have to seek outside leadership. The induction of outside leaders has meant the politicisation of the movement which is anathema to the middle class ethos of managers. Indeed, managers have been among the bitterest critics of the politicisation of the workers' movement. They have always questioned the wisdom of trade unions, whose goal should be to improve workers' living standards, but is dabbling in politics and vitiating industrial relations. At the end of it all, managers themselves are faring no differently. What is more, managers are looking for leadership at a time when the workers themselves have begun to put their leaders on a tight leash. Workers are displaying a growing capacity to judge their leaders, to have leadership on their terms and conditions, and to change it as it suits them. Managers are just now embarking on a process which workers have already traversed, and there are undoubtedly many unpleasant discoveries ahead.

The tendency of the managers' movement to seek external leadership has a few lessons for those who blindly blame the naivete of workers and villainy of leaders for the politicisation of the labour movement. Surely, no one can argue that managers are being misled by politically motivated outsiders. The answer, whethe for worker or manager, must be sough in the continuing need for political clou to achieve collective ends.

A fourth method open to the associations to gather much needed support is to seek the assistance of the trade unions There are so many ramifications to the relationship between associations and trade unions that the subject merits separate consideration.

### UNION-ASSOCIATION RELATIONS

Employees are fearful of associations and trade unions developing close rapport and empathy. Workers have bargaining power whereas middle managers control critical areas of organisational activity besides possessing intimate knowledge of its affairs. A combination of the two would pose challenges of a magnitude not yet witnessed. Aligning with the trade union appears an easy way out of a difficult situation for the managers' movement. Would not the trade unions deploy their superior power on behalf of the managers and win them the kind of benefits they have won for the workers? Do the two organisations not have shared sentiments and a sense of fraternity as protest movements? Trade unions have in fact responded to fraternal calls for assistance from associations pushed to the wall by management hostility. Witness, for instance, the recent incidents in a private sector firm reported by a Bombay newspaper:

> Another unique feature of the association has been solidarity with workers. During the hunger strike by association members to demand reinstatement of dismissed officers, workers also addressed gate meetings. In fact, both the Kamani Employees' Union and the officers' association have the same President . . . In the first instance of its kind in the country, the union was successful in getting four dismissed officers reinstated in 1971 with full back wages . . . A strike is the last resort (says the President). We are using all other methods of demonstration open to us. But if we are forced to call a strike, we are sure the Kamani Employees' Union and the officers' association will fight it together.[25]

As protest movements, trade unions and associations do have shared sentiments and could develop a sense of fraternity. But at the level of nuts and bolts, the relationship is far too complex to permit either straightforward co-operation or implacable hostility. While they do have a common cause, a certain tension and uneasiness also appear natural to their relationship.

Even though workers and managers

nay belong to fraternally linked organisaions, the basic relationship between them has not undergone any mutation. "Managers have, as a group, not exactly endeared hemselves to the rest of the trade union novement. Historically they have been the leliverers of sad news and more often han not the bad tidings have depended upon their decisions."[26]

Managers continue to direct and conrol the activities of their subordinates. n order to direct and control they need o have sanctions. Innate to the job of nanaging is the power to reward and ounish. At the minimum, even lowly placed supervisors have the power to make an dverse entry against workers. Errant workers need to be pulled up, if necessary hrough formal procedures. It is difficult o see how managers can keep away from he process of issuing charge memoranda, conducting enquiries, giving evidence and awarding punishment. For the manager, exercising direction and control, and being nvolved in the attendant procedures, is not simply a matter of doing what the boss wants him to do. To manage is his job, and the performance of functions ntrinsic to the process of management is above all a matter of self-esteem. But the worker will be inclined to see the manager as functioning at the behest and on behalf of the boss. The mere fact of association formation cannot alter the manager's perception of the business of managing or the worker's perception of the man who manages him. As a manager from SAIL remarked: "We sought union help in 1979 when we called a work-to-rule to gain recognition. We now feel it was wrong to have done that. It has become difficult to discipline workers. Troubled by this insubordination, managers have protested against association leaders getting close to the trade union. Recently the union wanted our co-operation for their work-to-rule, but the association declined. We got a nasty letter saying that the General Secretary (a promotee from the ranks) has forgotten his old days"

Managers also continue to require protection against aggressive workers and clerical staff, which was an important reason why they organised. A strong association may temper their aggression, but not change basic attitudes. The knowledge that the branch manager has an organisation at his back may cause a clerk to behave more cautiously, but not promote a relationship of unity and consensus between them. Attitudes do not change because conflict is inherent in the work relations of managers and the managed.

In the midst of these obvious differences, there are also strong and important common interests, especially with regard to the demands on the employer. The associations ask for more for their members, as do the unions. In some cases, the demands can be identical. Even where they are different, the benefits got by one are rarely at the expense of the other. On the contrary, they are likely to be mutually reinforcing in that the concessions wrested by one can be used to legitimise the demands of the other.

Consider, for instance, what the association wants of the Employees' State Insurance Corporation (ESIC). Among its demands are:

(i) Important positions in the Corporation should be filled by internal promotion and not by deputation from the government. Class II and III staff should also be promoted to higher positions on the basis of tests;

(ii) Pegging the status of the Director General (chief functionary) to the level of Additional Secretary causes the entire cadre of officers to be squeezed into a narraw range. The Director General should be of the rank of Secretary to the government;

(iii) Since the Corporation is autonomous, it should have its own salary structure based after similar other Corporations such as the LIC, STC and FCI;

(iv) The Corporation should be free to recruit its own personnel instead of having the UPSC recruit them;

(v) At least one child of every retiring officer should be preferentially employed by the Corporation; and

(vi) Since the Corporation has been designated as an industry, disputes should be resolved in the manner suggested by the Industrial Disputes Act.

Almost every demand of the association is backed by the union of clerical staff. The support is extended not fof fraternal reasons but for reasons of common interest. The filling of plum positions by deputation affects everyone down the line. The officer who is denied a promotion by the entry of an outsider cannot vacate his own position to be filled by his subordinate. The chain reaction causes stagnation across the board. Recognising this, the association has cleverly demanded a policy of internal promotion for the subordinates as well. Officers want preferential employment of their children, a demand which has been made and won by trade unions across the country. The opposition to recruitment by UPSC comes from all quarters. If the Corporation were to recruit its own personnel, the association and the union would have better chances of influencing policy. They can push for the promotion of insiders and limit the entry of new recruits to the tail of the queue. The Corporation is also likely to be more amenable to the demand for preferential employment of children than the distant, impersonal and bureaucratic UPSC. The pay and benefits are better in autonomous corporations than in the government because of higher basic salaries, more generous neutralisation of living costs by dearness allowance, entitlement to bonus and more liberal perquisites. All employees, regardless of status, have reason to demand that the Corporation be really autonomous in the matter of emoluments. A consultant advising the ESIC on its salary and cadre structure remarked that there was a convergence of interests between the association and the union. If anything, the former was trying to outdo the latter.

What do we make of these conflicting pulls and pressures? Will the two organisations come together or stay apart? What kind of relationship are they likely to forge?

By and large, trade unions would like a closer relationship. The common feeling in union circles is also that this is the only way the associations can stabilise themselves. Union leaders find it strange that managers want to stand apart when the advantages of aligning with the union are so obvious. Remarked a leader from a public sector oil company: "Our managers don't get overtime, and their own association does not have the strength to fight for it. The obvious course is to let the union fight on their behalf, but they seem reluctant. The union can get the lower categories of managerial staff recognised as workmen under the ID Act. This way we can gradually extend the coverage of the Act and benefit more people. The association doesn't seem inclined to seek help."

The associations themselves prefer to keep a distance and take whatever help is available than get too close and be reduced to insignificance. The reason why associations do not want to get close are obvious. While the unions might come to the aid of managers, it is unlikely that the latter would ever have the kind of claim on the union that the workers enjoy. Managers who shed their independent identity might find themselves secondary and inferior constituents of the labour movement when the dust settles. They might even find the unions using them to get more for workers. Apart from the inbuilt prejudices of the labour movement towards managers, the sheer numerical superiority of workers ensures their dominance of the movement. Managers, with their insignificant numbers, would be swamped by the blue collar and clerical force. After all, even within the ranks of workers, small crafts and segments find it difficult to have an effective say, which is one of the reasons behind sectional unionism.

Managers are unwilling to stray far from their middle class moorings. Even if they adopt trade union methods, as in the banks, they still feel uncomfortable about the direction trade unionism is taking.

Managers would prefer to be a separate pressure group, distinct from both the workers and white collar staff below and the employer above. In the manner of their German counterparts who do not wish to be represented by workers' forums in spite of pressures from the unions and the state, Indian managers too seem aware of the dangers of throwing in their lot with workers.[27] In fact, there are signs of tension in the few cases where managers have come together in a common organisation with their subordinates. The bank associations which straddle the division are now experiencing conflict between the two segments.

The relationship between the two collectivities is likely to settle at a level where they neither come together under a single banner nor actively cross each other's path. Except in a rare case, they are unlikely to go so far as to mount a joint campaign. Nor would they allow management to use one against another. The traditional management strategy of using officers to keep the operations going and present a facade of normalcy will become increasingly difficult. One of the most significant recent instances of this comes from banking. Officers of the State Bank of India are unhappy over the methods adopted by the clerical staff. SBOA brochures specifically mention that the association is intended among other things to protect officers from their subordinates. Association leaders are candid that the need for protection continues to be relevant two decades after the founding of the association. The relationship between the two bodies is not exactly one of mutual understanding and active co-operation. In spite of this, the association extended fraternal assistance to the union when the clerical staff went on a day's token strike in early 1984 to press their demands. The association decided that officers would not perform on that day any of the functions normally performed by clerks. In trade union parlance, they decided not to blackleg. This simple act of omission brought banking operations to a grinding halt.

This is the kind of shape that association-union relations will assume in future. The hallmark of the relationship is ambivalance. The relation is unlikely to progress beyond extending token support to each other and ensuring that the employer does not take advantage of the ambivalence.

## CONCLUSION

On the basis of present trends, associations of managers appear set for rapid expansion and growth. The characteristic of the post-industrial revolution is the expansion of employment in the provision of services rather than in the manufacturing of goods. India is now witnessing the growth in white collar salariat that has already swept the more developed societies. If the industrial revolution witnessed the rapid rise of blue collar trade unions, the post-industrial one will mark the rise of associations of the salariat. This is inevitable because many of the causes underpinning the organisation of manual workers have now become relevant to officers and managers.

Having collectivised, managers now find themselves at the crossroads. There is a marked sense of equivocation about the methods to be adopted by the association. Harshly put, managers "constitute an army that shows up well in the parade ground but about whose willingness or ability to shoot there is much doubt".[28] In more charitable language, "managerial employees shy away from using the more direct and forceful instrument of strife. The evidence shows that they intend to rely on argument; there is a strong belief among them that in controversies with the top management the facts will decide".[29]

Which way this dilemma over means would be resolved depends much on how far managers are pushed. In the words of the General Secretary of the AICO: "Top managers in India have come to view the trade union as an adversary, and such a frame of mind cannot but result in action aimed at liquidating the associations. The effort, however, would be just the opposite. It will promote militancy, a situation which we now face in our labour relations due to past sins. It is the management which can avoid a repetition of this by acknowledging the reality of officers' associations and turning them into a positve force."[30] There already are signs that militancy may be growing. As a bank manager remarked: "In the beginning we thought it below our dignity to demonstrate, march the streets and shout slogans. Today we have become accustomed to all this. If you want to be a trade unionist you must accept trade union methods."[31]

Managing the manager is the challenge of the future. Managing knowledge work and knowledge worker is "today and tomorrow" rather than "yesterday". Because it is essentially a new task, we know even less about it than we know about the management (or mismanagement) of the manual worker. It is, therefore, going to be the more difficult task. But there is no long legacy of bitterness, of mutual suspicion, of resentment masquerading as scientific theories, and of folklore that has set into the hard concrete of restrictions, rules and regulations. Managing knowledge work and knowledge worker therefore can focus on developing the right policies and practices. It can focus on the future rather than undoing the past, on the opportunities rather than on "problems".

"Managing knowledge work and knowledge worker will require exceptional imagination, exceptional courage, and leadership of a high order. In some ways it will be a far more demanding task than managing the manual worker was until very recently. For the weapon of fear—fear of economic suffering, fear of job security, physical fear of company guards or of the state's police power—which for so long substituted for managing manual work and the manual worker, are simply not operative at all in the context of knowledge work and knowledge worker. The knowledge worker, except on the very lowest levels of knowledge work, is not productive under the spur of fear; only self-motivation and self-direction can make him productive. He has to be achieving in order to be productive at all."[31]

## Notes

[My interest in managerial associations owes much to the efforts of T K Jagdeesh and R L Kapur. When Jadgeesh, then national President of the National Institute of Personnel Management, invited me to speak on associations to a group of managers, I was most reluctant to dilate on a subject which was then unfamiliar to me. But the bait he offered was hard to resist—he would bring together a group of leading managers and association leaders whom I could guide in a discussion of the subject. I fell readily for it. Kapur did the rest. He hosted us for the discussion at his office in Calcutta and provided the entire infrastructure. The result was not mere generation of fascinating data; it was also the discovery of a new research technique. Some six months later I repeated the exercise with a group of industrial relations managers at the Administrative Staff College, Hyderabad, once again with the same beneficial results. I extend my thanks to both for drawing me into this subject, and to the managers who participated in the meetings for giving the benefit of their understanding. I also thank Shivaji Gupta Roy and B Muraleedharan who kept detailed notes of the discussions on the two occasions.

B R Virmani and R V Sarjotishi helped me lay hands on secondary materials such as seminar proceedings, paper clippings, and court decisions. They also read and commented on an earlier draft of the essay besides sustaining my interest in the subject. My thanks to them.]

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## ICICI

INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA (ICICI) has had another year of good performance. Its total sanctions in 1984 recorded an increase of 28.7 per cent over those of 1983 and amounted to Rs 567.83 crore. Disbursements amounted to Rs 388.14 crore against Rs 334.76 crore—an increase of 15.9 per cent. Sanctions of assistance in foreign currencies amounted to Rs 165.34 crore forming 29.1 per cent of total sanctions and rupee assistance was Rs 402.49 crore. Assistance sanctioned in the form of suppliers' credit amounted to Rs 56.73 crore as against Rs 36.97 crore in 1983—an increase of 53.4 per cent over that of last year. Disbursements against these credits rose to Rs 31.52 crore from Rs 29.26 crore. Sanctions of direct assistance in 1984 to projects located in backward districts was higher at Rs 278.74 crore forming 57 per cent of the total direct sanctions. ICICI's leasing operations showed a significant growth during the year with assistance aggregating Rs 22.31 crore sanctioned against Rs 12.14 crore in 1983.

The Corporation's gross income increased to Rs 161.05 crore from Rs 132.75 crore in 1983. Net profit for the year was Rs 22.07, after making provision for taxation of Rs 14.60 crore including interest tax Rs 2.90 crore (Rs 13 crore, including interest tax of Rs 2.50 crore for 1983). The Corporation has proposed an unchanged dividend of 16 per cent on expanded capital including bonus shares and on pro-rata basis on 'rights' shares issued in June and September last. In order to meet the multi-currency requirements of its clients, ICICI raised resources in diversified currencies amounting to an equivalent of US $ 114 million. Two syndicated loan agreements were signed: the first for US $ 15 million and £ 10 million and the second for US $ 25 million and ECU 30 million. Japanese Yen 5 billion were raised by way of private placement of bonds in the Japanese capital market at rates available only to prime borrowers. The agreement for £ 5 million allocated to ICICI under UK/India ICICI Grant 1984 was signed and an allocation of DM 25 million from Kreditanstalt fur Wiederaufbau was obtained under the twenty-fourth line of credit.

The total amount of rupee resources raised by ICICI during 1984 amounted to Rs 187.83 crore comprising Rs 6.75 crore by way of increase in share capital, Rs 163 crore in bonds and Rs 18.08 crore as loans and deposits as against Rs 137.50 crore, all raised in the form of bonds in 1983. The total resources of the Corporation (net of repayments and cancellations) as at the end of 1984 aggregated Rs 1,919.29 crore—Rs 789.97 crore in foreign currencies and Rs 1,129.32 crore in rupees. The cumulative assistance sanctioned by ICICI upto the end of 1984 amounted to Rs 3,239.07 crore comprising Rs 1,342.02 crore in foreign currencies and Rs 1,897.05 crore in rupees including guarantees. This assistance was spread over 2,063 enterprises for 4,371 projects, of which 1,038 were new companies. Of these, 400 were set up by new entrepreneurs. During 1984, the Merchant Banking Division of ICICI assisted 51 companies for raising an amount of Rs 505 crore. Since its inception in 1973, the division has assisted 215 companies in raising an amount of Rs 1,543 crore. ICICI set up a Chair for Management and Policy Research at the Jamnalal Bajaj Institute of Management, University of Bombay. A grant of Rs eight lakh was made in 1984.

# Corporate Investment in 1985

## A Forecast

**Philip Thomas**
**Ranjana Pendharkar**

*An attempt is made here to forecast the growth in private corporate investment in 1985. Corporate investment covered includes gross capital expenditure of all companies in the private and joint sectors. The study also sheds light on the level and composition of corporate investment in 1984.*

BASED on the data available with the term lending institutions on the expected phasing of capital expenditures of projects sanctioned by them, forecasts of corporate investment are being made annually since 1970. The methodology for the forecast was developed by C Rangarajan and the same methodology is used for the present forecast of corporate investment during 1985. Details of the technique followed as well as limitations of this approach have been explained by Rangarajan in his earlier writings[1].

The forecast of corporate investment is based on the gross capital expenditures of all private as well as joint sector companies. Besides a forecast for 1985 the study presents data on the composition and level of corporate investment in 1984.

As most projects involving large sums of investment in the private corporate sector are covered by financial assistance from the term lending institutions, a study based on projects sanctioned assistance by the institutions would reflect trends in investment pattern of the entire sector. However, as noted in the study for 1984[2], lately, as a result of liberalisation in government policies, it has been possible for some of the established companies to raise substantial amounts through the capital market, especially through public issues of convertible and non-convertible debentures to undertake large projects without seeking any direct assistance from the term lending institutions. To that extent, this study would not fully encompass the corporate sector investment activity. It would accordingly be necessary to adjust the trends as revealed by this study by allowing for the additional investments financed entirely through the capital market.

Another limitation of this method of forecasting is that part of the capital expenditure to be incurred in any year comes out of the projects sanctioned in that very year itself and the available information may not fully cover the trends in this regard. While pending applications with the term lending institutions can give some indication, these cannot be treated as satisfactory lead indicators.

A third limitation of the model of forecasting as pointed out by Rangarajan[1] is that the validity of the estimate depends upon how closely companies adhere to the expenditure patterns outlined in the initial project proposals submitted to the term lending institutions at the time of appraisal. In the absence of any general formula by which one can modify the original phasing of capital expenditures, one has to be content with incorporating changes in the original phasing of capital expenditures as and when new information is made available to the financial institutions and using judgment so as to take into account the existence of major operating factors such as availability of necessary inputs, the performance of the infrastructural sectors like power, transport and coal, and the state of industrial relations. These factors to a great extent can help or hinder the implementation of projects and in turn affect the level of corporate investment in a given time frame.

In spite of the above limitations, this method indicates at least the minimum investment that will be made and would also indicate, other things remaining the same, the order of fresh sanctions and the amount of investment related thereto, which would have to take place, if investment in the forecast year is to show a rise over the previous year's level.

### CAPITAL EXPENDITURE IN 1984

Based on the phasing of capital expenditures, investment in the private sector in 1984 is presented in Table 1. It is estimated at Rs 2,706 crore in 1984 as against Rs 2,571 crore for 1983. In the light of a review of actual expenditure, the capital expenditure for 1983 is revised downwards at Rs 2,521 crore as about Rs 50 crore of capital expenditure which was supposed to be incurred in 1983 was not incurred. The expected expenditure in 1984 for the projects sanctioned assistance in 1984 itself was to the tune of Rs 1,041 crore. However, in the light of review of actual expenditures it is now estimated that instead of Rs 1,041 crore, the capital expenditure on projects sanctioned in 1984 during that year itself may have amounted to Rs 900 crore and hence the total invest-

TABLE 1: PHASING OF CAPITAL EXPENDITURES ON PROJECTS SANCTIONED ASSISTANCE BY TERM LENDING INSTITUTIONS

*(Rs in crore)*

| Year of Sanction | Expenditure in | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
| 1962-73 | 442.36 | 169.11 | 68.46 | 50.15 | 18.73 | 13.03 | | | | | | |
| 1974 | 198.32 | 204.13 | 144.11 | 21.93 | 12.45 | — | | | | | | |
| 1975 | 40.16 | 114.23 | 231.22 | 215.35 | 118.54 | 52.00 | 8.79 | | | | | |
| 1976 | | 42.48 | 194.62 | 231.44 | 130.28 | 17.25 | 7.01 | | | | | |
| 1977 | | | 63.99 | 446.66 | 459.01 | 236.65 | 80.40 | 40.76 | | | | |
| 1978 | | | 3.26 | 59.42 | 280.52 | 432.22 | 321.50 | 169.57 | 54.03 | | | |
| 1979 | | | | | 48.49 | 352.40 | 621.27 | 329.14 | 111.58 | 51.72 | 24.59 | |
| 1980 | | | | | | 103.79 | 509.86 | 880.28 | 446.25 | 269.76 | 201.20 | 103.37 |
| 1981 | | | | | | | 281.24 | 893.92 | 1047.46 | 526.53 | 220.77 | 187.78 |
| 1982 | | | | | | | | 23.43 | 717.64 | 640.40 | 297.27 | 124.18 |
| 1983 | | | | | | | | | 35.80 | 762.46 | 92126 | 504.08 |
| 1984 | | | | | | | | | | 319.84 | 1040.71 | 1180.39 |
| | 680.84 | 529.95 | 705.66 | 1024.95 | 1068.02 | 1207.34 | 1830.07 | 2337.10 | 2412.76 | 2570.71 | 2705.80 | 2099.80 |

ment in 1984 could be placed at Rs 2,606 crore, showing an increase of only 3 per cent over 1983.

Though the aggregate cost of projects sanctioned was significantly higher in 1984 (Rs 3,243 crore), (see Table 2), as compared to 1983 (Rs 2,280 crore), the total investment in the private corporate sector in 1984 in projects covered by institutional assistance is to be placed only a shade higher than in 1983. The main reason for this apparently paradoxical picture is that a significantly large proportion or 31 per cent of the cost of projects sanctioned assistance in 1983 was expected to be spent in 1983 itself, whereas for projects sanctioned in 1984 only 23 per cent of the cost was expected to be incurred in 1984 itself.

Another reason was that unlike in 1983, the advance expenditure (incurred in periods prior to year of sanction) on projects sanctioned assistance in 1984 was quite high. In other words the companies had already incurred expenditures in 1983 on projects sanctioned in 1984.

Besides direct project assistance, disbursements under IDBI's Bill Rediscounting Scheme have been an important source of finance for capital expenditure in the private corporate sector. The aggregate investment in this sector, taking both projects sanctioned direct assistance and investments covered by Bill Rediscounting would work out at Rs 2,906 crore in 1984.

The investment estimates in any given year would be at the price level of that year; while comparing the investment figures for the different years, therefore, there is a need to reduce all the prices to a common level. To arrive at the trends in investment at constant prices all the figures at current prices have, therefore, been deflated with the index of wholesale prices for machinery and transport equipment (1970-71 = 100). The deflated figures for investment work out to be Rs 1,019, Rs 1,087 and Rs 1,020 crore in 1982, 1983 and 1984 respectively. Thus in real terms the capital expenditure in 1984 declined by about 6 per cent over 1983.

## NEW PROJECTS SANCTIONED IN 1984

Table 2 indicates an industry-wise picture of the projects sanctioned assistance during the calendar year 1984. The total cost of all projects in the private corporate sector sanctioned assistance in 1984 amounted to Rs 3,243 crore as against Rs 2,280 crore in 1983. This increase could, to a great extent, be attributed to the presence of 40 large projects each with project cost exceeding Rs 15 crore and aggregating to as much as Rs 1,193 crore (or more than one-third) as compared to 24 projects amounting to Rs 1,079 crore in 1983.

A significant change could be seen in the composition of project cost according to the industries in 1984 *vis-a-vis* the previous year. Of the total assistance sanctioned, Rs 390 crore were for 'cement' projects in 1984 as compared to Rs 629 crore in 1983. The relative share of cement industry also declined from 27.6 per cent to 12.4 per cent over the same period. Similarly, the share of chemicals and petrochemicals also declined from 14.8 per cent in 1983 to 9.3 per cent in 1984.

Unlike cement, chemicals and petrochemicals, textiles (other than jute), pesticides and fertilisers, pulp, paper and its products and electricity generation industries registered significant increases. The sanctioned assistance to textile projects rose from Rs 224 crore in 1983 to Rs 608 crore in 1984 comprising Rs 328 crore towards modernisation and marginal expansion of existing units and Rs 280 crore for setting up new units including man-made fibres. In case of electricity generation, the project cost sharply increased from mere Rs 37 crore in 1983 to Rs 415 crore in 1984 due to a single large

TABLE 2: INDUSTRY-WISE PROJECT COST OF PROJECTS SANCTIONED BY FINANCIAL INSTITUTIONS IN 1984

*(Rs in crore)*

| Industry | Total Project Cost | Percentage to Total Project Cost | No of Projects |
|---|---|---|---|
| Automobile and transport equipment | 251.55 | 7.76 | 39 |
| Cement | 390.36 | 12.04 | 23 |
| Chemicals and petrochemicals | 301.05 | 9.28 | 54 |
| Cycles | 14.43 | 0.44 | 1 |
| Electricity, gas and steam | 415.24 | 12.80 | 6 |
| Electrical equipment | 56.96 | 1.76 | 17 |
| Electronics | 33.52 | 1.03 | 5 |
| Food products | 37.73 | 1.16 | 12 |
| Glass and pottery | 27.81 | 0.86 | 5 |
| Jute | — | — | — |
| Metals and metal products | 320.00 | 9.87 | 55 |
| Minerals | — | — | — |
| Miscellaneous | 270.38 | 8.34 | 51 |
| Non-electrical machinery or machines manufacturing | 89.44 | 2.76 | 44 |
| Pesticides and fertilisers | 149.02 | 4.59 | 8 |
| Pharmaceuticals | 16.11 | 0.50 | 6 |
| Printing and publishing | 57.47 | 1.77 | 8 |
| Pulp, paper and paper products | 100.88 | 3.11 | 21 |
| Rubber products | 60.74 | 1.87 | 5 |
| Sugar | 13.30 | 0.41 | 2 |
| Shipping | — | — | — |
| Textiles (other than jute) | 607.90 | 18.75 | 82 |
| Wood, cork and hard board | 29.11 | 0.90 | 4 |
|  | 3,243.00 | 100.00 | 448 |

TABLE 3: STATE-WISE PROJECT COST OF PROJECTS SANCTIONED BY FINANCIAL INSTITUTIONS IN 1984

*(Rs in crore)*

| State | Total Project Cost | Percentage to Total Project Cost |
|---|---|---|
| Andhra Pradesh | 448.34 | 13.83 |
| Arunachal Pradesh | 1.11 | 0.03 |
| Assam | 0.20 | neg |
| Bihar | 44.09 | 1.36 |
| Delhi | 25.11 | 0.77 |
| Gujarat | 350.03 | 10.80 |
| Haryana | 60.86 | 1.88 |
| Himachal Pradesh | 15.95 | 0.49 |
| Jammu and Kashmir | 43.94 | 1.36 |
| Karnataka | 100.52 | 3.10 |
| Kerala | 95.53 | 2.95 |
| Madhya Pradesh | 197.00 | 6.07 |
| Maharashtra | 777.00 | 23.96 |
| Orissa | 375.46 | 11.58 |
| Pondicherry | 18.06 | 0.56 |
| Punjab | 132.10 | 4.07 |
| Rajasthan | 85.16 | 2.53 |
| Tamil Nadu | 181.29 | 5.59 |
| Uttar Pradesh | 239.36 | 7.38 |
| West Bengal | 50.04 | 1.54 |
| Other Union Territories | 1.85 | 0.05 |
| Total | 3,243.00 | 100.00 |

electricity generation project. Other industries which showed significant increases were:

Fertilisers (increase from Rs 20 crore in 1983 to Rs 149 crore in 1984) and pesticides (increase from about Rs 50 crore to Rs 101 crore).

At the aggregate level, the total investment intentions in the private corporate sector (including joint sector) has shown an improvement in 1984 as compared to 1983. Though the number of new companies marginally declined from 114 in 1983 to 112 in 1984, their total project cost increased from Rs 1,060 crore to Rs 1,618 crore over the same period, registering an increase of almost 53 per cent.

In case of joint sector companies, the assistance sanctioned was marginally higher in 1984 as compared to 1983. In 1984, the total project cost of 43 joint sector companies assisted by the term lending institutions was Rs 626 crore as against 50 joint sector companies with project cost totalling Rs 612 crore in 1983.

### STATE-WISE DISTRIBUTION OF INVESTMENT

Table 3 presents the picture of the state-wise distribution of the capital cost of private corporate sector projects sanctioned assistance by the financial institutions in 1984. Since the state-wise flow of assistance from all-India institutions in any particular year is governed by the timing and location of a few large projects, there occur relatively large changes in the relative share of states in particular years. For instance, in 1984, Maharashtra ranked first with project cost amounting to Rs 777 crore or nearly one-fourth of the total project cost as against the corresponding figure for this state in 1983 of Rs 372 crore or 16 per cent of the total project cost, principally due to a large power project located in the state which was sanctioned assistance in 1984.

Andhra Pradesh held the second rank with the project cost of Rs 448 crore or 13.8 per cent of total project cost. The cost of the projects sanctioned assistance in Orissa registered a substantial increase from Rs 59 crore in 1983 to Rs 375 crore in 1984. With this large increase, Orissa was in the third position.

### FORECAST FOR 1985

On the basis of the phasing of capital expenditure to be incurred on projects sanctioned assistance by the term lending institutions upto the end of 1984, the investment in the private corporate sector in 1985 is estimated around Rs 2,100 crore. To this, about Rs 850-Rs 900 crore may be added as the likely investment in projects to be sanctioned during 1985 itself or immediately thereafter. (In the total investment in 1984, around Rs 921 crore came from projects sanctioned in 1984 itself.) Another Rs 300 crore of investment could be estimated to be financed under the Bill Rediscounting Scheme of the IDBI. Thus the total investment in the private corporate sector in projects covered by institutional assistance can be expected to be Rs 3,300 crore in 1985 as against Rs 2,906 crore in 1984 registering an increase of 12 to 14 per cent in nominal terms in 1985.

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## BHEL

BHARAT HEAVY ELECTRICALS (BHEL) is acquiring the latest technology for prevention of corrosion in underground and under-water equipment from HARCO Corporation of USA, a world leader in the field with 36 years experience. An agreement to this effect was signed recently by K L Puri, Chairman and Managing Director of BHEL and Russel Stambaugh, President of HARCO. BHEL will develop this technology at its Bhopal plant with the existing facilities. The technology called 'Cathodic Protection' will be utilised for the prevention of corrosion in off-shore structures such as drilling rigs, submerged pipelines, semi-submersibles, off-shore platforms, ocean going vessels and submarines. It also has application in underground pipelines (carrying gas, oil and petroleum products), bridges high rise buildings, storage tanks, thermal and nuclear power plants and water supply systems. This technology is also being planned to be used in the prestigious 1,700 km long Hazira-Bijapur-Jagdishpur pipeline to be installed for transportation of Bombay high gas to new fertiliser plants coming up in the Seventh Plan. It is estimated that the introduction of this technology will lead to annual foreign exchange savings of Rs 15 crore, besides increase in the life span of equipment.

The year 1984-85 is the terminal year of the Sixth Five-Year Plan. During the Sixth Plan period, BHEL has doubled annual turnover and increased profits 2½ times. The company consolidated its financial position in such a manner that all investment needs in the Seventh Plan will be met entirely from internal resources without any budgetary support from the government. It doubled the installed capacity of BHEL generating sets in the country, taking its share to 56 per cent of total installed capacity in the country. It geared itself both technologically and manufacturing capacity-wise to meet the entire requirements of the country for power equipment. The company set up four new manufacturing plants in remote areas—at Ranipet in Tamil Nadu, Jagdishpur and Rudrapur in UP and Goindwal in Punjab.

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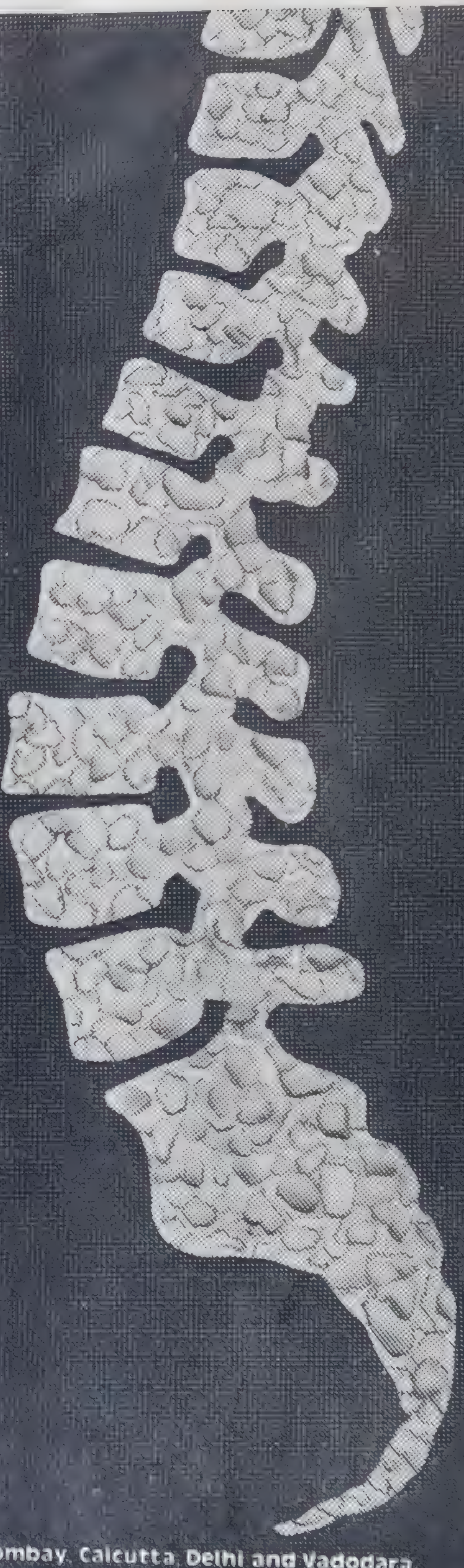


# Treatment Failure in National TB Programme

**Kashyap Mankodi**
**Klass W van der Veen**

*The carefully planned National Tuberculosis Programme (NTP) was evolved after independence and was widely acclaimed as a comprehensive, realistic, and feasible blueprint for achieving tuberculosis control. However, due to various reasons, the programme has failed to make the desired impact on the problem of tuberculosis. Two types of problems beset the NTP: external organisational and administrative ones and those that are internal to it and determine its prospects of success or failure.*

*While it may be hoped that the external problems faced by the NTP can be eventually solved given enough political will and commitment, the problems internal to the programme are an altogether different story. The former are located in organisational and administrative structures and therefore lend themselves to solution by governmental action. The latter are, however, located in the interface between health institutions and the public and are therefore much harder to solve. It is even doubtful that they have yet been sufficiently understood.*

*For the NTP to succeed, detailed studies of who avails of the facilities provided by the NTP and who does not, and who takes proper treatment through the NTP and who does not, and why, need to be carried out. The present study seeks answers to precisely such questions: What is the normal response of persons in the area selected for the study to illness in general and tuberculosis in particular? Who goes to the district tuberculosis centre, why and how? Who takes proper treatment and who does not, and why?*

AN estimated ten to eleven million patients suffer from tuberculosis in India.[1] Tuberculosis thrives where there is poverty—poor nutrition and cramped and unhygienic housing conditions. Hence the only lasting solution to the problem of tuberculosis would be the removal of poverty. However advances in chemotherapy have made possible a faster way of controlling tuberculosis than that provided by improving standards of living. The carefully planned National Tuberculosis Programme (NTP) was evolved after independence[2] to control the disease and was widely acclaimed as a comprehensive, realistic, and feasible blueprint for taking this short cut towards achieving tuberculosis control. However due to various problems faced by the programme there is reason to believe that it has failed to make the desired impact on the problem of tuberculosis.

The NTP could not be an exclusive and specialised ('vertical') programme because to mount such a programme on so massive a scale would perforce drain scarce resources from other equally important programmes. It was therefore integrated with the general health services and it was hoped that it would grow with the growth of the latter. Furthermore the NTP was to have a passive or 'felt need' orientation. It had been found in a seminal sociological study that practically all infectious tuberculosis patients were symptomatic or aware of being ill and nearly half of them had actually sought treatment from existing institutions of modern medicine.[3] It was therefore decided not to concentrate disproportionately on active surviellance for case detection or motivation of patients for accepting modern medical treatment for tuberculosis.

The two main aims of the NTP were to vaccinate uninfected persons for preventing the spread of the disease and to provide chemotherapeutic treatment to active cases of tuberculosis to arrest, and eventually to shrink, the pool of infectors. In the initial stages more stress was laid on mass vaccination with BCG because it was considered to be a simple, practical, and inexpensive preventive measure that could be applied to the entire population. However with the emergence of powerful new anti-tuberculosis drugs, with which the pool of infectors could be reduced, chemotherapy came to be regarded as a relatively more valuable tool for tuberculosis control than preventive vaccination. Now it has also been demonstrated, after a large double-blind study of about 3,00,000 persons, that BCG offers no protection against pulmonary tuberculosis over a ten year period of follow-up.[4]

It is therefore crucial to examine the working of the treatment programme to locate problems and suggest remedies. An expert committee of the Indian Council for Medical Research appointed to review the operational aspects of the NTP in 1975 reported that case finding within the NTP was nominal and there was no machinery for the retrieval of defaulting patients at the peripheral health institutions. One reason for this seemed to be that the full quota of trained staff was not always available and supervision and maintenance were inadequate, hence essential equipment often remained out of order. Actiyities of the peripheral institutions were also found to be localised within a small circle surrounding it.[5]

These observations pertain to treatment taken by tuberculosis patients at government health institutions. Many patients also seek and attempt to complete treat-

TABLE 1: FINAL STATUS OF TOTAL SAMPLE OF PATIENTS FROM 12 VILLAGES REGISTERED AT DTC

| Patients | Completed Treatment | Lost to Treatment | Other Outcomes | Not Known |
|---|---|---|---|---|
| 959 | 104<br>(11) | 331<br>(35) | 109<br>(11) | 415<br>(43) |

*Note:* Figures in brackets are percentages.

TABLE 2: PATTERN OF TREATMENT-TAKING FOR TOTAL DTC PATIENTS FROM SAMPLE VILLAGES

| 0 to 3 Months | 4 to 7 Months | | 8 to 11 Months | | Over 1 Year | | Not Known | Total |
|---|---|---|---|---|---|---|---|---|
| | Regular | Irregular | Regular | Irregular | Regular | Irregular | | |
| 404<br>(42) | 86<br>(9) | 102<br>(11) | 38<br>(4) | 50<br>(5) | 100<br>(10) | 150<br>(16) | 29<br>(3) | 959 |

*Note*: Figures in brackets are percentages.

ment from private institutions. The interaction between the private and the public sectors in the treatment of tuberculosis will be discussed below, since it strongly influences both case detection as well as case holding by government institutions. Before underlining the importance of case detection and case holding and examining in depth the factors responsible for the poor showing of the NTP on both counts, one general point needs to be made about case holding. Since domiciliary treatment is not supervised, or only minimally supervised, irregularity in drug intake or premature termination of treatment are bound to be rampant, even more so when no proper information on the required duration of treatment is given. Chemotherapy for tuberculosis should normally continue for a year or more, but patients understandably tend to terminate their treatment soon after their symptoms have disappeared especially if they are not instructed properly about the reasons for continuation. With patients taking treatment from private institutions there is additionally the problem of cost which they cannot always afford for the entire duration of treatment required.

TABLE 3: MEDICAL EXPENDITURE INCURRED DURING PRECEDING YEAR

| | Per Cent of General Sample of Households | Per Cent of Patients' Households |
|---|---|---|
| No treatment sought | 41 | 63 |
| Free treatment only | 15 | 15 |
| Medical expenditure incurred | 44 | 22 |

### PROBLEMS AND PROSPECTS OF NTP

Two types of problems beset the NTP: external organisational and administrative ones and those that are internal to it and determine its prospects of success or failure. Many problems of the former type were identified during the early test run of the programme. These pertained mainly to training and reorientation of personnel all the way from village level workers to top policy-makers; to tackle tuberculosis as a social, and not merely a clinical, problem. District tuberculosis centres had to be set up and staffed and the various workers trained and motivated to co-ordinate their efforts with other district level health workers to ensure efficient case detection, an uninterrupted flow of supplies for diagnosis and treatment, and proper documentation and supervision of treatment.

Organisational and administrative problems have unfortunately continued to hamper the operation of the NTP even two decades after its inception. District TB centres have not been set up in all the districts in the country yet.[6] Since health is a state subject state governments were expected to contribute half of the amount set aside for tuberculosis control. However many state governments divert funds earmarked for health to other sectors, and tend to neglect tuberculosis control. In order to rectify this the Union Minister for Health and Family Welfare has announced that the NTP will be converted to a 100 per cent centrally sponsored scheme, and instead of paying cash to state governments, the Central government will directly bear the cost of the programme in toto.[7] Tuberculosis control has also been included in the Prime Minister's new 20-Point Programme, and rigorous targets have been set for the states in order to reactivate the programme.

TABLE 4: HOUSING TYPE AS INDICATOR OF SOCIO-ECONOMIC POSITION IN GENERAL POPULATION AND TB PATIENTS

| Housing Type | General Population | | Tuberculosis Patients | |
|---|---|---|---|---|
| | Number | Percentage | Number | Percentage |
| (1) Huts with thatched roof | 77 | 13.5 | 46 | 11.0 |
| (2) Huts with tiled roofs | 185 | 32.5 | 191 | 47.0 |
| (3) Brick wall house | 296 | 47.3 | 127 | 32.5 |
| (4) Cement-concrete house | 38 | 6.7 | 31 | 8.0 |
| Not available | — | — | 7 | 2.0 |
| Total | 569 | 100.0 | 402 | 100.0 |

TABLE 5: LANDHOLDING AS INDICATOR OF SOCIO-ECONOMIC POSITION IN SAMPLE OF GENERAL POPULATION AS COMPARED WITH TB PATIENTS

| Landholding | General Population | | Tuberculosis Patients | |
|---|---|---|---|---|
| | Number | Percentage | Number | Percentage |
| Nil | 403 | 70.8 | 329 | 81.8 |
| Less than 2.5 acres | 95 | 16.6 | 40 | 10.0 |
| 2.5 to 5 acres | 39 | 6.8 | 19 | 4.7 |
| 6 to 10 acres | 21 | 3.6 | 7 | 1.7 |
| More than 11 acres | 11 | 1.0 | 2 | 0.5 |
| Not available | — | — | 5 | 1.2 |
| Total | 569 | 100.0 | 402 | 100.0 |

While it may be hoped that external problems faced by the NTP can be eventually solved given enough political will and commitment, the problems internal to the programme are an altogether different story. The former are located in organisational and administrative structures and therefore lend themselves to solution by governmental action. The latter are however located in the interface between health institutions and the public and are therefore much harder to solve. It is even arguable if they have yet been sufficiently understood.

With the failure of the immunisation programme against tuberculosis, the only hope for containing tuberculosis in India —apart from the removal of proverty, which is too distant a goal to deserve discussion here—is the treatment programme. In a paper published recently[8] the efficiency of different components of the treatment programme and the overall success of the programme are estimated from published reports of the working of the NTP in different districts.

The three main components of the treatment programme are, (i) case detection, (ii) case-holding, and (iii) chemotherapy. It has been found that the efficiency of the case detection component is about 30 per cent, that of the case-holding component is about 30-35 per cent and that of the third component is about 75 per cent. Thus the overall success, or the percentage of patients of tuberculosis cured by the NTP, is as low as eight per cent. It is argued that for the same amount of increase in the efficiency of a component, the returns are better with improvement in case-finding or case-holding than with chemotherapy. Though short-course regimens of chemotherapy may be expected to lead to better case-holding, at the present juncture the overall success of the treatment programme rests much more heavily on improving the efficiency of case-finding and case-holding than on evolving more and more effective drug regimens under study conditions.[9]

The implication of this finding is clear: for the NTP to succeed, detailed studies of who avails of facilities provided by the NTP and who does not, and who takes proper treatment through the NTP and who does not, and why, need to be carried out.

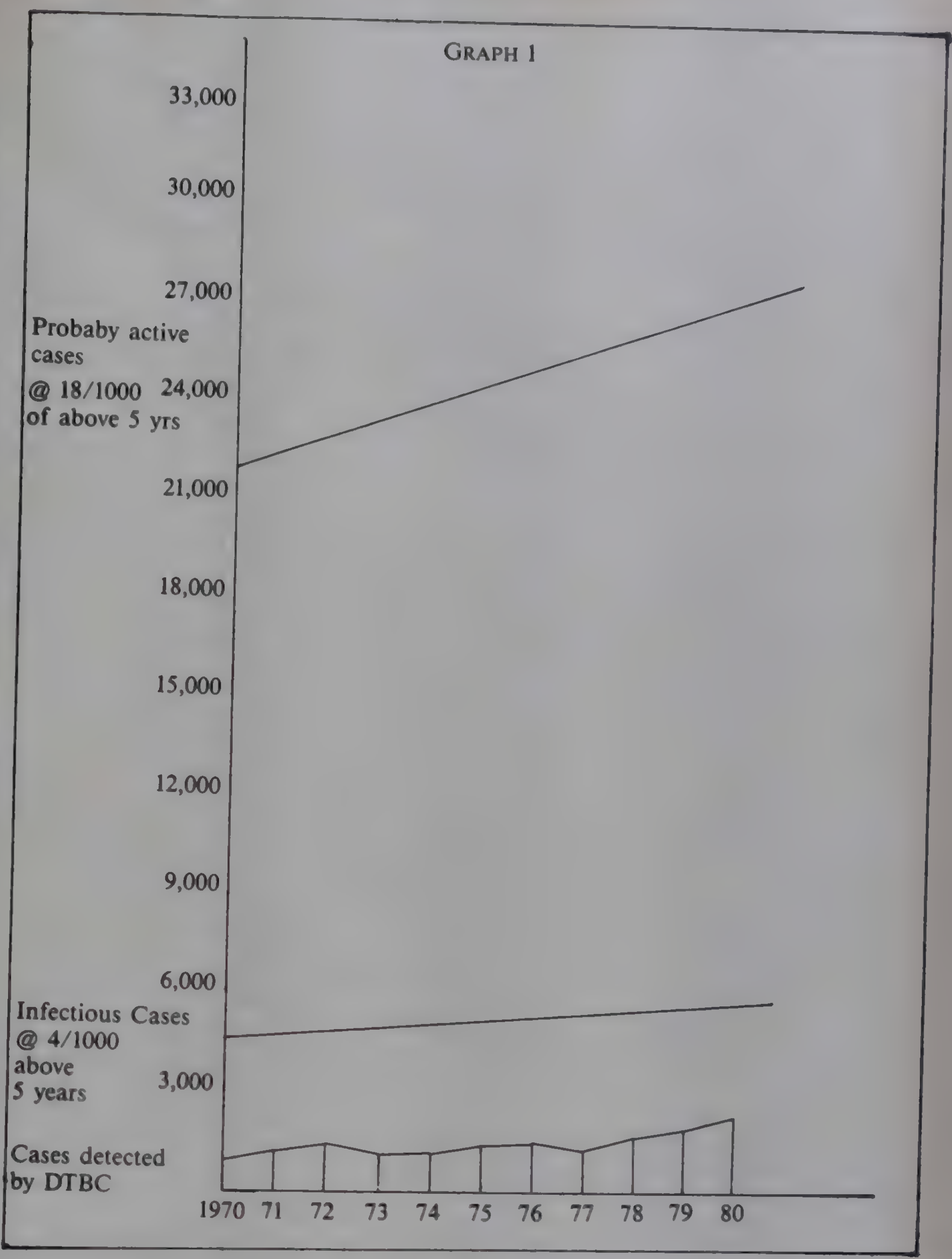
The study described below was motivated by precisely such questions: what is the normal response of persons in the area selected for the study to illness in general and tuberculosis in particular? Who goes to the district tuberculosis centre, why and how? Who takes proper treatment and who does not, and why?

### MATERIALS AND METHODS

The study was carried out in Valsad, the southernmost district on the Gujarat coast. In terms of literacy it is among the top 15 per cent districts in the country. The coastal plain of the district is dense in population and has a highly developed transport and communication network. It is predominantly agricultural, though there is substantial industrial development around the towns of Navsari, Valsad, Billimora, and Vapi. Access to medical facilities in this region is relatively easy as compared to other parts of the district too. Practically every village has several medical practitioners and is close to public or charitable clinics or hospitals, and the nearby towns have a large number of private practitioners and consultants who cater to patients from surrounding areas. Some villages have practitioners of other systems of medicine besides allopathy, including *bhuva-bhagats* or folk healers. The district tuberculosis centre (DTC) which is located in Navsari has been functioning since 1969.

*(a) The first phase:* The study was done in two phases. The first phase involved an in-depth anthropological study of tuberculosis patients from one village with a population of about 5,600. A qualitative analysis of the history of the illness and of the treatment taken by 32 patients in the villages was carried out with a view to design a valid questionnaire for a larger quantitative survey. The emphasis in this phase was on the identification of patterns of treatment *vis-a-vis* the socio-economic status of the patients, and the choice between private practitioners and public health facilities.

GRAPH 1



It was found that private doctors dominated in the public consideration. Most patients first approached private practitioners and many went to public clinics only at a relatively late stage after their health had deteriorated considerably. The poorer patients who were forced to approach public clinics for free treatment seemed to fare much better on the whole. In general, those who took treatment from the DTC relatively earlier, i e, shortly after the onset of symptoms, tended to take more regular and complete treatment. Consequently they were more likely to be cured, and less likely to die of tuberculosis, than other patients.

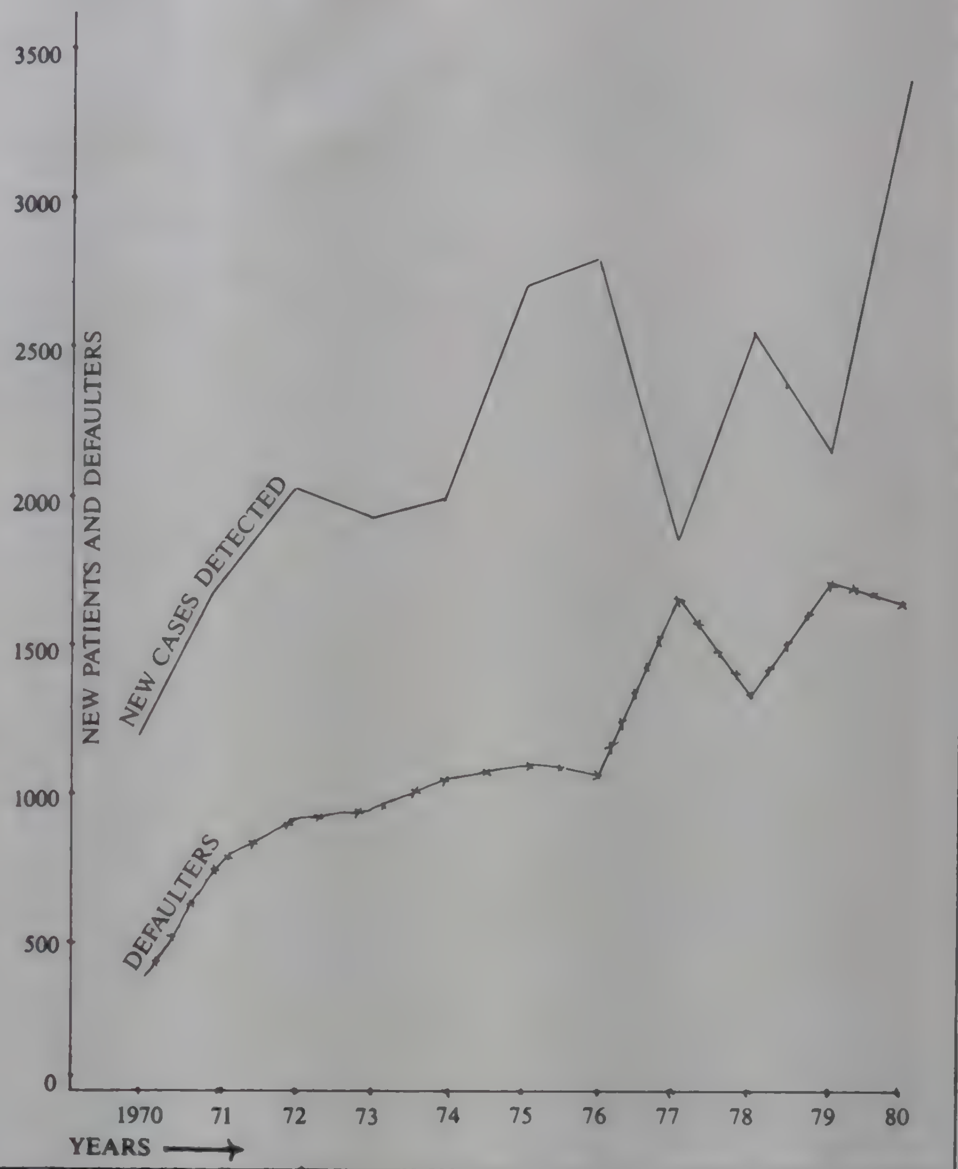
The relatively better off patients preferred treatment from private practitioners for which they had to pay. Often they could not afford to take regular treatment for the entire required duration and hence they tended to take treatment sporadically. Private practitioners often failed to tell the patients how long they would have to take treatment after they had been diagnosed for tuberculosis and often encouraged the belief in quick cures which sometimes led to doctor-shopping and irregular treatment.

These factors not only perpetuated the on-and-off pattern of treatment, and the consequent relapses and chronicity; they also strangely reinforced popular beliefs about the relative efficiency of the private sector *vis-a-vis* the public health system.

The findings of the first phase thus made it clear that there could be no simple explanations for poor case detection and extensive treatment defaults and failures based on the stupidity of patients or the inefficiency of public health institutions. Without taking into account the complex relationship between the private and public sectors there was no way to understand or rectify the persistent internal problems of the NTP, and a more broad based quantitative study was recommended to substantiate these findings.

*(b) The second phase:* In the second phase of the study twelve villages from Valsad district with a combined population of over 60,000 were selected, from which 959 patients had been registered with the DTC since its inception. One criterion for the selection of these villages was that from

GRAPH 2



each village at least thirty patients should have registered with the DTC. All the selected villages were within five kilometres of the National Highway or the Western Railway stretch between Valsad and Surat. The selected villages are therefore not representative of the district as a whole, one third of whose geographical area consists of hilly tracts inhabited by tribals with a different socio-economic and health background. However more than three-fourths of the population of the district is concentrated in the coastal strip where all the selected villages are located. They are thus representative of this populous and relatively prosperous part of the district. The methods used during this phase of the study were sociological and epidemiological-medical.

Three sources of information were utilised primarily. The first was a sociological survey of the villages, the second was the records of the DTC, and the third was interviews with surviving patients of tuberculosis. Interviews with the families of deceased tuberculosis patients and a medical survey of one village and the detection and interviewing of tuberculosis patients from villages which were not registered with the DTC, provided additional information. The first source provided the social and health-care background against which the socio-economic and cultural characteristics of the tuberculosis patients could be placed. The remaining sources helped in reconstructing steps taken to cure it and the treatment from the DTC as well as from private practitioners. It also examined the patients' beliefs and opinions about tuberculosis and their health status when interviewed. In all 402 patients of TB were interviewed.

The interviewed patients cannot be presumed to be representative of all tuberculosis patients who had registered at the DTC, since they consisted only of non-migratory residents who may also be supposed to have either a greater resistance to tuberculosis or a better acceptance of treatment from the fact of their having survived the disease. However the sample was sufficiently large to analyse quantitatively the utilisation of medical facilities and the patterns of treatment by different socio-economic groups.

## RESULTS AND DISCUSSION

Our main concerns for this discussion will be the catchment area or the social composition of the DTC patients along-with the patterns of access to the DTC, and the determinants of proper treatment. However a few facts about the performance of the DTC and of the patients registered there from the villages studied, may be in order.

Graph I depicts the diagonistic activity of the District Tuberculosis Control Programme in Valsad over the period 1970-1980, against a background of the expected prevalance of active tuberculosis and infectious cases estimated conservatively at 18 per 1,000 and 4 per 1,000 of population above 5 years of age, respectively. It is clear that even in its primary aim of treating a significant proportion of infectious cases, the control programme has not succeeded. The proportion of cases detected by the programme to the total number of probably active cases of tuberculosis in the district is of course woefully low and hence the impact of the control programme on the reduction of suffering caused by tuberculosis is negligible.

Case detection of the district centre is improving. Though more cases are detected there are more cases of infectious tuberculosis in the district. Also there are more and more defaulters, as Graph II shows. It is clear from Graph II that the detection of new cases has its ups and downs, perhaps due to changes in the staff of the centre, whereas the rate of defaulters shows on the whole a more steady rise.

As for the patients from the selected villages, Table 1 summarises the patients' final status in 1980 from the treatment cards.

On the basis of dates of drug collection visits to the DTC, the total length of period over which patients collected drugs from the DTC, and their regularity in doing so, were calculated. Regularity was stipulated as 80 per cent drug collection with no gap of over 10 days between the due date of collection and the actual date on which they were collected. Regularity was calculated only if the patient had collected drugs from the DTC for more than three months.

Table 2 shows that not less than 42 per cent of the patients stopped treatment from the tuberculosis centre within three months. Those who continued treatment beyond four months were likely to be irregular than regular. However more than one fourth of the patients had continued treatment for over a year, whether regularly or not.

Not all those who continued treatment beyond one year necessarily stopped treatment on medical advice though. Only 104 treatment cards were noted for complete treatment. The 250 who took treatment over a period exceeding one year therefore did not all ingest the required quantity of drugs. It may therefore be concluded that the DTC does not cover the active or infectious cases of tuberculosis which may reasonably be supposed to exist in the district. A majority of the patients whom it does cover neither complete their treatment nor take it regularly.

### WHO GOES TO THE DTC AND WHY

What are the social characteristics of persons who are not covered by the DTC? In order to find this out the socio-economic profile of the interviewed patients will be compared with that of the randomly selected households in the villages. The routes through which the different categories of patients find their way to the DTC will also be discussed in order to determine the relationship between the patients' socio-economic background, their prior (i e, pre-DTC) treatment history, and their mode of taking treatment.

By and large, the patients who are registered with the DTC are relatively poorer than the average inhabitants of the villages. First we will compare the data concerning medical expenditure in general incurred during the year preceding the study by the general sample of 569 households and the households of TB patients.

For the sake of brevity we can divide the households into three classes: those where no treatment was sought, those where only free treatment was sought, and those where some medical expenditure was incurred. The most striking part of the figures given in Table 3 is the difference between the sample and patients' households in the clustering towards absence of medical expenditure.

Free treatment is sought by the same proportion of households among the general population and among the patients. Medical expenditure is incurred by only half as many patients' households as sample ones, and the higher the expenditure the fewer the patients' households incurring it as compared to the general population.

No treatment is sought by over 50 per cent more patients' households than the sample ones. Since there is no reason whatsoever to assume that the members of the households in which tuberculosis patients live are healtheir, or less in need of treatment than those living in other households, we can safely conclude that those persons who registered at the DTC are more likely to be among the poor and dispossessed who cannot spend money on treatment, and therefore refrain from seeking treatment.

Taking into account housing as an indicator of economic status we can compare the patients' households with the sample households (Table 4). If we combine people living in huts, i e, housing of types 1 and 2—together as the poor, and the remaining as the not so poor—we can see that while in the general population the approximate ratio of the poor to the not so poor is 4:6, among tuberculosis patients it is 6:4.

Ownership of land among the sample households and the patients' households is compared in Table 5.

Table 5 shows that there are more landless among tuberculosis patients than among the general population, and once again, that among those owning some land, the larger the landholding, there are correspondingly fewer patients' households than sample ones.

Occupations of the heads of the sample and patients' households are compared in Table 6.

Compared to the general population, tuberculosis patients are more likely to belong to households where the head of the household is not gainfully employed or is a semi-skilled worker engaged in a petty, usually traditional craft, like carpentry, brick-laying, hair-cutting, or is a cobbler, washerman, gardener, midwife, or peddler. There are few businessmen, farmers, or government servants, among the patients' households. Surprisingly there are fewer agricultural labourers among the patients' households than among the sample. We will come back to this somewhat unexpected finding after first discussing some other indicators showing that by and large poorer groups are over-represented in the sample of DTC patients.

TABLE 7: CASTE-COMPOSITION OF SAMPLE GENERAL POPULATION AND SAMPLE DTC PATIENTS

| Castes | Per Cent in General Population | Per Cent Among Patients |
|---|---|---|
| Hindu | | |
| Upper | 19 | 10 |
| Middle | 33 | 28 |
| Lower | 36 | 46 |
| Muslims | 12 | 15 |
| Not available | — | 1 |

TABLE 8: HIGHEST EDUCATIONAL LEVEL IN THE HOUSEHOLDS OF SAMPLE OF GENERAL POPULATION AS COMPARED TO SAMPLE OF DTC PATIENTS

| Highest Educational Level in the Households | Per Cent among General Population | Tuberculosis Patients |
|---|---|---|
| Not educated | 14.0 | 8.5 |
| Primary | 13.2 | 11.7 |
| Secondary | 35.0 | 50.2 |
| Higher Secondary | 20.6 | 17.7 |
| College and above | 17.2 | 11.4 |

TABLE 6: OCCUPATION OF HEADS OF HOUSEHOLDS AS INDICATOR OF SOCIO-ECONOMIC POSITION IN SAMPLE OF GENERAL POPULATION AS COMPARED WITH SAMPLE OF TB PATIENTS

| Occupation of Head | Sample Households | | Patients' Households | |
|---|---|---|---|---|
| | Number | Percentage | Number | Percentage |
| No gainful occupation | 107 | 18.7 | 102 | 25.3 |
| Agricultural labour | 117 | 20.5 | 63 | 15.7 |
| Semi skilled or casual worker | 54 | 9.4 | 73 | 18.2 |
| Vendors | 29 | 5.0 | 28 | 7.0 |
| Mill workers | 51 | 8.9 | 22 | 5.5 |
| Industrial labour | 13 | 2.2 | 16 | 4.0 |
| Diamond polishing | 8 | 1.4 | 7 | 1.7 |
| Government service | 91 | 15.9 | 53 | 13.2 |
| Farming (landowner) | 53 | 9.3 | 23 | 5.7 |
| Professional | 16 | 2.8 | 8 | 2.0 |
| Business | 27 | 4.7 | 4 | 1.0 |
| Not available | 3 | 0.5 | 3 | 0.7 |
| Total | 569 | 100.0 | 402 | 100.0 |

Since there is convergence between class and caste categories in the villages, we can compare the caste composition of the general population with that of the patients. For the sake of simplicity the castes have been grouped into upper, middle and lower among the Hindus while all Muslims are considered separately. The lower castes subsume all scheduled castes and tribes.

Table 7 shows clearly that there are proportionately almost twice as many persons belonging to the upper castes in the general population as there are among patients registered at the DTC. There are more members of the middle castes too in the former than in the latter. However, the under privileged lower castes are over-represented among the patients, just as the Muslims are.

Finally we will compare the educational levels of the general population with those of the patients (Table 8).

Table 8 shows that patients are less likely to have reached higher educational levels than the sample population, but they are far from being uneducated; not only are they less likely to be uneducated, but proportionately more of them receive secondary education.

The statistical data make it clear that, among the patients, agricultural labourers as well as the group without any education at all are under-represented. To a great extent these two categories coincide in the rural areas. Only those who have some years of primary education can escape from the position of total dependency, characteristic of agricultural labourers, by finding jobs as unskilled labourers in factories or mills in nearby towns or industrial estates. The question therefore is why do the agricultural labourers seem to be left out from treatment at the DTC. To answer this question something must be said about the concept of culture and the accessability of government health institutions,

The concept of health culture,[10] implies that health-care behaviour of a community (or specific groups within a wider community) cannot be seen in isolation as an independent phenomenon. It is determined by ecological and cultural factors and by resource constraints. The agricultural labourers are the most downtrodden section of the village communities and they simply cannot afford to be ill. They often stated that they could not even visit a nearby PHC because going there and waiting—often for a long time—to see the doctor, means loss of a day's earning. Thus in many cases only when they are "sent" by their employer, it is possible for them to go to a doctor. When it is a "good" employer, in the feudal tradition, he will even pay for the services of a private practitioner. No agricultural labourer will be in a position to pay for a complete private treatment and neither is it likely that even a "good" boss will do so for him/her.

Banerji's (1981; 530) remark that "the suffering caused by TB is overwhelmed by suffering caused by other problems such as hunger and abject poverty", as well as a state of absolute dependence on others, holds especially true for this group. Seen from that angle it is not surprising that they are under-represented in the sample of patients. Though the services of the government health institutions are *especially meant for them*, they turn out to have limited access to these institutions. The awareness that they can go there is not strong enough and it is also not actively developed by either their employers or the personnel from peripheral health-care centres.

Similarly for the (often seasonal) migrant labourers the government health institutions are really the only source for medical treatment. The majority of them stay for a few weeks or months in the region. They do not know who are the doctors considered to be good. Neither have they any chance to find an employer who is willing to give them money to consult a private practitioner. Their chances of getting complete treatment for TB are also rather low. On the other hand those labourers (mostly belonging to the same lower castes) who work in factories have a much better chance to enter, by referral-channels, the government TB centre. Some sort of medical facilities are generally available for labourers in the bigger factories. And doctors who act as consultants for these factories refer them to the DTC.

The consciousness of symptoms of TB was high among the group of interviewed patients. 82 per cent of the patients mentioned weakness and loss of weight, cough or fever as symptoms which impelled them to take medical advice. Not less than 32 per cent mentioned haemoptysis as one of the reasons to see a doctor. Of the 398 patients who mentioned symptoms, 66 per cent were able to name four to six symptoms of which the three main ones always formed part. There were no significant differences in the awareness of symptoms between the different socio-economic groups. It is therefore reasonable to assume that the agricultural labourers are as likely to know which symptoms are indicative of TB, as any other group. Their pattern of action-taking as well as their condition at registration was, however, significantly different and needs some further analysis. Table 9 gives an overview of the condition of the patients at registration correlated with an indicator for socio-economic position, the highest educational level in the household. It shows that the higher the socio-economic position the higher the chance of the patient reporting when not yet very ill.

Though there is no significant overall relationship between patients' occupations and their physical condition at registration, in certain occupational categories there is an interesting clustering towards a poor physical condition (i e, inability to work at registration).

The most striking divergence between the general trend among all patients and those in a given occupational category, in terms of the physical condition at registration, was in the case of agricultural

TABLE 10: DIAGNOSTIC ACTION TAKEN AND ADVICE GIVEN TO PATIENTS AT FIRST VISIT TO PRIVATE PRACTITIONERS AS COMPARED TO THE SAME AT FIRST VISIT TO DTC

| | Diagnosis by Private Practitioners (Percentage) | Diagnosis at DTC (Percentage) |
|---|---|---|
| X-ray taken | 22 | 93 |
| Sputum examinations | 8 | 79 |
| Advised prolonged treatment | 15 | 74 |
| Advised to go to government TB centre | 8 | — |
| Information given that patient had TB | 20 | 73 |

TABLE 9: CONDITION OF PATIENT WHEN FIRST REGISTERED AT THE DTC IN RELATION TO HIGHEST EDUCATIONAL LEVEL IN THE HOUSEHOLD

| | All Per Cent | Highest Education Level in Households | | | |
|---|---|---|---|---|---|
| | | Secondary or Lower No | Per Cent | Higher Secondary or Higher No | Per Cent |
| Unable to work | 51.63 | 170 | 62.04 | 47 | 41.22 |
| Able to work | 47.34 | 104 | 37.96 | 67 | 58.78 |
| Not available | 1.03 | 9 | 2.00 | 3 | 0.07 |

labourers. Over 69 per cent of agricultural labourers. registered at DTC's when they were in no physical condition to work as compared to 52 per cent for all patients. Only 25 per cent of the agricultural labourers were still able to work, when they were registered at the DTC. Since most agricultural labourers came to the DTC without prolonged prior treatment—40 per cent with no prior treatment, 60 per cent with less than one week's treatment, 75 per cent with less than one month's treatment, about 90 per cent with less than three month's treatment, and none at all with more than six month's treatment—the reason for their poor condition at registration cannot be attributed to prolonged on-and-off prior treatment.

Another strong indication that agricultural labourers tend to come to the DTC at a late stage of their illness is found in the number of agricultural labourers who at the time of their first registration had extensive lesions, 36 per cent had bilateral lesions (while 27 per cent were also sputum positive) at first registration as compared to 19.5 per cent among the sample of interviewed DTC patients, and 24 per cent in the total sample of DTC patients.

This is an important finding which shows that it may be necessary to develop a differential approach to the various socio-economic groups who as a result of having different health cultures have different access to the DTC. Though the notion that the National Tuberculosis Programme should be based on a "felt need" may in itself be valid.[11] It is obvious that there should be a differential approach to various groups within the general public. The agricultural labourers for instance should get extra attention in order to enable them to make their needs felt.

## DETERMINANTS OF PROPER TREATMENT

A detailed analysis of the duration and regularity of treatment taken by the patients from the DTC and the patients' prior medical history indicates that two factors influence the pattern of treatment taken by the patients from the DTC. The first of these is the time lag between the onset of symptoms and the first medical action, and the second is the nature and duration of treatment taken prior to registration at the DTC. In general those patients who registered early on were more likely to take complete and regular treatment from the DTC.

In order to see how the socio-economic and cultural background of the patients is related to the manner in which they tend to take treatment we will compare the medical histories of different categories of patients. For this purpose we will describe those patients who registered at the DTC without any prior treatment as those who went to the DTC *directly* and those who took treatment earlier from one or more sources as those who went to the DTC *indirectly*. Moreover those who sought treatment from any source within one month of the onset of symptoms will be described as having sought treatment *quickly* and those who sought medical help more than one month after the onset of symptoms as having sought treatment *slowly*. The cut-off point for the latter distinction was kept at one month since it was found in the health survey of the population that respiratory complaints were by far the most common and hence even those who waited for as long as a month may still be said to have attended to their symptoms quickly.

Those who went directly to the DTC were not necessarily found to have been in better physical condition at registration, simply because more often than not they had not gone quickly. Those who went indirectly however, were seen to have been almost always in poor physical condition, even if their earliest medical action had been quick. This suggests that prolonged on-and-off treatment is not beneficial to the patients, judging from their condition at the time of registration. 72 per cent of the patients came indirectly to the DTC. Which again shows that the role of private practitioners in diagnosing TB is considerable.

Apart from the 27 per cent patients who had no previous treatment, another 30 per cent could not supply the details of their treatment prior to that of the DTC, due to memory constraints. In order to judge the diagnostic role of the DTC *versus* private practitioners it is necessary to know among the remaining 43 per cent how many were examined or treated for symptoms of tuberculosis, how many were referred to the DTC, and how many were merely given some tablets—presumably palliatives—without adequate examination or explanation.

Though more than two-thirds of the patients had been examined or treated by private practitioners before they registered at the DTC the actual details of their diagnosis and treatment prior to the DTC are most revealing as shown in Table 10.

The lack of a proper control-group of patients who had only been treated by private practitioners or consultants for chest-diseases and who never went to the DTC is possibly blurring the overall picture.[12] Still the data comparing the diagnostic activities carried out by private practitioners and at the DTC, make it clear that the effectiveness of diagnostic activities taken at the DTC was undoubtedly much greater. However, the vast majority of patients had initially approached private practitioners. Many private practitioners do not routinely carry out the necessary diagnostic tests for infectious tuberculosis like sputum examinations, especially so with patients who are unable to pay much, and rarely maintain proper records. They often did not inform the patients about the nature of the disease and the duration of treatment required. Moreover most patients cannot afford to pay for completing the required treatment and the economic base of the doctor-patient relationship encourages doctor-

TABLE 12: DURATION OF PRIOR TREATMENT AND COMPLETENESS OF SUBSEQUENT TREATMENT

| | More than 3 Months' Prior Treatment Percentage | Less than 3 Months' Prior Treatment Percentage |
|---|---|---|
| Completed treatment from the DTC | 36.36 | 40.60 |
| Did not complete treatment from the DTC | 37.87 | 26.39 |
| Discontinued with three months | 25.75 | 32.99 |

TABLE 11: DURATION OF TREATMENT IN MONTHS AMONG ALL REGISTERED PATIENTS AND AS CLAIMED BY INTERVIEWED PATIENTS

| Duration of Treatment Months | Number and Percentage of Patients | | | | | |
|---|---|---|---|---|---|---|
| | Registered | | Interviewed | | | |
| | | | Claims | | Treatment Cards | |
| | Number | Per Cent | Number | Percentage | Number | Percentage |
| 0 - 3 | 404 | 42 | 132 | 33 | 102 | 25 |
| 4 - 7 | 188 | 20 | 60 | 15 | 65 | 16 |
| 8 - 11 | 88 | 9 | 28 | 7 | 56 | 14 |
| 12 or more | 250 | 26 | 182 | 45 | 172 | 43 |
| Not available | 29 | 3 | — | — | 7 | 2 |
| Total | 959 | | 402 | | 402 | |

shopping which is inimical for prolonged and regular treatment.

Fluctutations in prices and in the production distribution of anti-tuberculosis drugs also affects treatment. In order to assuage the pharmaceutical industry the government has periodically raised the prices of essential drugs. Since tuberculosis is a poor man's disease this has also effectively removed many essential drugs from the reach of the patients' ability to pay for them. To the extent to which price revisions are unaccompanied by larger allocations to the NTP, primary health centres can afford to stock fewer drugs in smaller quantities.

Drug manufacturers prefer to produce larger quantities of second line drugs where the margin of profit is greater than that in front line drugs. They also persuade the medical profession to prescribe them more often on grounds of greater efficacy, though this implies that nothing is kept in reserve in case drug resistence develops.[13]

### DURATION AND REGULARITY OF TREATMENT

Treatment duration and frequency had been ascertained from the treatment cards by considering two things. One was the time lapse between the date of inception of treatment and the last noted date of drug collection on the card. The other was the average number of monthly drug collection visits records on the card. The latter had to take into account differences between regimens prescribed to the patients. In the interviews with the patients they had been asked exactly how long they had taken treatment from the district tuberculosis centre, and from other peripheral health institutions.

TABLE 13

| | Directly (Percentage) | Indirectly (Percentage) |
|---|---|---|
| Completed treatment from DTC | 60.60 | 48.98 |
| Did not complete treatment from the DTC | 39.39 | 51.01 |

TABLE 14: TREATMENT COMPLETION AND QUICKNESS OF MEDICAL ACTION AFTER ONSET OF SYMPTOMS

| | Within One Month (Per Cent) |
|---|---|
| Completed | 40.51 |
| Incomplete | 28.44 |
| Discontinued within three months | 31.03 |
| Excluding the last category: | |
| Completed | 58.75 |
| Incomplete | 41.25 |

While a few of the discrepancies between patients' claims and the records on their card were a result of problems in the collection and analysis of data, the bulk of them were caused by the constraints on the patients' memories, and other human limitations. When duration of treatment is divided into four intervals of three to four months each, the discrepancies between patients' claims and treatment cards diminish considerably. Table 11 correlates these discrepancies with different durations of treatment. Whereas in absolute terms there was agreement in only 13.5 per cent of the cases, a perceivable pattern emerges in interval terms. This pattern is not seriously disturbed by the residual discrepancies.

If we disregard the discrepancies between patients' claims and their treatment cards, some interesting observations can be made about the duration of the interviewed patients treatment. First of all, in terms of different durations of treatment, the interviewed patients are quite distinct from the entire population of registered patients. Among interviewed patients (i e, all still alive) there were fewer who discontinued treatment within three months, compared to all registered patients: 29 per cent (the average of the duration of treatment as stated by the patient and as recorded on the card) *versus* 42 per cent (among all registered patients). While 44 per cent of the interviewed patients took treatment for 12 months or more, compared to 26 per cent among all registered patients.[14]

Correlating the directness of the patients' approach to the DTC—both in terms of duration of prior treatment, and in terms of the number of doctors consulted prior to the DTC—with their treatment careers at the DTC, it can be seen that the more directly the patients go to the DTC, the greater are their chances of completing treatment from the DTC. In order to show this, we will make two assumptions both of which require some explanation.

The first assumption is that completeness of treatment is more important than regularity. This may seem to conflict with the point made earlier that on-and-off treatment is more likely to be harmful than beneficial, however for the data used here that needs additional clarification. For one, regularity of treatment is of little use until complete treatment is taken. Thus, a patients' chances of recovery are higher if he takes drugs for twelve months over a period of say eighteen months, than when he takes regular treatment within a period of three months and ten days. Secondly, our definition of regularity as over 80 per cent drug collection without a gap of over ten days is fairly strict, and hence most of those who completed treatment were irregular by this definition. Therefore we will here disregard regularity and only show that those who go directly to the DTC are more likely to complete their treatment, even if they do not do so regularly, in the strict sense of regularity stipulated.

The second assumption is that many of those who discontinued treatment within a period of three months, either did not need treatment at all, or no longer needed it. It is conceivable that some of those who discontinued treatment from the DTC within three months were either mistakenly diagnosed—since nearly 80 per cent of them felt healthy when interviewed —or had spontaneous recoveries. The reasons for excluding these cases from the analysis of the relationship between directness of approach to the DTC and the chances of treatment being completed from there, will become clearer from the Tables 12 and 13.

Examining first of all the relationship between the duration of prior treatment and the completeness of subsequent treatment from the DTC, we find the distribution as in Table 12.

It is seen that more of those who came relatively directly to the DTC discontinued treatment within three months. However, if these cases are excluded from consideration for the reasons explained above, then a more striking relationship emerges between those who completed their treatment and those who did not, from among all those who took treatment from the DTC for over 3 months (Table 13).

Thus it can be safely asserted that patients who came relatively directly to the DTC are more likely to complete their treatment, excluding the constantly recurring category of about 30 per cent who discontinue within three months.

We now have to show that those who go quickly—i e, relatively shortly after onset of symptoms—are also more likely to complete their treatment than those who go slowly, i e, after symptoms of prolonged duration. Once again we will disregard regularity of treatment for the time being, and show that the proportion of those who discontinue treatment from the DTC within three months is more or less constant—given directness of quickness of approach and, after excluding these early dropouts, the pattern of those who complete treatment and those who do not, becomes clearly visible in Table 14.

Since almost 29 per cent of the patients had been unable to remember how long they had had symptoms before they took any action, the relationship between quickness of action and completion of treatment is somewhat blurred. However, only about one third of those who took medical action after one year or more completed their treatment.

Examining the socio-economic composition of those who went directly to the DTC and those who went there after prolonged treatment from several doctors, not surprisingly, it was found that the poor tend to go directly, while the relatively better off go indirectly. A similar relationship obtains among the different socio-economic strata of those who go quickly and those who go slowly. Because of the ambiguous value of the patients own assessment whether he took "quick" action or "slow", the interpretation of these data asks for a lengthy discussion, which cannot be given here.

### CONCLUSION

The main conclusion of our research is that the private sector interferes with the state-organised TB care in a most unfortunate manner. There are frequent proposals[15] to involve general practitioners in the NTP to improve its coverage, the assumption being that ideally private practitioners can supplement the efforts of the state, given additional incentives and inputs. Otherwise, as things stand, private health-care runs a parallel course without impinging on state organised public health-care. However we find that private health-care facilities by their very existence and nature adversely affect the functioning of public health-care facilities.

Patients prefer to go to private practitioners for reasons of status and because they believe that private practitioners will give better treatment. As the majority of TB patients are poor they will however not be able to pay for a complete course of modern chemotherapeutic drugs. Private practitioners do not always make it clear that patients must take treatment for at least one year. Thus a general, though ill-founded, belief has come into existence that it is possible to recover from TB within a short time.

This belief activates doctor-shopping, the search for a "really good" doctor, and on-and-off treatment pattern so characteristic for the patients who do not go quickly and directly to the district TB centre, often with fatal results in the long run. Our data, on the other hand show that those who do go quickly and directly to the DTC have a comparatively better chance to recover fully from TB.

Though the performance of the DTC and its potential for making an epidemiological impact on TB is insufficient, the diagnostic and advisory activities of the DTC were shown to be far superior to those carried out by most private practitioners. While the organisation of defaulters-retrieval is also much better at the DTC and obviously also more successful, comparatively speaking. At the same time our research made clear that the poorest and most dependent section of the population, the agricultural labourers, were under-represented amongst the patients of the DTC, though for them government institutions are the only source of health-care because they lack the means to pay for any sort of private treatment. Thus consciousness of symptoms and a felt need for TB treatment is not sufficient reason for those (and many other) patients, to go to a primary health centre and/or the DTC, at an early stage of their illness.

This suggests the need for selective modification of the passive orientation of the NTP. The interaction between private practitioners and the NTP described here may be valid only for the area studied. However it is presented with a view to provoke discussion, further investigations, and suggestions for improving the situation.

## Notes

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1 G D Gothi, 'Presidential Address to the 36th National Conference on Tuberculosis and Chest Diseases', Baroda, November 1981, mentions 10.5 million patients.

2 The NTP developed as a result of several steps taken since the inception of the planning process for the development of health services infrastructure and facilities for medical education and research. These included the sample survey of tuberculosis in India carried out by the Indian Council of Medical Research (1955-58) which revealed that pulmonary tuberculosis was almost as rampant in villages as in cities and towns; the demonstration by the Tuberculosis Chemotherapy Centre, Madras, of the efficacy of domiciliary treatment for tuberculosis; and the setting up of the National Tuberculosis Institute in Bangalore which was specifically entrusted with the task of drawing up the NTP and undertaking research and training to facilitate the implementation of the NTP.

3 Banerji, D, and S Anderson, 'A Sociological Study of Awareness of Symptoms among Persons with Pulmonary Tuberculosis', Bull, WHO, 29 (1963), pp 665-683.

4 See, 'Trial of BCG Vaccines in South India for Tuberculosis Prevention', *Indian Journal of Medical Research*, 72 (1980), supplement.

5 ICMR, 'A Review of National Tuberculosis Programme', Report of ICMR Expert Committee (1975).

6 See, reference to footnote 1. According to a report in *India Today* (November 30, 1982) only 353 out of 421 districts in the country have a district tuberculosis programme. This report incidentally estimates the number of tuberculosis patients in the country at 15 million.

7 Reported in *India Today* cited above.

8 S Radhakrishna, 'National Tuberculosis Programme—Relative Mertis of Enhancing the Operational Efficiency of Different Components of the Treatment Programme', *Indian Journal of Tuberculosis*, XXX, 1, pp 3-8.

9 Table A shows the effect of improving the efficiency of the various components on the overall success, or the direct benefit from the treatment programme (* stands for a 20 per cent increase and + for a 40 per cent increase).

10 See, D Banerji, "Poverty, Class, and Health Culture in India", New Delhi (1981).

11 Apropos the notion of "felt need" orientation, see George M Foster, 'Community Development and Primary Health Care: Their Conceptual Similarities', *Medical Anthropology* 6.3 (1982). Foster gives evidence to indicate that the code expression "felt needs" was in common usage even forty years ago and goes on to add: "In retrospect it is clear that an uncritical insistence on a pure 'felt needs' approach has been an error. Villagers' perceptions of needs do not necessarily correspond with the steps that must be taken to satisfy these needs . . . programmes usually are not really organised to

TABLE A: LEVELS OF EFFICIENCY

*(Per Cent)*

| Components | Present Estimate | Hypothetical Estimates | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Case-finding | 30 | 30 | 30 | *50 | *50 | *50 | +70 | +70 |
| Case-holding | 35 | 35 | *55 | 35 | *55 | +75 | *55 | +75 |
| Chemotherapy | 75 | *95 | 75 | 75 | *95 | *95 | *95 | *95 |
| Overall success | 8 | 10 | 12 | 13 | 26 | 36 | 37 | 50 |

help meet felt needs expressed by villagers . . . If village-expressed felt needs fall within the range of what is offered, well and good. If not, the "felt needs" doctrine falls by the wayside and standardised programmes are pushed, with or without community interest (p 191).

12 Among the 18 private patients interviewed in one of the villages none lived in type I housing, and only three lived in type II housing. The remaining 83.33 per cent or 15 patients lived in superior housing, while only 39.3 per cent of the patients registered with the DTC lived in the two superior types of housing.

While only 16.9 per cent of the DTC patients owned any land, eight of the private patients or 44.44 per cent were land owners. Six of the private patients—or one-third of the total—owned over 2.5 acres of land, while among the DTC patients only 6.9 per cent owned over 2.5 acres of land. Among 10 of the remaining private patients who owned no land, 5 owned businesses or shops.

All the private patients were more literate than the DTC patients as a rule. None of the private patients were illiterate, or belonging to households where the highest educational level achieved was primary schooling only. 44.44 per cent belonged to households where the highest level of education achieved was higher secondary, college, or university training. Thus in terms of socio-economic position, the private patients were much better placed, compared to the DTC patients. Their health and treatment habits told a different story though.

While almost all the private patients had been X-rayed at some time or the other, only three had had sputum examinations at any time. In the case of three of the 18 patients, there was reason to doubt the diagnosis of tuberculosis. Among the remaining 15 patients, who were most likely to have been patients of tuberculosis, 5 or one-third were in poor physical condition when interviewed. As against this, only about 19 per cent of the DTC patients had looked and felt sick when interviewed. The sample of private patients is admittedly rather small for any firm generalisations, but it would seem that almost twice as many private patients as DTC patients were in poor physical condition when interviewed.

12 of the private patients—or two-thirds of the total—had visited more than one doctor. Half of these—or a third of the total—had visited more than three doctors each. *Only one of the 18 patients had completed one years' treatment*. Except for one other patient who took treatment regularly for 8 months, none of the other patients had been regular in taking treatment, even though some of them had been taking treatment on-and-off for period of several years.

Almost all the private patients distrusted the public health system and complained that using it involved loss of both time and prestige, even if it was free. Most of them believed in going from one doctor to another in order to get better, and they were convinced that private treatment—though expensive—was more effective, and thus more likely to effect quick cures than available at the DTC. The facts portray, as we have shown an utterly different picture.

13 See, Sevanti Ninan, 'Larger Government Aid for TB Cure Urged', *Indian Express*, Ahmedabad, October 12, 1982.

As against this serious under-production of frontline drugs, the imports of second line drugs have far outstripped officially estimated demands. It was estimated that in 1983-84 there would be a demand for seven tonnes of Rifampicin. However, 15 tonnes of Rifampicin were imported during 1981-82. Similarly with Ethambutol, against an officially estimated demand of 110 tonnes in 1983-84, 96 tonnes were imported during 1979-80, and an additional 23 tonnes were produced domestically.

14 The non-representative character of the interviewed patients becomes more clearly visible when the data obtained from the relatives of 38 dead patients are compared for their duration and regularity of treatment taking. As can be expected, only eight of the dead patients had taken treatment for a period of one year. That is only 21 per cent, as compared to 44 per cent among the 402 patients who could be interviewed when still alive had completed their treatment.

Similarly 20, or 53 per cent of the dead patients had taken treatment for less than three months as compared to 29 per cent among the sample of patients interviewed. Of the eight patients who had taken treatment from the DTC for a period of one year or more, two had died after completion of treatment from a non-tubercular disease after stopping treatment from the DTC. Of the six remaining patients 3 had died when they were being treated at the DTC. Thus adding to the ill-reputation of the DTC, as an institution where patients die when they are taking treatment there.

The same was true among the 20 patients who stopped within three months after starting their treatment at the DTC. Of them 7 or 35 per cent died within weeks, or less than three months after their registration at the centre.

Of all the 10 patients about whom sufficient information was available and who died when taking treatment from the DTC, 4 or 40 per cent had histories of long prior suffering from symptoms of TB and/or consultation of several doctors before coming to the DTC. These periods varied from one year to even five years, with intermittent visits to several private doctors.

Since they all died from TB, their histories show the bad effect of doctor-shopping and late reporting at the DTC. There are no certified medical records of these patients available, but there is every reasons to believe that their cases were already aggravated before they entered the DTC. As such the histories of these 38 patients, 36 of whom died of TB, illustrate the general trends discussed, without carrying any statistical significance.

15 For example, 'General Practitioners and Tuberculosis', editorial in *Indian Journal of Tuberculosis*, XXVII, 2 (1982).

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## M P Carbide and Chemicals

M P CARBIDE AND CHEMICALS, promoted by the well-known Jelan Group of Calcutta and Madhya Pradesh State Industries Corporation (MPSIC), is setting up a Rs 9.68 crore project for the manufacture of calcium carbide with a capacity of 18,480 tonnes per annum in the 'no-industry' district of Panna in MP. The state government has declared the project as a 'pioneer unit' whereby it is eligible for several concessions and benefits. Calcium carbide is primarily used for generation of acetylene gas which finds wide application in the engineering industry. Commercial production is expected to commence in July 1985 and the company expects to achieve 60 per cent capacity utilisation in the first 10 months of operation. The company is making a public issue of 11.30 lakh equity shares of Rs 10 each at par to raise a part of the finance required for the project. The Merchant Banking Division of the Standard Chartered Bank is manager to the issue, while Allahabad Bank's Merchant Banking Division is acting as Advisor. The subscription list will open on June 10. The electric reduction furnace has been designed, manufactured and supplied by Engineering Projects India in collaboration with Mannesman Demag of West Germany. Its performance has been guaranteed by both the firms. The producer gas fired kiln is based on the design of Warmestelle Stein Und Erden, West Germany. The producer gas plant is based on the design of Kerabadarf Keramische Industries Bedarf, West Germany. According to M P Jalan, Managing Director, the project site is ideal on account of easy availability of raw materials and close proximity to the major consumers. The company's plant will be the only one in Central and Northern India to cater to the needs of consumers in the region. The company does not envisage any difficulty in marketing its entire production.

# Inflation and Incentive to Invest in Capital Assets

**Poonam Gupta**
**Sanjeev Gupta**

*The purpose of this study is to estimate the marginal effective tax rates for different asset classes and change in user cost with inflation. Such calculations enable a study of the effect of inflation and other allowances like depreciation, investment allowance, etc, on incentive to invest. The results show that the effective tax rates increase with inflation but at a decreasing rate. Secondly, inflation increases the dispersion in the effective tax rates causing the tax system to become more non-neutral. A tax system is then suggested which is neutral and compensates for the price increases.*

## I

## Introduction

A REVIEW of the trends in capital formation in India from 1950-51 reveals that the rate of capital formation increased from about 10 per cent of GDP at current prices to nearly 22 per cent by the end of the 1970s. The greater part of the increase took place in the period between the early 1950s and the middle of the 1960s. The subsequent increase was of a very small order from about 18 per cent to 22 per cent of GDP. An examination of sectoral trends reveals that the rising trend during the earlier half of the period (upto middle of 1960s) was mostly accounted for by the public sector. Capital formation in the private corporate sector continued to hover around two to three per cent of GDP in this period. The increase in the subsequent period, from mid 1960s to end of 1970s was accounted for mainly by the household sector. Capital formation in *real* terms in late 1970s was nearly the same as a percentage of GDP as in early 1950s in private corporate sector. Thus, there has been virtually no increase in private corporate sector capital formation in real or nominal terms, as a percentage of GDP for the past three decades.

The question which one may ask is, why has the performance of private corporate sector in capital formation been so dismal for as long a period as three decades even though tax provisions calculated to encourage investment like depreciation allowances, investment allowances and tax holiday have been provided. Of these, depreciation allowances are important from the point of eventual recovery of the sunk cost of investment and thus replacement of the existing asset. The current system followed by companies and other business organisations subject to taxation is to spread the historical or original cost over the effective life of the fixed assets. The tax law requires that the diminishing balance method be adopted to distribute historical cost. In this method, the prescribed rate of depreciation is applied to the written down value of assets which is the original cost of the asset less depreciation so far charged from year to year. The annual depreciation allowances are not adjusted when there are increases in the general price level with the result a higher rate of inflation, by lowering the real value of depreciation allowances on any asset investment, raises the net cost of investing. In India, depreciation allowances have been steadily eroded by inflation. Unless corporations make additional provision for replacement and expansion from their internal funds, the depreciated assets cannot be replaced from these allowances alone. If capital assets are not replaced, gross capital formation gets adversely effected.

It is frequently contended that the corporate tax rate in India is high. However, what is more relevant is not whether the statutory rate is high but whether the effective corporate tax rate is high. Here also it is the marginal and not the average effective tax rate that is relevant from the point of view of incentive to invest. Present value of expected taxes relative to expected income from marginal investment under consideration is defined as marginal effective tax rate.

The purpose of this study is to calculate the marginal effective tax rates under current tax provisions. Such calculations have not yet been made for India. Marginal effective tax rates are important because they are useful indicators of the effective tax burden on a marginal investment. They also help in studying the effect of inflation on the incentive to invest. The impact of the tax laws on different assets can be compared through marginal effective tax rates. For instance, different rates of depreciation and investment allowance result in variations in marginal effective corporate tax rates across assets. This, in turn, affects the pattern of demand for capital assets. Since inflation affects different assets differently, calculation of the marginal effective tax rates helps in a clearer understanding of the impact of inflation and distortions and misallocations introduced by it. Finally, a comparison of effective tax rates is important from tax neutrality point of view. Gravelle (1982) contends that a neutral tax system is one where marginal effective tax rates are the same across assets. Under these circumstances, the capital will be allocated in an efficient manner.

It has been asserted by some economists like Kopcke (1982) that the user cost is a more appropriate measure of investment incentives. Therefore we also study the impact of inflation in raising the user cost of capital.

Section II of the paper briefly describes the model used in the calculations. The results based on the 1984-85 tax laws are presented in the succeeding section, III. Conclusions and policy implications are taken up in Section IV.

## II

## The Model

The starting point for the derivation of the user cost of capital and effective rate of corporate taxation is the neo-classical model of optimal capital accumulation. The model assumes that a firm will invest a unit of capital upto the point where the present value of future receipts equals the cost of acquiring the asset. From this model, Jorgenson developed a measure for the rental price (or user cost) of capital. The rental price is defined as the price that would be paid to rent a new unit of capital or the price that a firm would impute to itself for the use of a new unit of capital.

The original formulation was altered subsequently by introducing inflation so as to distinguish between real and nominal rates of return. In the absence of taxes, the price per unit of capital is equated with the present discounted value of the future flow of receipts or profits in the following way:

$$q = \int_{0}^{\infty} c e^{-dt} e^{pt} e^{-(r+p)t} \, dt \quad \ldots (1)$$

where q = the acquisition cost

c = the rental price of a new unit of capital or the marginal rate of return to one rupee worth of increment in the capital stock

r = the real rate of return or discount rate

p = the expected inflation rate

d = the true rate of decay of output or the economic depreciation rate.

The expression implies that profits decline at the rate d, and increases with the general price level at the rate p.[1] The present value of all the future returns is calculated by discounting them at the nominal rate r + p.

Solving (1) yields

$$c = q\ (d + r) \qquad \dots (2)$$

Thus, in the absence of taxes, the rate of inflation, p, does not affect the value of c for a given acquisition cost, q.

For each rupee of investment (q = Re1), the rental price c equals the sum of the rate of return and the depreciation rate. For a given r, higher the values of d (or less durable the asset) the greater is the rental price.

Hall and Jorgenson (1967) also developed an expression for c when taxes are imposed. With corporate taxation, investment and depreciation allowances, the cost of a unit of investment is equated with the present discounted value of profits net of all taxes. The modified model is:

$$q = \int_0^\infty c\ (1 - u)\ e^{-dt}\ e^{pt}\ e^{-(r^* + p)t}\ dt + uq \int_0^\infty D\ (t)\ e^{-(r^* + p)t}\ dt + ukq$$

where u = the statutory corporate tax rate

D (t) = depreciation deduction allowed at time t per rupee of investment

k = the rate of investment allowance

r* = the real after tax discount rate or the real after tax cost of funds.

The depreciation and investment allowances have been multiplied by u because in India these allowances are adjusted against corporate profits to determine tax liability. If we define

$$\int_0^\infty D\ (t)\ e^{-(r^* + p)\ t}\ dt = z \quad \text{then}$$

$$q = \int_0^\infty c\ (1 - u)\ e^{-(d + r^*)\ t}\ dt + uqz + ukq$$

Solving the integral, we get

$$(1 - uz - uk)\ q = \frac{c\ (1 - u)}{r^* + d}$$

The left hand side of the above expression is the purchase price minus the present value of tax savings from depreciation and investment allowances. This can be called the net cost of the hypothetical investment project. This is equated with the present value of the after tax returns on the asset. If the two are not equal, profit seeking investors would drive up the cost of an asset or drive down the return until they become equal.

Solving for c gives

$$c = \frac{q\ (r^* + d) \quad (1 - uz - uk)}{1 - u} \quad \dots (4)$$

The rental price c, is also called the user cost of capital because in addition to the cost of funds, it includes the cost of asset depreciation and taxation. Comparing (2) and (4), we see that they differ by the ratio

$$\frac{(1 - uz - uk)}{1 - u}$$

The two factors, uk – uz and u, represent the extent to which the effective purchase price of capital is lowered by investment and depreciation allowances and the extent to which future cash flows are lowered by the corporate tax rate.

The equilibrium value of c is the same for both the gross and net return calculations. Substituting c = q (r + d) from (2) into (4), we get,

$$(1 - uz - uk)\ q = \frac{q\ (r + d) \quad (1 - u)}{r^* + d}$$

Solving for r, we obtain

$$r = \frac{(r^* + d)\ (1 - uk - uz)}{1 - u} \quad - d \quad \dots (5)$$

According to Auerbach (1983), r in (5) is the real cost of capital.

Nominal depreciation allowances do not change with the price level so they decline in real value with inflation. This causes an increase in the cost of capital. This is evident both from the user cost formula in (4) and the real cost of capital expression derived in (5).

The influence of inflation on the demand

TABLE 1: TAX DEPRECIATION RATES, INVESTMENT ALLOWANCE AND ECONOMIC DEPRECIATION RATES

*(Per Cent)*

| Asset Type | Tax Depreciation Rate[1] | Investment Allowance | Economic Depreciation Rate |
|---|---|---|---|
| 1 Plant and Machinery[2] | | | |
| (a) General rate | 15 | 25 | 12.25 |
| (b) Building contractors' machinery | 15 | 25 | 17.22 |
| (c) Mines and quarries-surface and underground machinery | 15 | 25 | 16.50 |
| (d) Electrical machinery-switch gear, instruments*, wireless apparatus and gear, wireless appliances and accessories | 15 | 25 | 11.79 |
| (e) Railway sidings, locomotives rolling stocks, tramways and railways used by concerns excluding railway concerns | 15 | 25 | 6.60 |
| (f) Office machinery, typewriters, accounting and calculating machines | 15 | 0 | 27.29 |
| (g) Data processing machines including computers | 20 | 0 | 27.29 |
| (h) Motor cars[3] | 20 | 0 | 10.00 |
| (i) Electrical machinery-batteries, X-rays, electro-therapeutic apparatus and accessories thereto | 20 | 25 | 11.79 |
| (j) Motor tractors, harvesting combines | 30 | 25 | 16.33 |
| (k) Aeroplanes—aircraft | 30 | 25 | 18.18 |
| (l) Aeroplanes—aeroengines | 40 | 25 | 7.86 |
| 2 Buildings[4] | | | |
| (a) General rate | 5 | 0 | 3.16 |
| (b) Factory buildings | 10 | 0 | 3.30 |
| 3 Ships (ocean going except fising vessels with wooden hull)[5] | 5 | 25 | 7.50 |

*Notes*: * Transformers and other stationary plant and wirings and fittings.

1 Tax depreciation rates are on the written down value of an asset.

2 All categories of plant and machinery except (f), (g), (h) and (k) are eligible for additional depreciation allowance.

3 We use economic depreciation rate of 10 per cent Hulten and Wykoff figure of 33.33 per cent seems too high for India.

4 Buildings are neither eligible for additional depreciation allowance nor for investment allowance.

5 Five per cent rate is on actual cost.

*Source*: 'Taxman' 1984 Edition.

price or user cost of capital as well as the real cost of capital depends on the sensitivity of the present value of depreciation allowances to changing inflation rates, $dz/dp$, as well as the importance of these allowances as a tax shelter, $(1 - uz - uk)$. It is the percentage change in the effective purchase price of capital, $q\,(1 - uz - uk)$ and user cost, c that influences investment incentives. The rise in user cost relative to zero inflation can be measured by taking the ratio $c_1/c_0$ where $c_1$ is the user cost at the given inflation rate and $c_0$ is the user cost at zero inflation rate. The ratio is simply $\frac{(1 - uz - uk)}{(1 - uz_0 - uk)}$ where $z_1$ and $z_0$ are the present value of depreciation allowances with the given and zero inflation rates respectively. This ratio is independent of the true rate of capital decay.

The effect of inflation in raising r can be further seen by comparing the cases where economic depreciation allowances are indexed and where they are not. With inflation and indexed deductions, depreciation allowed at time t is $de^{-dt}e^{pt}$. In the presence of taxes, the present value of depreciation deductions

$$z_e = \int_0^\infty de^{-dt}\,e^{pt}\,e^{-(r^*+p)t}\,dt$$

Solving the integral yields

$$z_e = \frac{d}{(r^* + d)} \quad \ldots (6)$$

For a fixed real discount rate, $r^*$, $z_e$ in (6) is fixed.

When depreciation allowances are based on prices in the year of purchase and are not adjusted for changes in prices, the present value of depreciation allowances is,

$$z_H = \int_0^\infty de^{-dt}\,e^{-(r^*+p)t}\,dt$$

Solving the integral and substituting the limits gives

$$z_H = \frac{d}{r^* + p + d} \quad \ldots (7)$$

$z_H$ in (7) declines with the rate of inflation. Substituting the value of $z_H$ in (5) and assuming investment allowances to be zero, we get the following expression for the real cost of capital.

$$r = \frac{r^*}{1 - u} + \frac{u}{1 - u}\,pz_H. \quad \ldots (8)$$

If we substitute (6) in (5) we get

$$r \neq \frac{r^*}{1 - u}$$

Thus, the cost of capital, r is higher when depreciation allowances are not indexed by an amount $\frac{u}{1 - u}\,pz_H$. Moreover the cost of capital increases with d. Thus the inflation discriminates against short lived assets. The bias is in favour of long lived assets with low values of d.

In the above analysis of the effect of inflation on depreciation and r, we have assumed investment allowances to be zero. With an investment allowance, k, the cost of capital in (8) will be

$$r = \frac{r^*}{1 - u} + \frac{udp}{(1 - u)\ (r^* + p + d)} - \frac{uk\,(r^* + d)}{1 - u} \quad \ldots (9)$$

Thus investment allowances lower r by an amount measured by the third term. Investment allowances are important both for the corporation and the policy maker. For the corporation they lower the cost of capital, for the policy maker it can serve not only as an instrument for channelling investment into desired assets but it is also a tool which confers differing benefits on assets with different asset lives even when the rate of allowance levied is identical. From equation (9) it is clear that the value of the third term is larger for larger values of d and therefore investment allowance favours short lived investments.

Thus investment allowance and use of historical cost method for calculating depreciation deductions produce offsetting distortions in the tax system. While, depreciation allowances at historical cost discriminate against short lived assets, investment allowances favour short lived investments.

Tax and economic depreciation rates may not necessarily be identical. If tax deductions decline at the rate T from year zero (as in the declining balance method in India), then the present value of deductions is given by the integral,

$$Z_T = \int_0^\infty Te^{-Tt}\,e^{-(r^*+p)t}\,dt$$

Solving the integral and substituting the limits as before gives,

$$Z_T = \frac{T}{r^* + p + T} \quad \text{and}$$

$$r = \frac{(r^* + d)\left(\frac{1 - uT}{T + r^* + p} - uk\right)}{1 - u} - d \ \ldots (10)$$

TABLE 2: THE PRESENT VALUE OF REAL DEPRECIATION ALLOWANCES PER RUPEE OF INVESTMENT[1]

(A) Plant and Machinery[2]

| Inflation Rate (Per Cent) | Tax Depreciation Rate (Per Cent) 15 | 20 | 30 | 40 |
|---|---|---|---|---|
| 0 | .4760 | .5047 | .5368 | .5546 |
| 2 | .4436 | .4795 | .5216 | .5456 |
| 4 | .4168 | .4580 | .5080 | .5374 |
| 6 | .3943 | .4390 | .4957 | .5298 |
| 8 | .3750 | .4227 | .4846 | .5228 |
| 10 | .3583 | .4083 | .4745 | .5163 |
| 20 | .3003 | .3550 | .4350 | .4899 |
| 30 | .2658 | .3216 | .4078 | .4707 |

(B) Buildings and Ships[3]

| Inflation Rate (Per Cent) | Tax Depreciation Rate (Per Cent) | | |
|---|---|---|---|
| | Buildings | | Ships |
| | 5 | 10 | 5 |
| 0 | . 307 | . 401 | .3838 |
| 2 | .2533 | .3523 | .3257 |
| 4 | .2155 | .3139 | .2796 |
| 6 | .1875 | .2831 | .2429 |
| 8 | .1659 | .2578 | .2134 |
| 10 | .1488 | .2368 | .1892 |
| 20 | .0982 | .1679 | .1175 |
| 30 | .0733 | .1300 | .0839 |

*Notes*: 1 Entries equal nominal depreciation allowances multiplied by .5775, the corporate income tax rate, discounted by the nominal after tax discount rate.

2 Nominal depreciation allowances are calculated using the declining balance method. Additional first year depreciation equal to one half of normal depreciation is included because many categories of plant and machinery are eligible for it.

3 The rate for ocean-going ships is 5 per cent of actual cost. The general rate for buildings and the rate for factory buildings is 5 and 10 per cent respectively of the written down value. No additional first year depreciation is allowed for these asset classes.

Inflation lowers the present value of the tax depreciation allowances and thus raises r. Greater the T, greater will be the value of $Z_T$ and lower will be the cost of capital.

Two assets may have identical, K, T, r* and u but the cost of capital will differ so long as economic depreciation rates are different. The other point worth noting is that if $T > d$, then corporations are better off under the tax depreciation scheme *vis-a-vis* economic depreciation rules. Simplifying equation (10), we get,

$$r = \frac{r^*}{1-u} - \frac{ur^*(T-d)}{(1-u)(r^*+p+T)} + \frac{udp}{(1-u)(r^*+p+T)} - \frac{uk(r^*+d)}{1-u} \quad \ldots (11)$$

The second term in (11) measures the lowering of r on account of T being greater than d, or *vice versa*. With T>d, it also follows that indexed tax depreciation confers larger benefits on corporations than indexed economic depreciation. With indexed tax depreciation, assuming $k = 0$,

$$r = \frac{r^*}{1-u} - \frac{ur^*(T-d)}{(r^*+T)(1-u)} \quad \ldots (12)$$

With indexed economic depreciation, we may recall that,

$$r = \frac{r^*}{1-u}$$

The pre-tax return in (12) is less than the pre-tax return with indexed economic depreciation by an amount measured by the second term in (12).

The effective corporate tax rate is defined as the wedge between the rate of return on investment and the rate of return on savings used to finance that investment. It involves comparing r obtained in equation (5) with r*. If we denote the effective corporate tax rate by u* then

$$u^* = \frac{r - r^*}{r} \quad \ldots (13)$$

Expression (13) above needs to be interpreted with caution. If a subsidy is large enough, the required pre-tax returns can turn negative. The negative expression in the numerator is then divided by a negative pre-tax return. The resulting positive number is difficult to interpret. This problem can, however, be solved by using only the numerator or "effective tax wedge" interpreted as a percentage of the asset value paid in tax each year.

The next section presents the proxies used, the results obtained and their analysis.

## III

## Estimates Based on 1984-85 Asset Classes and Tax Rates

Three asset classes were used for analysis—plant and machinery, buildings and ships. Twelve asset categories were chosen from asset class, plant and machinery, two from buildings and one from ships. The asset classes along with asset categories are listed in column 1 of Table 1. The 1984-85 tax depreciation rates and investment allowance rates are shown in columns 2 and 3 respectively of Table 1. The rates of economic depreciation (column 4), defined as decline in asset value with age taking account of inflation, are chosen from Hulten and Wykoff (1981) after a careful comparison of the asset categories as defined in India and as defined by Hulten and Wykoff.[2]

The rates do not seem to be implausible for India though one would expect economic lives to be longer. For example, a 12.5 per cent geometric decay for the general category of plant and machinery implies an economic life of 16 years on the straightline method (Mervyn and Fullerton, 1984). Though the depreciation rate for the general category is not strictly comparable with that for agricultural plant and machinery, for which systematic estimates in India exist, it is nevertheless illuminating to compare them. The working group on Savings (1982) reports that 11 per cent of the value of the stock of such assets depreciates annually. Thus, a 12.5 per cent economic depreciation rate does not seem to be too unreasonable. This belief is confirmed if we note from Table 1 of the report that for registered manufacturing the average age of assets is about 20 years. This implies a geometric decay rate of 10 per cent because it can be shown that if economic life according to straightline depreciation is L then this can be approximated by an exponential rate given by 2/L (Mervyn and Fullerton, 1984).

We assume that there is no resale and that the asset is held until retirement. We include additional first year depreciation allowance at the rate of one-half the amount admissible as normal depreciation allowance for the assets eligible for it. Though the additional depreciation allowance was to be allowed

TABLE 4: THE NET COST OF INVESTMENT IN PLANT AND MACHINERY, BUILDINGS AND SHIPS WITH EXISTING LAWS AND ZERO INFLATION

| | Tax Depreciation Rate (Per Cent) | Net Cost of Investment |
|---|---|---|
| A Plant and Machinery | 15 | .3796 |
| | 20 | .3509 |
| | 30 | .3188 |
| | 40 | .3010 |
| B Buildings | 5 | .6928 |
| | 10 | .5990 |
| C Ships | 5 (on actual cost) | .4718 |

TABLE 3: PERCENTAGE DECLINE IN THE PRESENT VALUE OF REAL DEPRECIATION ALLOWANCES PER RUPEE OF INVESTMENT[1]

(A) Plant and Machinery[2]

| Inflation Rate (Per Cent) | Tax Depreciation Rate (Per Cent) 15 | 20 | 30 | 40 |
|---|---|---|---|---|
| 0 | | | | |
| 2 | 6.81 | 5.00 | 2.82 | 1.62 |
| 4 | 6.04 | 4.48 | 2.61 | 1.50 |
| 6 | 5.41 | 4.15 | 2.43 | 1.41 |
| 8 | 4.88 | 3.71 | 2.23 | 1.32 |
| 10 | 4.45 | 3.41 | 2.09 | 1.24 |
| 20 | 16.10 | 13.05 | 8.32 | 5.11 |
| 30 | 11.49 | 9.40 | 6.26 | 3.92 |

(B) Buildings and Ships[3]

| Inflation Rate (Per Cent) | Tax Depreciation Rate (Per Cent) Buildings 5 | Buildings 10 | Ships 5 |
|---|---|---|---|
| 0 | | | |
| 2 | 17.49 | 12.14 | 15.14 |
| 4 | 14.92 | 10.90 | 14.15 |
| 6 | 12.99 | 9.81 | 13.13 |
| 8 | 11.52 | 8.94 | 12.16 |
| 10 | 10.31 | 8.15 | 11.30 |
| 20 | 34.00 | 29.10 | 37.93 |
| 30 | 25.36 | 22.57 | 28.61 |

*Notes*: 1 The percentage decline has been calculated relative to the previous inflation rate.
2, 3 See notes 2 and 3 of Table 2.

for some categories of plant and machinery installed between March 31, 1980 and April 1, 1985, we assume that it is continued in the rest of the 1980s. We however do not take account of the extra shift allowance on plant and machinery that has worked double or multiple shifts as it is not feasible to do so within the given framework.

The theoretical model presented in section II assumes that receipts and tax deductions begin at time zero and occur continuously over time. The present value of depreciation under this approach is approximately the same as would occur with discrete annual discounting where the first year is discounted as a full year and so on.

Following Auerbach (1983), for calculations of the effective corporate tax rate, u*, we assume an asset to be equity financed and compare the resulting r* with r. For an equity financed investment, r* is the after tax return on equity. For the 1980s, it is the expected profits after tax as a percentage of net worth (RBI Bulletin, July 1983). We proxy this by average profits after tax as a percentage of average net worth of medium and large non-financial public limited companies for the period 1960-61 to 1980-81 as given in various issues of RBI Bulletin. This average turns out to be 10.6 per cent.[3] Since this return is in nominal terms, we need to subtract the average inflation to obtain the return in real terms. Average inflation must reflect the underlying rate that prevailed in the period 1960-61 to 1980-81 after adjusting for unexpected or exogenously induced upward or downward swings (Hendershott and Hu, 1981). The average inflation rate was calculated after excluding the years 1966-67 (devaluation), 1973-74 (first oil shock), 1975-76 (emergency), 1978-79 (second oil shock) and 1979-80 (drought year). The average underlying 'true' inflation rate is estimated to be 6.2 per cent giving a real after tax return of 4.4 per cent. This number is close to the estimate by Hendershott and Hu (1981) for the USA. They found the real return series to be a stable series fluctuating between 4.5 per cent and 5.5 per cent.

We present estimates under three rates of inflation, eight per cent, 10 per cent and 15 per cent. The World Bank has predicted an inflation rate of around eight per cent for the eighties. 10 per cent is the average inflation rate that prevailed in the period 1970-71 to 1980-81. 15 per cent is an ad hoc figure, included to test the sensitivity of the estimates for varying rates of inflation. The proxy used for inflation rate is the percentage change in the consumer price index. The rationale for using the CPI is that investors forego consumption when they invest and their cost in terms of foregone consumption should be recognised in subsequent depreciation.

The corporate tax rate inclusive of surcharge assumed for the 1980s is 57.75 per cent. This is the average corporate tax rate levied on public limited companies during the period 1970-71 to 1980-81.

Tables 2 and 3 show the present value of real depreciation allowances per rupee of investment and the percentage decline with inflation respectively for different tax depreciation rates admissible under the 1984-85 tax law. Many are eligibe for the first year's additional depreciation allowance. Where this is the case, the general formula used in the calculations presented in the tables, for a particular rate on plant and machinery is:

$$Z^P = \frac{3}{2}T + (1 - \frac{3}{2}T)\, T \left( \frac{1}{T + r^* + p} \right)$$

Where $p = 0, 2, 4, 6, 8, 10, 20, 30$ and $T = 15, 20, 30, 40$.

For buildings where additional depreciation allowance is not admissible, the formula used is:

$$Z^B = \frac{T}{T + r^* + p}$$

Where $p = 0, 2, 4, 6, 8, 10, 20, 30$ and $T = 5, 10$.

For ships, Z is calculated as:

$$Z^s = \frac{1}{L\,(r^* + p)} \left(1 - \frac{1}{e^{(r^* + p)L}}\right)$$

where $p = 0, 2, 4, 6, 8, 10, 20, 30$, and L is the implicit tax life.

It is clear from Tables 2 and 3 that

(a) the present value of depreciation allowances is lower for assets having a lower tax depreciation rate. Thus with 10 per cent inflation, the present value per rupee of investment in plant and machinery at 15, 20, 30 and 40 per cent tax depreciation rates is 35.8 paise, 40.8 paise, 47.5 paise and 51.6 paise respectively.

(b) rising inflation reduces the present value of real depreciation allowances. Thus at 15 per cent tax depreciation rate, the present value at 0, 10, 20 and 30 per cent inflation rates is 47.6 paise, 35.8 paise, 30 paise and 26.6 paise respectively.

(c) the rate at which the present value declines falls with an increase in the inflation rate. For a 15 per cent tax depreciation rate, when inflation increases from zero to two per cent, the present value of allowances falls by 6.81 per cent. A further two point increase from two to four per cent leads to a decline in present value by 6.04 per cent.

(d) with inflation, the value of depreciation allowances drops at a *faster* rate for assets

TABLE 5: INFLATION AND INVESTMENT INCENTIVES[1]

(A) Plant and Machinery[2]

| Inflation Rate (Per Cent) | Tax Depreciation Rate (Per Cent) 15 | 20 | 30 | 40 |
|---|---|---|---|---|
| 0 | 1.00 | 1.00 | 1.00 | 1.00 |
| 2 | 1.086 | 1.07 | 1.047 | 1.030 |
| 4 | 1.156 | 1.134 | 1.090 | 1.057 |
| 6 | 1.215 | 1.187 | 1.129 | 1.082 |
| 8 | 1.266 | 1.234 | 1.164 | 1.106 |
| 10 | 1.310 | 1.274 | 1.195 | 1.127 |
| 20 | 1.463 | 1.426 | 1.319 | 1.215 |
| 30 | 1.554 | 1.522 | 1.405 | 1.279 |

(B) Buildings and Ships[3]

| Inflation Rate (Per Cent) | Tax Depreciation Rate (Per Cent) |  |  |
|---|---|---|---|
|  | Buildings |  | Ships |
|  | 5 | 10 | 5 |
| 0 | 1.000 | 1.000 | 1.000 |
| 2 | 1.0777 | 1.0816 | 1.123 |
| 4 | 1.1323 | 1.1454 | 1.221 |
| 6 | 1.1727 | 1.1968 | 1.299 |
| 8 | 1.2038 | 1.239 | 1.360 |
| 10 | 1.2285 | 1.274 | 1.410 |
| 20 | 1.3016 | 1.389 | 1.564 |
| 30 | 1.3376 | 1.4524 | 1.636 |

*Notes*: 1 Entries equal the ratio of the user cost of capital when inflation is greater than 0 per cent to the user cost of capital when the inflation rate is zero. The figures are independent of the pattern of 'true' capital decay or the rate of economic depreciation as inflation alters the relative user cost through the factor (1 – UZ – UK)

2 K = 25 per cent and additional depreciation allowance is assumed to be admissible.

3 K = 0 for the asset classes buildings and ships. No additional first year depreciation allowance is allowed.

having a lower tax depreciation rate. This is obvious if we compare columns 2, 3, 4 and 5 of Table 3A, and columns 2 and 3 of Table 3B. Therefore, the relatively modest role of depreciation allowances in cash flow accruing to capital having a lower tax depreciation rate does not mean that these assets are necessarily less sensitive to changing inflation rates than assets having a higher tax depreciation rate. In fact, assets having a smaller tax depreciation rate are more sensitive to inflation than assets having a larger tax depreciation rate.

In the case of buidlings and ships, the sensitivity to inflation is greater than for the asset class plant and machinery, both because of lower tax depreciation rates and also because the additional first year's depreciation allowance is not applicable.

For a given after tax return, marginal corporate tax rate and economic depreciation rate, the user cost of capital services is proportional to the net cost of investment. The rise in the user cost with inflation, can thus be measured by a corresponding rise in the net cost of investment. The net cost to a firm of acquiring one rupee equivalent of plant and machinery, building or ships in the absence of inflation is shown in Table 4. The table shows that decreases in the tax life of an asset lower the net cost of investment. Also, the net cost of a given investment in building is higher than the equivalent investment in plant and machinery. This reflects the eligibility of plant and machinery for the additional first year depreciation allowance, higher tax depreciation rates and the benefit of investment allowance. The results displayed in the table suggest that at 15 per cent depreciation rate, the cost of investing a rupee is approximately 38 paise.

The rise in the net cost of capital *vis-a-vis* zero inflation rate is given in Table 5. Inflation causes a substantial rise in the net cost of investment at all tax depreciation rates. The results also indicate that the tax shelter offered by depreciation allowances is sufficiently important for capital with lower tax depreciation rates so that higher inflation increases the user cost of capital for these assets more than that of capital with larger tax depreciation rates. As annaul inflation rates rises from zero to six per cent, other things being equal, investment incentives for assets with 15 per cent tax depreciation rates fall by 21.5 per cent, but incentives for 20 per cent tax depreciation rates fall only by 18.7 per cent. Intuitively, this is because the smaller the tax depreciation rate, the larger is the tax life and, thus, more inflation may "discount" the value of the allowances before they may be claimed. Hence, high inflation rates discourage the purchase of assets with smaller tax depreciation rates *vis-a-vis* greater tax depreciation rates and bias the pattern of investment in favour of assets with shorter tax lives.[4]

A comparison of parts A and B of Table 5 reveals that the rise in the user cost for building with a five per cent rate is less than the rise in plant and machinery with 15 and 20 per cent tax depreciation rates. Also, for buildings the percentage rise with 10 per cent rate is more than the rise with a five per cent rate. We may recall from Table 4 that the ineligibility of buildings for investment allowance and additional first year depreciation allowance results in a higher absolute net cost of investment *vis-a-vis* plant and machinery at zero inflation rate. A lower depreciation rate for buildings implies a greater absolute increase in net cost (relative to zero inflation) *vis-a-vis* plant and machinery, but the effect of higher net cost at zero inflation for buildings is stronger and more than off-sets the effect of lower depreciation rate so that the percentage rise with inflation in user cost of building is relatively less than for some asset categories of plant and machinery. The case of buildings, is similar where the absolute net cost of investment for buildings to which a general rate of five per cent is applicable, is higher when compared to factory buildings with 10 per cent depreciation rate at zero inflation. In summary, with current Indian Income Tax codes, which link depreciation allowances to the original purchase price of capital assets, changing inflation rates alter the relative user cost of capital, other things being equal. We find that higher inflation generally raises the user cost more for assets with longer tax lives *vis-a-vis* assets with shorter tax lives. This distorts the choice between short and long-lived plant and machinery, thereby reducing the productivity of the capital stock. Apart from this differential effect of inflation and consequent substitution between varieties of capital goods, higher user cost for all assets by making investment less profitable reduces the rate of capital formation.

The effective tax rates by asset type are given in Table 6 again for inflation rates of 8, 10, and 15 per cent. Table 6 shows that inflation raises effective tax rates for all asset classes and asset categories by eroding the value of deductions based on historical cost. Also, for a two percentage point increase in inflation from 8 to 10 per cent the effective tax rate goes up by more than two per cent except for asset categories (f), (g) of plant and machinery and the general category of asset class buildings. However, it is important and interesting to note that as inflation increases, effective tax rates increase

TABLE 6: EFFECTIVE TAX RATES BY ASSET TYPE (1984-85 TAX LAW)

| Asset Type | Inflation Rate (Per Cent) | | |
|---|---|---|---|
| | 8 | 10 | 15 |
| 1 **Plant and Machinery** | | | |
| (a) General rate | 34.24 | 40.14 | 49.18 |
| (b) Building contractors' machinery | 40.33 | 46.70 | 55.68 |
| (c) Mines and quarries—surface and underground machinery | 39.52 | 45.70 | 54.84 |
| (d) Electrical machinery—switch gear and instruments, transformers and other stationary plant and wirings and fittings, wireless apparatus and gear, wireless appliances and accessories | 33.61 | 39.45 | 48.47 |
| (e) Railway sidings, locomotives, rolling stocks, tramways and railways used by concerns excluding railway concerns | 25.60 | 30.70 | 39.00 |
| (f) Office machinery, typewriters, accounting and calculating machines | 81.68 | 82.83 | 84.74 |
| (g) Data processing machines including computers | 79.03 | 80.48 | 83.08 |
| (h) Motor cars | 63.13 | 65.18 | 62.05 |
| (i) Electrical machinery—batteries, X-rays, electrotherapeutic apparatus and accessories thereto | 8.38 | 17.08 | 32.30 |
| (j) Motor tractors, harvesting combines | −134.91 | −85.65 | 28.02 |
| (k) Aeroplanes—aircraft | 22.95 | 34.27 | 50.03 |
| (l) Aeroplanes—aeroengines | −144.72 | −121.66 | −83.33 |
| 2 **Buildings**[4] | | | |
| (a) General rate | 62.60 | 63.65 | 65.12 |
| (b) Factory buildings | 56.52 | 58.54 | 61.22 |
| 3 **Ships** (ocean going except fising vessels with wooden hull | 58.45 | 60.95 | 64.78 |

but at a decreasing rate. This is because the real value of depreciation allowances fall at a reduced rate.

A striking result is the extent to which effective tax rates differ across investments because of the pattern of depreciation and investment allowances. Effective tax rates are the highest for categories eligible only for depreciation allowance, like (f), (g), (h) and asset class buildings. Difference in effective tax rates for categories (f) and (g) reflect the difference in tax depreciation rates alone because variables (d) and (k) are identical for both. Under existing laws (j) and (l) receive extremely generous treatment. For categories (j) and (l) effective tax rates are highly negative implying that they receive more from the government by way of different allowances than they pay in taxes. A high rate of depreciation allowance (30 and 40 per cent respectively), additional first year depreciation allowance and investment allowance combine to give present value of benefits per rupee of investment that exceeds one. Tax payers thus receive implicit subsidies. For ocean going ships the effective tax rates are higher than the statutory rate, particularly at 15 per cent inflation.

The other important aspect to note is that the historical cost basis, by discriminating against assets with short economic lives, results in higher effective tax rates for these assets. For example, within the asset class, plant and machinery for categories (g) and (h) effective tax rates are higher for (g). If effective tax rates for categories, (b) to (e) are compared we see that effective tax rates are lowest for (e) and highest for (b) though both have the same allowances. The fact that the shortest lived investment is (b) and the longest lived is (e), implies that the effect of historical cost basis which favours long lived investments outweighs the effect of investment allowance which favours shorter investment lives.

Finally, in Table 6 it would be interesting to compare effective tax rates across the three inflation rates to see how inflation affects differential tax rates. We pointed out earlier that this analysis is important from the neutrality point of view. Effective tax rates under all three inflation rates vary considerably. These variations in effective tax rate suggest potential for non-neutral allocation of resources. Hulten and Wykoff (1981) too contend that the uneven distribution of incentives, by creating differential tax burdens, results in inequities.

The source of tax differential was explored by measuring the independent effect of historical cost basis. This was done by assuming that the investment allowance for the admissible categories are repealed. The effective tax rate so calculated for 10 per cent inflation rate are given in the columns of Table 7. These rates can also be compared with rates obtained by indexing the tax depreciation allowances to inflation which are presented in column 3 of Table 7. If the economic rates of depreciation are indexed, we saw in section II that this would result in effective tax rates equal to the statutory rate. To facilitate direct comparison across assets, these rates are displayed in column 4 of Table 7.

It is clear that the repeal of investment allowance would substantially reduce the variations in tax rates and contribute towards a more neutral tax system. Indexation does not significantly effect the variation in effective tax rates. It is however important to point out here that if we assumed that investment allowances continue at the same rate but depreciation allowances are indexed then indexation would magnify the variations in rates. The variation is the minimum under a scheme of indexed economic depreciation.

Table 7 also shows purely the effect of inflation in raising effective tax rates by ignoring investment allowances. An increase in the inflation rate from 0 to 10 per cent increases the effective tax rate by about 17 to 19 per cent for categories 1(a) to (e), by 13 per cent for (f), 16 per cent for (g), 21 per cent for (h), 22 per cent for (i), 21 per cent for (j), 22 per cent for (k), 15 per cent for (l). For ships and factory buildings the increase is about 16 per cent. For a few asset categories like (e), (i) and (l), the effective tax rates under 1984-85 tax depreciation rates are less than even the indexed economic depreciation. For asset categories like (f) and (g) the effective tax rates under current law are substantially higher than indexed economic depreciation because the tax depreciation rate is much lower than the economic rate.

## IV

## Conclusions and Policy Implications

The results from this study show that, first, effective tax rates increase with infla-

TABLE 7: EFFECTIVE TAX RATES UNDER 1984-85 TAX DEPRECIATION RATES AND INDEXED ECONOMIC DEPRECIATION[1]

| Asset Type | 1984-85 Tax Depreciation Rate | | Indexed |
|---|---|---|---|
| | 10 Per Cent Inflation | Indexation | Economic Depreciation[3] |
| **1 Plant and Machinery** | | | |
| (a) General rate | 66.25 | 47.61 | 57.75 |
| (b) Building contractors' machinery | 71.90 | 54.00 | 57.75 |
| (c) Mines and quarries—surface and underground machinery | 71.00 | 53.30 | 57.75 |
| (d) Electrical machinery—switch gear, instruments, transformers and other stationery plant and wirings and fittings, Wireless apparatus and gear, wireless appliances and accessories | 65.63 | 46.92 | 57.75 |
| (e) Railway sidings, locomotives rolling stocks, tramways and railways used by concerns excluding railway concerns | 56.47 | 37.53 | 57.75 |
| (f) Office machinery, typewriters, accounting and calculating machines | 82.83 | 69.10 | 57.75 |
| (g) Data processing machines including computers | 80.48 | 64.40 | 57.75 |
| (h) Motor cars | 65.18 | 44.91 | 57.75 |
| (i) Electrical machinery—batteries, X-rays, electrotherapeutic apparatus and accessories thereto | 59.60 | 38.80 | 57.75 |
| (j) Motor tractors, harvesting combines | 53.20 | 31.16 | 57.75 |
| (k) Aeroplanes—aircrafts | 69.46 | 47.31 | 57.75 |
| (l) Aeroplanes—aeroengines | 28.74 | 13.12 | 57.75 |
| **2 Buildings** | | | |
| (a) General rate | 63.55 | 52.36 | 57.75 |
| (b) Factory buildings | 58.54 | 42.20 | 57.75 |
| **3 Ships** (ocean going) | 71.31 | 55.38 | 57.75 |

*Notes*: 1 Investment allowance and tax holiday benefit are assumed to be zero.
2,3 Indexing here implies that present discounted value of depreciation allowances has been calculated at zero inflation rate.

TABLE 8: REAL COST OF CAPITAL AND EFFECTIVE TAX RATES UNDER OUR PROPOSAL

| Assets Class | Real Cost of Capital (Per Cent) | Effective Tax Rate (Per Cent) |
|---|---|---|
| 1 Plant and Machinery | | |
| (a) General rate | 4.95 | 11.18 |
| (b) Building contractors' machinery | 5.12 | 14.05 |
| (c) Mines and quarries—surface and underground machinery | 5.095 | 13.64 |
| (d) Electrical machinery—switch gear, instruments, transformers and other stationary plant and wirings and fittings, wireless apparatus and gear, wireless appliances and accessories | 4.94 | 10.90 |
| (e) Railway sidings, locomotives rolling stocks, tramways and railways used by concerns excluding railway concerns | 4.766 | 7.67 |
| (f) Office machinery, typewriters, accounting and calculating machines | 5.45 | 19.32 |
| (g) Data processing machines including computers | | |
| (h) Motor cars | 4.88 | 9.82 |
| (i) Electrical machinery—batteries, X-rays, electrotherapeutic apparatus and accessories thereto | 4.94 | 10.90 |
| (j) Motor tractors, harvesting combines | 5.09 | 13.55 |
| (k) Aeroplanes—aircraft | 5.15 | 14.58 |
| (l) Aeroplanes—aeroengines | 4.81 | 8.50 |
| 2 Buildings | | |
| (a) General rate | 12.07 | 63.55 |
| (b) Factory buildings | 8.806 | 50.03 |
| 3 Ships (ocean going except fishing vessels with wooden hull) | 7.17 | 38.60 |

tion at a decreasing rate. This is because as inflation increases the real value of depreciation allowances falls at a diminishing rate. Secondly, inflation increases the dispersion in effective tax rates causing the tax system to become more non-neutral.

A desirable tax criterion is that where real tax payments are unaffected by changes in the price level. This criterion is violated by the existing tax system as indicated by the results of this study. Stiglitz (1976) has pointed out that it is important for depreciation policies to be equitable. Efficiency criterion requires that rules for depreciation allowances not affect the choice of investment. Tax depreciation allowances which do not reflect actual economic depreciation and which are not adjusted for inflation tend to be inefficient.

Although, ad hoc corrections in depreciation allowances or other benefits are an imperfect substitutes for indexing which offsets completely the inflationary impact, the problems associated with indexation are several. With partial indexation plans, capital intensive industries employing long lived assets gain the maximum. This leads to an allocation of resources favouring these industries and discriminating against others. But, since indexed allowances have to be offset against gross profits, even slow growth capital intensive industries may not be able to realise the tax benefit of allowances. Indexation can also lead to economic instability because demands by other sectors for similar price adjustments can set in motion a price spiral and defeat the very purpose of indexation. At the same ime an inequitable distribution of tax liabilities would result if price level adjustments are not carried out for other sectors. The most important problem with indexation, especially for developing economies, is in the usage of appropriate indices which reflect replacement cost. While one time adjustments may be based on appraisal of the market value of assets, continuous adjustment requires the usage of indices that mirror market values and changes in it. Different classes of assets, buildings, plant and machinery, ships, land, even various asset categories in these classes would have to be revalued using specific indices for each. Thus the effectiveness of indexation policy hinges upon the accuracy of the indices employed, which in turn depends on the availability of appropriate data base. This is likely to be the major obstacle to the use of indexation.

Acceleration of depreciation allowances which shorten the tax life of assets cannot eliminate the effect of price level changes completely. It can only offset the effect of inflation somewhat. Adequate correction will take place only for a specified inflation rate. If the rate changes then the acceleration proposal has to be modified. While acceleration can also lead to inequities, the discrimination among corporations is such as to favour rapidly growing corporations because these will generate larger depreciation charges and lower tax liabilities. But such discrimination is in the right direction. Moreover, the acceleration principle is

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highly flexible and administratively easier to implement. The policy-maker however has to use acceleration techniques with caution. He must be aware that when depreciation allowances are accelerated, the decline in asset value is faster than would be dictated by the decline in productivity alone. So assets with identical productive characteristics would *differ* if the rates at which their allowances are accelerated differ. The other important aspect for the policy-maker to note is that accelerated rates bear little or no resemblance to true economic depreciation rates and are fixed in a rather ad hoc fashion. So any set of rates are difficult to justify. A policy-maker can be faced with numerous proposals without having at his disposal any set of criteria by which to judge them and thereby choose one in preference to others.

In the light of the estimates and results derived we suggest the following reforms in the Indian tax system:

—Raise all tax depreciation rates on plant and machinery which are lower than 30 per cent to 30 per cent. Let the 40 per cent tax depreciation rate remain at 40 per cent. Assets with low tax depreciation rates, we saw, are more sensitive to inflation and also have high effective tax rates. By accelerating these lower rates to 30 per cent inflation's adverse impact will be lessened. The real cost of capital and effective tax rates will fall considerably thereby stimulating capital formation. It is also suggested that the depreciation rate for factory buildings be increased to 20 per cent and for ocean-going ships to 10 per cent of actual cost. Thus we are proposing acceleration rather than indexation to counteract inflation.

—Abolish additional depreciation allowance to simplify the tax system and increase neutrality.

—Raise investment allowance from 25 per cent to 30 per cent and let its scope be enlarged to include all asset categories of the asset class, plant and machinery. We advocate a rise in the rate of allowance for three specific reasons: (a) To compensate for the loss of additional depreciation allowance; (b) To lower effective tax rates which rise with inflation. Our results showed that if investment allowance was repealed, real cost of capital and effective tax rate would shoot up dramatically. With no investment allowance there is no offset to historical cost basis; (c) To provide additional incentive for short lived assets. Investment allowance, we showed, favours assets with short economic lives.

TABLE 9: EFFECTIVE TAX RATES BY ASSET TYPE IN USA

| Asset Type | 6 Per Cent Inflation Rate | | 9 Per Cent Inflation Rate | |
|---|---|---|---|---|
| | ADR | ACRS | ADR | ACRS |
| **Equipment** | | | | |
| 1 Autos | 17.0 | −32.8 | 26.1 | −13.5 |
| 2 Office, computing and accounting equipment | 2.3 | −49.4 | 20.2 | −18.8 |
| 3 Trucks, buses and trailers | 10.1 | −45.2 | 22.3 | −17.5 |
| 4 Aircraft | 17.7 | −31.4 | 29.0 | −12.9 |
| 5 Construction machinery | 7.6 | −29.7 | 17.4 | −12.3 |
| 6 Mining and oilfield machinery | 16.7 | −28.5 | 27.5 | −11.9 |
| 7 Service industry machinery | 20.3 | −28.5 | 30.5 | −11.9 |
| 8 Tractors | 8.9 | −28.2 | 20.2 | −11.8 |
| 9 Instruments | 20.7 | −17.5 | 30.3 | − 3.4 |
| 10 Other equipment | 13.4 | −25.6 | 24.0 | −10.8 |
| 11 General industrial equipment | 20.6 | −14.0 | 29.0 | − 2.4 |
| 12 Metal working machinery | 13.2 | −20.2 | 22.2 | − 8.6 |
| 13 Electric transmission/distribution equipment | 29.2 | + 3.2 | 36.5 | +13.6 |
| 14 Communications equipment | 22.6 | −21.1 | 30.9 | − 9.1 |
| 15 Other electrical equipment | 12.6 | −21.1 | 22.1 | − 9.1 |
| 16 Furniture and fixtures | 7.1 | −20.0 | 16.8 | − 8.7 |
| 17 Special industrial equipment | 12.6 | −19.0 | 21.4 | − 8.3 |
| 18 Agricultural equipment | 6.6 | −18.1 | 15.7 | − 7.9 |
| 19 Fabricated metal products | 26.8 | − 1.4 | 33.6 | 7.9 |
| 20 Engines and turbines | 31.8 | 16.3 | 37.5 | 23.8 |
| 21 Ships and boats | 27.9 | −15.1 | 34.0 | − 6.7 |
| 22 Railroad equipment | 24.8 | 11.1 | 30.8 | 18.2 |
| **Structures** | | | | |
| 23 Mining exploration, shafts and wells | 8.5 | 8.5 | 9.6 | 9.6 |
| 24 Other | 51.7 | 41.6 | 53.5 | 44.8 |
| 25 Industrial structures | 49.6 | 38.4 | 51.2 | 41.5 |
| 26 Public utility structures | 27.3 | 15.5 | 31.6 | 20.9 |
| 27 Commercial structures | 46.8 | 35.6 | 48.4 | 38.6 |
| 28 Farm structures | 41.1 | 35.8 | 43.7 | 38.8 |

*Source*: Gravelle (1982).

With the rapid change in technology, the rate of obsolescence increases or economic life gets shorter, Inflation would wreck havoc with such assets and additional compensation must be provided. A policy-maker should however take note of the fact that the rate of obsolescence is rarely even across asset categories. Technology is bound to progress more rapidly for some assets than others. If deemed administratively practical we can have graduated rates, possibly two. Asset categories with a higher obsolescence rate can thus be made eligible for a higher rate of investment allowance. However a higher rate of investment allowance should not necessarily combine with a higher rate of tax depreciation. In the US, with the new Accelerated Cost Recovery Scheme, light vehicles with a life of three years are eligible for a six per cent credit only, whereas equipment with a life of five years is eligible for a credit at the rate of 10 per cent. Intuitively, it makes sense to give higher allowance to assets with a lower tax depreciation rate. Numerous categories of equipment under this new scheme in the US fall under two tax lives and two rates of investment credit. The system we recommend would be somewhat similar. Two tax depreciation rates only, 30 and 40 per cent, with investment allowance of 30 per cent. If the graduated rate is allowed, then possibly 30 to 35 per cent rates of investment allowance should be admissible. The policy-maker would have to identify the high technology areas to which 35 per cent allowance has to be given.

The real cost of capital and the effective tax rates that would prevail with our scheme, if implemented, are shown in Table 8.[5] The table shows that the effective tax rates and real cost of capital are well below the statutory rate for all categories of plant and machinery. For factory buildings and ships also, the rate is lower than under the present scheme. By extending investment, allowance eligibility to categories (f), (g) and (h), they are more insulated from the adverse effect of inflation. The tax system, under the proposed scheme, becomes more neutral which will have a salutory effect on resource allocation. Even between asset classes, the dispersion of effective tax rates is smaller because of the reduction in effective tax rates for factory buildings and ships. After all, these are an important part of infrastructural facilities and a lower effective tax rate is required to induce investment in them.

For the sake of comparison, the effective tax rate on different types of equipment and structure categories in the US are displayed in Table 9. The estimates are given both for old Asset Depreciation Range (ADR) scheme and the new Accelerated Cost Recovery Scheme (ACRS) implemented by the Reagan Administration. It is clear from Table 9 that the effective tax rates are negative for most categories or equipment. In other words, to stimulate capital formation, US tax payers subsidise the corporate units undertaking additional investment under the newly implemented ACRS. This could, in part, explain the reported lowering of average plant life in the US, especially in comparison with Japan.[6]

The results obtained from our study, and those available for the USA, further indicate that the effective tax rates on marginal investment are rather high for a country like India which is aiming at increasing its capital stock.

The foregoing results in India were based on an assumed inflation rate of 10 per cent. However, should the inflation rate accelerate in the future, the effective tax rates would increase. In that case, a further adjustment in the tax system would be essential to prevent gross capital formation from declining.

## Notes

1 Assets are assumed to experience geometric decay in the quantity of output. This assumption has been supported by empirical studies of depreciation in USA.

2 For details, see Gupta and Gupta (1985) Ch III.

3 For details, see Gupta and Gupta (1985) Ch III.

4 This is true whenever the pattern of investment demand for high inflation rates is compared with the pattern of investment demand for inflation rates near zero.

5 Tax holiday benefit is excluded in the estimation of all categories/classes to facilitate comparison and to assess the impact of depreciation and investment allowances. We have assumed that the entire 30 per cent investment allowance benefit is taken by the enterprise in the first year. However for new projects especially, the unavailed relief is likely to be high. If investment allowance is used up over say three years then the discounted value will be lower than if all of it is taken in the first year. These factors in fact tend to increase the real cost of capital and the effective tax rates.

6 *Newsweek*, November 12, 1984.

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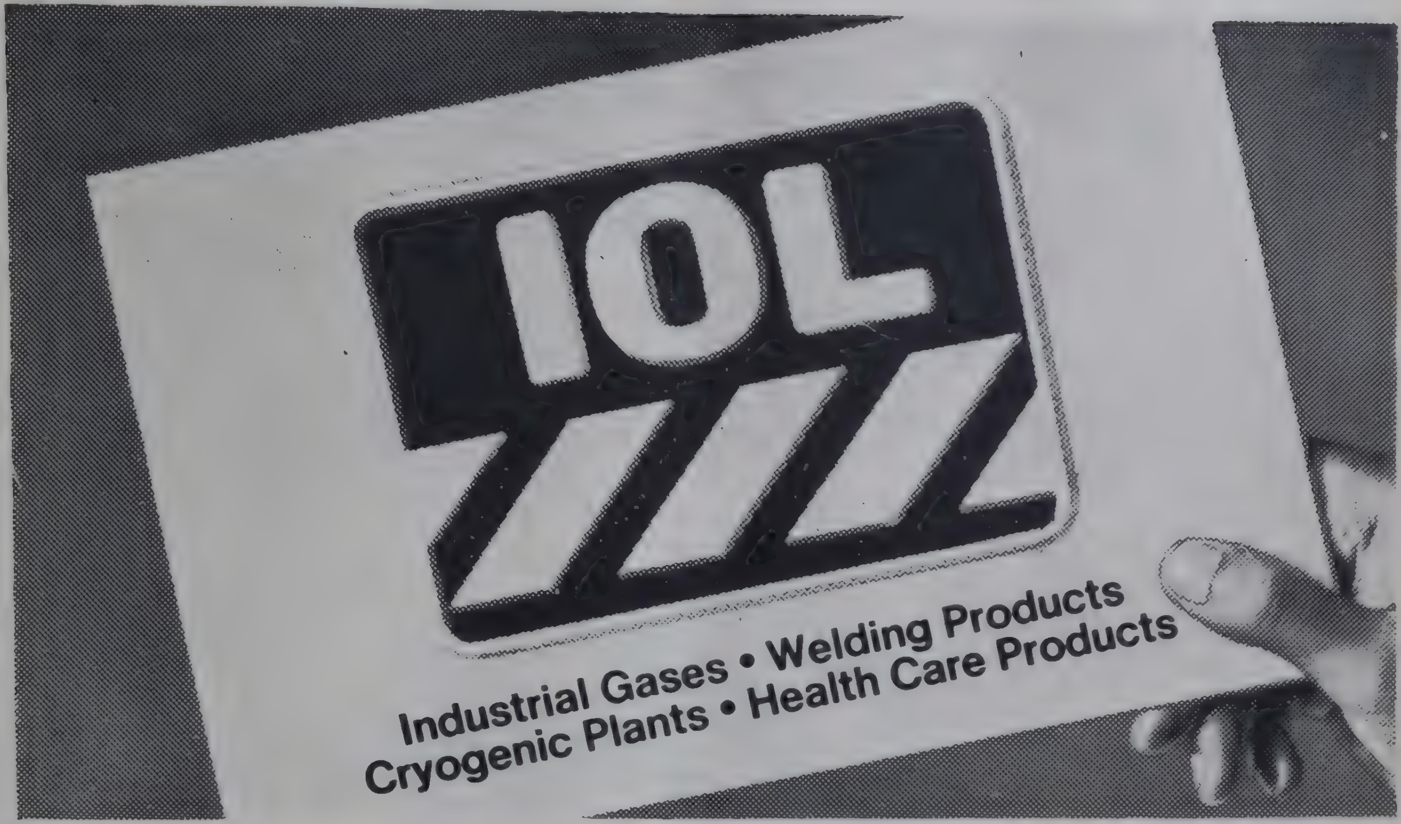
## IPCL

INDIAN PETROCHEMICALS CORPORATION (IPCL) has achieved a record production, sales and profits during 1984-85. The preliminary results indicate that sales turnover has increased by 23 per cent from Rs 472 crore in the previous year to approximately Rs 579 crore. Profit before depreciation, interest and tax is estimated at Rs 118 crore against Rs 84 crore and the gross internal resources generated will be of the order of Rs 103 crore against Rs 90 crore. Profit before tax is likely to be about Rs 60 crore as compared to Rs 36 crore. The contributions to the Central/state government exchequers by way of payment of excise duty, customs duty, sales tax, etc were approximately Rs 130 crore. Production of major saleable products in various plants during the year has been 25 per cent higher than last year. An all time record production was achieved in respect of low density polyethylene, polypropylene, polybutadiene rubber, benzene, acrylonitrile and several other products, despite constraints such as power shortage, tripouts, raw material problems etc.

During the year, IPCL commissioned India's largest size 55,000 tonnes per annum PVC plant, 5,000 tonnes per annum petroleum resins and 130 tonnes per hour boiler with micro processor in a record time. The safety performance of the Corporation continued to remain outstanding. It introduced several new products in the market including petroleum resins, ethylene dichloride vinyl chloride monomer, polypropylene stabilised powder, new generation solvents like hepton, purified solvent cix, ammonium sulphate. Another important achievement was the equitable distribution of the products primarily to the small scale sector. Sustained progress has been achieved in the implementation of major projects on hand at Vadodara at an estimated cost of Rs 245 crore. These projects include PP copolymer plant, bi-component acrylic fibre plant and expansion of the existing DMT and LAB plants. An important milestone of the year was the government's decision to entrust implementation of a gas cracker complex with a capital outlay of Rs 1,167 crore at Nagothane in Maharashtra. The complex will have a capacity to produce 80,000 tonnes of LDPE, 1,35,000 tonnes of LLDPE, 60,000 tonnes of polypropylene, 50,000 tonnes of ethylene glycol, 5,000 tonnes of ethylene oxide and 1,740 tonnes of acetylene black. Work on socially oriented projects to generate rural employment gathered momentum and achieve progress during the year. The activities on 'plasticulture' to extend applications of plastics in agriculture and water management gained considerable ground. Over 7,000 tonnes of LDPE film was used to line 1,000 kms of canals in the country to preserve water and to protect and store over 10 million tonnes of foodgrains.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## BHOPAL TRAGEDY: A MIDDLE WORD

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# Indo-Soviet Relations

EVEN considering the central position of Indo-Soviet relations in the Government of India's external policies, the Prime Minister's visit to the Soviet Union from May 21 to 26 has attracted an unusual amount of interest. There was first a great deal of speculation on whether or not the Prime Minister would symbolically reaffirm the primacy of India's relations with the Soviet Union by undertaking a visit to that country before going to the United States. That speculation having been set at rest, the details of Rajiv Gandhi's Soviet trip have been minutely scrutinised for signs of any change, however subtle or incipient, in Indo-Soviet relations. Another group of analysts have, on the other hand, been in a great hurry to see in the outcome of the Prime Minister's visit evidence of a further strengthening of the close relations between the two countries. They have gone so far as to even assert that the prospects for Indo-Soviet ties opened up by Rajiv Gandhi's visit mark a reversal of the 'cooling off' which they now allege had taken place in the later years of Indira Gandhi's rule.

The reason for this unusual interest in the Prime Minister's Soviet visit is undoubtedly the developments in India's relations with the West, and with the United States in particular. In the first place, whereas the Soviet Union has been the dominant source of supply of sophisticated armaments to this country, in the last few years the Indian government has made large and much publicised arms purchases from Britain, France and West Germany. It had also entered into negotiations for an arms deal with the US. Though these negotiations did not then fructify, they are almost certain to be resumed now after the Prime Minister's forthcoming visit to the US. Secondly, and more importantly, Rajiv Gandhi and his government have made no secret of the need for advanced industrial technology from the West for the success of their plans for modernising the Indian economy, raising industrial efficiency and productivity, and so on. Towards this end policies governing import of technology and capital goods into the country have been relaxed and the Prime Minister as well as other members of the government have on a number of occasions (such as the European Management Foundation meeting in New Delhi in April) publicly wooed businessmen from West Europe, Japan and the US. This process of strengthening of economic relations with the West, it is apparently felt, is likely to have its repercussions on India's ties with the Soviet Union.

The joint statement issued at the end of the Prime Minister's visit as well as the available reports on the visit do not, however, indicate any shifts in Indo-Soviet relations, in one direction or the other. It has been mentioned that the part in the joint statement dealing with the situation in Afghanistan is virtually a verbatim repetition of what had been said in the statement issued at the end of Indira Gandhi's visit to the Soviet Union in 1982. The same could be said about very many other parts of the joint statement, in terms of their content if not the precise words used. On the other hand, while it is true that the rouble 1,000 million credit, the agreement for which was signed by Rajiv Gandhi and Mikhail Gorbachev, is the largest such credit offered to India by the Soviet Union, its utilisation will be spread over many years. The pace of utilisation of past Soviet credits has been affected by factors internal to the Indian economy, such as the availability of rupee resources for financing the indigenous component of the concerned projects. These factors will continue to affect the use of the latest Soviet credit. Even if it is assumed optimistically that the credit will be substantially used up in the Seventh Plan, it will clearly constitute only a small part of the total assistance from external sources likely to be required over the five-year period. Further, neither the agreement for the large rouble credit nor the other more general agreement, also signed by Rajiv Gandhi and Gorbachev, on the long-term framework of economic, trade, scientific and technical co-operation between the two countries, provides an answer to the major problem of Indo-Soviet economic relations—that of diversifying India's imports from the Soviet Union beyond petroleum and petroleum products or, more precisely, increasing Indian imports of industrial machinery and equipment from the Soviet Union.

It is thus as fruitless to search for signs of any adverse change in Indo-Soviet relations as for those of a fresh breakthrough during Rajiv Gandhi's visit to the Soviet Union. This is not very surprising. For it is not necessary to assume that the establishment of closer economic links with the West through increasing reliance on capital goods and technology provided by the multinationals, or even the larger armaments purchases from the West, will affect Indo-Soviet relations. The western suppliers of equipment and technology as well as the arms vendors are straining at the leash to gain access to India's lucrative market of very sizeable proportions. The western business and financial press is all agog over the scramble among the multinationals to get into what is described as this market of 100 million, referring to the top 10-15 per cent of India's population with the purchasing power to spend on the goods and services they can directly or indirectly provide. So the Government of India need not feel called upon to offer a *quid pro quo* in the form of any modulation of its policies towards the Soviet Union. Indo-Soviet relations, on the other hand, are based on a different set of factors—among others, the United States' support for Pakistan as part of its geo-political strategy for this part of the world, the Soviet Union's reliance on India to counter that strategy and India's need for Soviet support to sustain its aspiration to be a dominant power in the region. So long as these factors remain constant, Indo-Soviet relations need not change. Of course, a pattern of accelerated capitalist development, based on close economic relations with the West, should be expected in course of time to influence the government's foreign policy perceptions. But even that need not jeopardise Indo-Soviet relations. Does not the joint statement issued after Rajiv Gandhi's visit declare once again that "relations between India and the USSR demonstrate the fruitful character of ties between states with different socio-economic systems"? It should not matter if the difference between the socio-economic systems gets a little more pronounced.

## *State Finances*

### A Dose of 'Discipline'

THE Centre has decided to play the stern school master to the state governments in respect of the latter's overdrafts from the Reserve Bank. In the past the Centre has advanced special loans to the states to enable them to wipe off their overdrafts. It is apparently decided not do this any more. Instead, it is insisting that the state governments bring down their outstanding overdrafts gradually over the next four years in such a manner that the slate is wiped clean by the beginning of the last year of the Seventh Plan.

The outstanding overdrafts of the state governments was Rs 1,808 crore on January 28, according to the Finance Ministry. This figure is to be brought down by 10 per cent in 1985-86 so that at the end of the year the states' outstanding overdraft will be Rs 1,628 crore. The required reduction in the overdraft will be much steeper in the next two years, 35 per cent in each year, and the remaining 20 per cent is to be wiped off in 1988-89. In other words, the state governments will have to set apart Rs 181 crore in the current year towards bringing down their overdraft, Rs 633 crore in each of the next two years and Rs 362 crore in 1988-89.

It is interesting that the Centre could not be persuaded to write off the states' overdraft in the old manner by extending special loans to them even though we are at the start of a new Five-Year Plan and the outstanding overdraft is a carryover from the previous Plan. The Finance Ministry has argued that its scheme for wiping off the carried-over overdraft of the states will not affect the states' Seventh Plan since the Planning Commission had apparently taken this into account while assessing the resources likely to be available for financing the Seventh Plans of the different states and had fixed the size of their Plants on that basis. This may be so, but that is not to say that the states' Plans have not been affected.

The total size of the states' Seventh Plan is not yet known, though the Planning Commission has completed its round of discussions with the state governments. It is certain, however, that the states' share of the total public sector outlay under the Seventh Plan will show a decline compared that under the Sixth Plan. The Planning Commission clearly had no choice in the matter; it simply followed the directions given to it by the Centre. This procedure of preparing the Plan also exposes the irrelevance of the National Development Council which is notionally the final authority to approve the Five-Year Plans. When the NDC meets later this year it will be presented with the *fait accompli* of a sharp cut in the relative share of the total public sector outlay in the Seventh Plan going to programmes of the state governments.

The reduced outlay on the states' Plan is particularly ironical in one respect. Stocks of foodgrains with the Central government, or rather the Food Corporation of India, have mounted to the point where large quantities of the indifferently stored grains are in danger of being damaged. The circumstances are thus very propitious for substantially expanding the rural employment programmes which are implemented by the state governments. The Centre should have been prepared to give special loans for this purpose to the state governments even if this meant an increase in the Centre's budgetary deficit by as much as Rs 1,000 crore or even more. That would have been one way of partially resolving the cruel paradox of large food stocks on the one hand and millions of half-starving poor people on the other. However, because of the resource stringency facing the state governments the employment programmes are likely to be actually scaled down.

## *Health*

### Of Soldiers and Small Pox

*Vimal Balasubrahmanyan writes:*

THE World Health Organisation (WHO) has been at considerable pains in recent times to assure the world that small pox eradication is total, that 'suspected' cases on investigation have invariably proved to be false alarms, and that vaccination against this dreaded disease is really not needed any more. At present, Albania is the only WHO member state which still continues an official policy of routine vaccination for its people. No country today requires a small pox vaccination certificate from international travellers. 'Suspected' cases continue to be reported at the rate of about 20 per year. So far all have proved to be false.

What the WHO has not exactly been advertising is the fact that the major military powers continue to require vaccination for their armed forces. The only conceivable reason for such a policy is that soldiers need protection from the possible use of small pox virus for biological warfare. It does not, however, answer the question: what about the civilians who are equally vulnerable?

In May this year, the media highlighted the fact that the world continues to be free of small pox. The last reported case in India was ten years ago in May 1975, while the last case in the world occurred in Somalia in 1977. On May 8, 1980, the 33rd World Health Assembly declared that small pox had been eradicated, and in the past five years much effort has gone into persuading national governments to stop vaccination as an official policy. While people at large are being reassured that small pox cannot reappear in the *natural* course of events, there is hardly any public awareness regarding the possibility of an engineered and *man-made* reappearance of the disease.

According to a snippet in the June 1983 issue of the WHO journal, *World Health*, the policy to discontinue vaccination does not apply to military personnel in the USA, who are vaccinated at the time of joining and every five years thereafter. The journal reports: "WHO is seeking to determine just what the policy of the armed forces is throughout the world. What is at present known is that vaccination is not required on joining up in five countries: Denmark, Finland, Netherlands, Switzerland and UK." Commenting on this information the *New Internationalist* (March 1984) adds that Norway has joined the list for a trial period of only three years. However, in asking why the health of soldiers is more important than the health of the civilian population, the *NI* is perhaps missing the point. The immunisation is not part of a routine preventive health practice but is specifically aimed at conferring protection against any possible military use of the virus.

Last year, in a lengthy article on small pox in *Science Today* (March 1984), a senior virologist from an ICMR unit mentioned in passing this possibility of small pox virus being used as a weapon, and wrote: "This would be the act of a devil and let us hope this does not take place." However, nothing being unfair in war and no deed too diabolic, it is not surprising that both USA and USSR continue to vaccinate their military forces.

*World Health* (November 1984) reports that at present only two laboratories in the world retain small pox virus, under maximum security, for scientific purposes. These are the US Centre for Disease Control in Atlanta, Georgia, and the Research Institute of Viral Preparations, Moscow. As a standby for an unforeseen contingency, 300 million doses of the preventive vaccine are being stored in Geneva. It is also reported (*World Health*, November 1983) that Wyeth Laboratories, the sole US producer of the vaccine, has taken it off the commercial market, though the firm continues to supply the vaccine to the US armed forces.

To the question 'can small pox reappear?', WHO says that although the laboratory stocks of virus constitute a possible threat, these are guarded with so much security that the risk is virtually ruled out. As for the possibility of a 'deliberate release', the WHO document "The Global Eradication of Small Pox" (1980) points out that many nations of the world signed in 1972 a convention outlawing the use of biological weapons in warfare. However, it adds: "Nevertheless, abhorrent as such an act would be, the possibility of variola (i e, small pox) virus being deliberately released as an act of sabotage or terrorism cannot be excluded. The potential harm of such an act would increase as the immunity of the population waned: in addition to illness and death there would be psychological and possible socio-economic damage." Obviously, as long as stocks of the virus are preserved, soldiers will continue to be vaccinated.

## *United States*

### Reagan's Tax Reform

RONALD REAGAN has launched what he calls the 'Second Revolution' with his tax reform package. Supply side economists—those who believe that with the burden of taxation reduced, production will so accelerate that the government would be able to collect a lot more in revenue than what it would lose as a result of the lowering of the tax rates—might be tempted to regard this as their dream come true. They would not be entirely right, though.

Basically what the Reagan tax reform package proposes to do is to drastically reduce the highest marginal rate of tax on both personal and corporate incomes and make up for the lost revenue by withdrawing various exemptions, deductions and allowances. That is really how the revenue neutrality of the package is achieved, not by the magic of supply side economics. So if Ronald Reagan's commitment to supply side economics were to be judged by the way he has sought to secure revenue neutrality, he would flunk the test. India's Viswanath Pratap Singh would fare much better because his Budget lays far greater store by that magic—regardless of what India's own experience with tax rate reductions in the past demonstrates.

Coming to the details of Reagan's proposals, for individuals the tax breaks are many-sided and all-embracing, though, as we shall see presently, the major beneficiaries are those in the higher income brackets. In 1981 the marginal rate of income tax was brought down by Reagan from 70 per cent to 50 per cent; now he proposes to reduce it further to 35 per cent. In place of more than a dozen tax brackets, hereafter there will be only three brackets: below $ 20,000, $ 20-70,000 and over $ 70,000 with applicable rates of 15, 25 and 35 per cent, respectively. The exemption limit will rise from the present $ 1,040 to $ 2,000 per person and it will be adjusted for inflation, as under the present law. The standard deduction for the single tax-payer goes up from $ 2,480 to $ 2,900, for single heads of households from $ 2,480 to $ 3,600 and for joint returns from $ 3,670 to $ 4,000. A household with husband, wife and two children, it has been calculated, will be altogether exempt from income tax if its income is below $ 12,000 a year.

Among those who fall in the tax net, what will make for differences is not just the reduction in rates and the restructuring of tax brackets, but also what is proposed with regard to various allowances and deductions. Two major disallowances proposed in the Reagan package relate to (1) state and local taxes, and (2) interest payments. While the deduction currently allowed for state and local taxes will be withdrawn, that for interest payment has been curtailed; whereas interest paid on mortgage for a principal residence will still be deductible in full, other interest deduction will be limited to $ 5,000 plus an amount equal to the individual's 'passive investment earnings' such as interest, dividends and earnings from limited partnerships. Thus the higher one's passive investment earnings, the greater the interest deduction one can claim.

Another major proposal in the Reagan package, it should be added here, is to reduce the top capital gains rate from the current 20 per cent to 17.5 per cent for stocks and shares and other non-depreciable assets. Depreciable assets would, however, be taxable at ordinary income tax rates, but after adjustment for inflation.

While the biggest gainers from the tax proposals relating to individuals will be those with very high incomes, say, ex-

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ceeding $ 200,000, Reagan has evidently taken care to see that those at the lower end of the income scale are not completely overlooked—just as Viswanath Pratap Singh has done. (Not for nothing has the Indian Budget for 1985-86 earned Rajiv Gandhi the name Rajiv Reagan from *The Wall Street Journal*, possibly the most conservative of the American dailies.)

But this is not the end of the story of the Reagan package. On corporate incomes, the basic rate will come down from the current 46 per cent to 33 per cent, with lower rates for small businesses. The new effective rate will be even lower than 33 per cent since the package permits corporations to deduct 10 per cent of the dividends distributed. Thus for a firm distributing 50 per cent of its current profits as dividends, the tax on total profits would work out to 31.35 per cent.

In return for the lower tax rate, corporations not only forefeit the investment tax credit which is currently available at the rate of 10 per cent of qualifying investments but will also be entitled to less generous write-offs by way of depreciation deduction. Also, although the Reagan package still retains many of the generous tax breaks allowed to the oil and gas industry by current law in the form of same year write-off of intangible drilling costs and generous depletion allowances, other industries are not let off so lightly. Thus the package does away with the special deduction which financial institutions enjoy with regard to bad debts. In fact, according to the US Treasury's calculations, the effective tax burden on corporations, taken as a whole, would go up by 23 per cent in 1990 whereas for individuals it would come down by 5.2 per cent.

Not to be forgotten is the provision of the Reagan package for a minimum tax of 20 per cent on corporate income. There has been a strong demand for a minimum tax in the Congress and outside in view of the growing evidence that several big companies end up year after year paying virtually no tax on their profits.

The tax reform package that Ronald Reagan has unfolded makes quite a few departures from the proposals that his Treasury Secretary had put out some months back. The latter would have treated capital gains as income and taxed them accordingly, once adjustment was made for inflation. Also the Treasury plan was to withdraw altogether the special deductions enjoyed by the oil and gas industry. Clearly, Reagan felt impelled to make several concessions to the lobbies that could prevail with him.

Interestingly, state and local governments are the one group that could not make much headway with Reagan. This is precisely the group that he had vowed to strengthen as a sort of countervailing power against 'big government' in Washington. With deduction for state and local taxes repealed, not only will the combined burden of federal, state and local taxes go up, especially on individuals, the scope for state and local governments to raise additional taxes will be effectively curbed. As a result, they might well become more dependent on the federal government for additional resource transfers. But it does not appear that the state and local governments have a strong enough lobby in Washington, not even in the Congress.

## BUSINESS

# Wide Swings in Cotton Prices Continue

THE emerging cotton scenario has once again brought into sharp focus the imperative need for overcoming the gross inadequacies in the crop information system. The current season has less than three months more to go but still there is no consensus even on the size of the opening stock let alone the size of 1984-85 crop. Estimates mooted at the last (third) meeting of the Cotton Advisory Board held on May 10 varied between 87.25 lakh bales and 97 lakh bales. The Indian Cotton Mills' Federation placed the crop at 87.25 lakh bales but it did not show much reluctance in accepting the figure of 90 lakh bales mentioned by the CAB subcommittee. The Cotton Development Council estimated the crop at 91/92 lakh bales. The trade placed the crop at no less than 97 lakh bales.

The estimate put up by the East India Cotton Association which represents the trade is said to be based on "actual physical count of crop ginned and pressed at the factories at all cotton centres" through its upcountry member associations. EICA claims to have taken adequate care to check the weight of bales to get the "running bales converted into standard bales of 170 kg each". Since over 90 per cent of the crop has already been marketed, estimates based on ginning and pressing figures should be considered more reliable than others.

A very significant aspect of the crop estimates mooted at the CAB meetings is the progressive upward revision of these estimates. At its first meeting on October 1, the Cotton Advisory Board estimated the crop at 79.80 lakh bales and the season's opening stock at 12.29 lakh bales. These estimates were revised to 84.75 lakh bales and 16 lakh bales when the Board met for the second time on February 2. The estimate put up at the third meeting on May 10 shows an increase of at least 10 lakh bales over the first forecast which must have assumed normal weather conditions. EICA has always reckoned the season's opening stock at 21 lakh bales.

Because of the impact of unpredictable weather conditions till the harvest time, revision of crop estimates is quite common all over the world. Vagaries of the weather apart, crop estimates in India suffer seriously from organisational deficiencies in collecting requisite information in respect of sowings and the progress of the crop till the harvest is ready. Wide differences in the cotton crop estimates put up by the representatives of growers, trade and industry reflect in no small measure their conflicting interests. Official estimates of cotton are known to command little credibility. It is indeed amazing that the government should never have realised the absurdity of the industry having consumed over the years more cotton than has been available (production as officially estimated plus imports minus exports and extra factory consumption).

The cotton market scene provides an interesting study not only in regard to crop estimates but also in respect of wide swings in prices. No less notable are the apparently contradictory demands for liberal exports by the farm lobby and for imports by the cotton mill industry, reflecting partly the over-abundance of long and extra long staple cotton in relation to the availability of short and medium staple cotton. The farm lobby is interested in export of long and extra long staple cotton because of the higher prices this cotton can fetch abroad. Besides, exports help reduce the pressure on domestic supply thereby imparting steadiness to the market. The export quota for two lakh bales issued in two instalments has been fully utilised and the Maharashtra State Co-operative Cotton Growers' Federation which is operating the state monopoly procurement scheme and is still holding a large stock of long staple cotton has been pleading for the release of another three lakh bales for export.

That the Indian Cotton Mills' Federation should have continued to plead for import of five lakh bales of short and medium staple cotton despite the upward revision of crop estimates gives one the impression that the move is intended mainly to influence the course of prices. The CCI chief has dismissed the ICMF's apprehensions of cotton shortage as baseless. The managing director of the Maharashtra State Co-operative Cotton Growers' Federation, B K Agarwal, has stated that the Federation is holding sufficient stocks of short and medium staple cotton and that none of the ICMF members came forward to lift this cotton when it offered this cotton at the lowest possible prices in May.

The overall behaviour of cotton prices clearly indicates that the supply position is distinctly comfortable. Prices have been inclined lower despite record mill consumption averaging over seven lakh bales a month. After registering a steep decline from the November/December high levels, cotton prices recorded quite an impressive recovery during March and mid-April but thereafter they again started drifting lower. Prices have come down by Rs 250 to Rs 500 a candy since about the middle of April. In view of the comfortable supply position, prospects of any major recovery in cotton prices are generally rated low.

Under the new textile policy which is to be announced any day now, curbs on expansion and creation of new capacity by the mills are expected to be removed, full flexibility allowed in the use of fibres and fiscal levies on man-made fibres and yarns progressively reduced. Much would depend on how the policy is implemented as also on the demand for fabrics. There need be little doubt that the textile industry has the capacity to use all the cotton and man-made fibres the country can produce in the foreseeable future.

## *Industry*

### Bogus Members and Rigged Elections

THE trouble in the Federation of Indian Chambers of Commerce and Industry has the flavour of byzantine intrigue, and not surprisingly so considering that the personalities involved are amongst the most powerful in trade and industry in the country.

The Federation's 58th Annual General Meeting concluded in New Delhi on May 20 without seeming to be particularly bothered about the previous week's decision of the Indian Merchants Chamber to quit the apex body. The Bombay-based IMC, representing industry and trade interests in western India, was upset over enrolment of bogus members and lack of consensus in FICCI's decision-making process.

The issue of bogus membership in FICCI was reportedly first raised in 1981. Little is known of the findings and impact of the committee then set up to probe this charge. D N Patodia, the President of FICCI for 1985-86, categorically denied the existence of any bogus members. But Ramakrishna Bajaj, the outgoing President, virtually admitted their presence when he spoke to the meeting of the need to discard undignified members. There is in a way incontrovertible evidence too; 200 letters said to have been posted by the IMC to the addresses of FICCI members were returned by the postal department as the concerned parties could not be traced.

Membership of the FICCI's Committees essentially means regular and easy contact with ministers and officials which the members are known to use to pursue their own interests. Also the Committees formulate proposals placed before the government on behalf of FICCI. And since the Committees are elected by constituents of the Federation, the issue of the bogus membership assumes importance.

FICCI has been dominated by the big Marwari houses of North and East India, particularly the Birlas. This seems to have become an irritant to the Gujarati interests based in the West, represented by the IMC. This interpretation of FICCI's troubles as arising out of a Gujarati-versus-Marwari conflict should not be extended too far.

For the past three years or so the IMC members have sought to assert themselves in the FICCI through the elections at the Annual Meeting. But they have been outmanoeuvred by the Marwari group which reportedly relies on the bogus members it has enrolled and that too mostly from South India. During the 1984-85 poll, the tension between the two contesting groups mounted to a level reportedly necessitating police presence. The IMC candidates in this week's elections withdrew their candidature, even prior to the Chamber's formal decision to quit FICCI. Consequently, the election to the various FICCI Committees and posts were unanimous. The functioning of the IMC itself is probably not very different. Critical members of the Chamber accuse it of also disregarding consensus while arriving at decisions.

Interestingly the post of vice-president for 1985-86 and therefore next year's president, ought to have gone to a representative from South India, according to the convention of rotation followed so far. But R P Goenka was elected vice-president after agitated members from the South were persuaded to give up their claim this year. Goenka's election to the post was said to be necessary because of the holding of a meeting of the International Chamber of Commerce in New Delhi in 1986-87. This episode clearly indicates the desire of the North and East-based Marwari houses to continue controlling the FICCI.

Even as some FICCI seniors are said to be engineering dissension within the IMC, the Federation has designated a committee to try and win back the IMC. Whether the IMC will return or stick out on its own, like say the Tata group has done for quite some time now, remains to be seen.

## *Art Silk Industry*

### Showing the Finance Ministry Its Place

THE violent mob attacks on the investigating Central Excise team in Surat this week virtually confirmed that the art silk industry located there has been evading payment of excise duty on a massive scale.

The assault, in which seven excise personnel were seriously injured, was evidently pre-planned. The over 400 strong search party, sent by the Union Finance Ministry to the South Gujarat city reportedly following complaints of duty evasion received by the Prime Minister's Secretariat, worked unhampered on the morning of May 24. The concerned mills and traders whose unaccounted stocks, record books and other incriminating evidence was seized, appear to have mobilised the armed gangs which attacked the excise team later that very day. This inference, though obvious in a sense, is substantiated by the fact that the attackers were keen on snatching back and destroying the seized evidence, which they largely succeeded in doing.

Those master-minding the assault seemed to be pretty desperate in taking the extreme step of physically mauling officials and obliterating proof of their financial malpractices. At the same time, they were apparently not in the least afraid of being hauled up before a criminal court. Probably this was partly because the mill owners and traders realised that they could easily avoid being convicted as the actual attackers were said to be hirelings and since the episode occurred at a time when parts of the city were under curfew in the wake of the anti-reservation riots. More importantly though, the city administration, and possibly the Gujarat government too, seemed to be tacitly backing the erring mills and traders. The Union officials leading the excise team plainly admitted to the press that the Surat police offered no help or protection despite repeated requests. Also the Union Finance Ministry did not seem to have much faith in the Gujarat government on this issue, given that the latter was not informed in advance of the raid, as is the normal practice.

Union Finance Minister V P Singh has said that serious action would be taken against those responsible for the violent acts. How effectively this threat will be carried out remains to be seen. But for the present it is strange that the searches were discontinued following the physical assault. Fabrics worth only Rs 2.53 crore were said to have been seized when the concerned officials themselves have noted that the duty evasion was colossal; the extent of excise evasion each year by the silk industry in Surat is estimated to run into hundreds of crores. At the very least a fresh, more determined, search ought to have been carried out and stringent action initiated immediately against the offenders. Since this was not done, persons in other trades and industries might derive 'inspiration' from the Surat silk industry to not only evade payment to the treasury but also to try and escape unscathed when a search is carried out on them. The fear instilled by the incident in the excise and other similar personnel in carrying out their tasks is another matter altogether.

## LETTERS TO EDITOR

# Drug Policy

PERMIT me to correct/clarify a couple of points made in your editorial note "Drug Policy in Limbo" (*EPW*, May 4).

It is true that clause 21 of the drug policy 1978 requires that foreign companies producing formulations from imported bulk drugs or bulk drugs from imported intermediates should manufacture the bulk drug from basic stages within two years. This provision, like several others, has only been partially implemented because it cannot be rigidly enforced without regard to the economic and technological feasibility of bulk drugs manufacture. The critical factors are: (1) the demand for the drug should be large enough to warrant basic manufacture, (2) the technology must be available, and (3) raw materials must be available at reasonable prices.

There are about 500 bulk drugs used in the manufacture of formulations—tablets, capsules, liquids, injections, etc—in India but the number of bulk drugs produced in the country is less than half of this, 225, according to official statistics. It is obviously unrealistic to insist that each and every new drug should be manufactured in the country in bulk form within two years of its introduction. The government has, therefore, rightly allowed the manufacturers to continue to import the bulk drug on merits. The alternative would be to import the formulation or the bulk drug itself if import of intermediates is not allowed.

The economics of drug manufacture is such that for every drug there is a minimum economic scale or size below which it is uneconomic to manufacture it. The demand for several bulk drugs in our country is so low that it is not economically feasible to produce them in bulk from the basic stages. Even the Working Group on Industrial Approvals of the National Drugs and Pharmaceuticals Development Council (NDPDC) recognised this and recommended that the down-phasing of basic manufacture should be decided on a case-by-case basis; in other words, on the merits of each case. It also recommended that if intermediates are available indigenously, production from basic stages need not be insisted upon.

As regards new drugs, you will appreciate that what is important is not so much who or which company introduced them in the market. There are several constraints on the introduction of new drugs by international companies. But that is a separate issue. The important point is whether new drugs after introduction are manufactured in India in bulk from basic stages. Producing formulations (i e, in dosage forms such as tablets, capsules and injections) from imported bulk drugs does not normally involve any sophisticated technology; it could be done by any reasonably well-equipped and well-staffed small scale unit having a good quality control culture. The true measure of the industry's capability is its competence to manufacture high technology bulk drugs and not its ability to punch tablets and fill capsules.

Contrary to what you say OPPI is not indifferent to the price question. But it believes that, in the long run, prices can be brought down not by a clumsy price control mechanism but through proper production/supply management to ensure that there is an abundant supply of essential drugs. For this we should encourage more production, greater economies of scale and stimulate competition by delicensing and removing control on prices. Over-protection and over-regulation have only produced an anaemic, high-cost industry.

Our experience of nearly a quarter century of control on pricing and production of drugs shows that this prescription has not benefited either the consumer or the industry. Let's think of a new line of treatment for a change.

ARVIND NAIR

Communications Manager,
Organisation of Pharmaceutical
Producers of India, Bombay.

### Out-Rowlatting Rowlatt

THE Terrorist Disruptive Activities (Prevention) Act is the last nail in the coffin of the fake Indian democracy. Anyone who opposes the dictates of the state becomes a terrorist and, by implication, those who toe its line, however illegal and inhuman, would be deemed law-abiding citizens. Questioning the sovereignty of the state is a very vague expression that can be interpreted to include any criticism of, and opposition to, the state. 'Territorial Integrity' is another vague expression. Those who fight for greater rights for the states and of the various nationalities in the country can now be dubbed as indulging in 'disruptive activities'. The worst of it is that one does not have to actually indulge in such activities at all. Even if one preaches them by song, poem, photo, picture, dance, etc, he is liable to become a criminal. This is a frontal assault on artistic and intellectual freedom and freedom of expression.

This Act is worse than the Rowlatt Act and its draconian nature is self-evident. It is a shame that even the CPI and CPI(M) did not oppose it, though they have been clamouring for state rights in Kerala and West Bengal. The fascist nature of the Telugu Desam government is coming out more into the open and its eager welcome for the Act and its contention that the state government should be free in its implementation is one of the portents of White Terror. The AILRC condemns this Act in the strongest possible terms and calls for its scrapping. It calls upon the people to take up the beastly challenge and to fight back to restore democracy, which can only be People's Democracy.

K V R

General Secretary, AILRC,
Kavali.

26 [illegible]
C.F.T.R.I. [illegible]

# The Making of a Lawless Society

### Romesh Thapar

WHEN the persons arrested for being involved in the transistor-bomb attacks were produced in a Delhi court, no newspaper had the integrity to comment on their poor physical condition. When one of the leading accused died in hospital, we were told that it was the result of injuries sustained when struggling against the police. The doctor's report was the most unsatisfactory document I have read in a long while. And, now, it appears that another of the accused is in bad shape.

In this Capital, we receive a regular quantum of stories about police torture of terrorists and suspected terrorists. They are believed, because public memory is still stored with accounts of what transpired during the Emergency. And there is the private guilt of so many who allow their servants to be beaten up in the local police station or who treat torture atrocities as if they were of little concern to them personally.

It isn't only the police who misuse their power or behave brutishly. The record of the armed forces is also punctuated with atrocity incidents or misbehaviour of a kind that should not be tolerated by a civilised society. The record covers a rather large canvas from Nagaland to Punjab. The military authorities still possess the discipline to punish. The police only protect themselves and, sometimes, as in Ahmedabad, take the battered and mutilated law into their own hands.

I always wonder at the surprise that is expressed when the public is assaulted by the uniformed services. The pattern, after all, is familiar in every mohalla. The exception is the news which records the talk of the bazaars—that so many of the rapscallions caught indulging in violent and disruptive acts were once the activists of the ruling party and the ruling politicians. The Press Council chairman, a former Judge of the Supreme Court, should know better than to attack an already subservient press.

Indeed, the question is asked, but not published, who released from jail the younger brother of Bhindranwale four hours before he was asked to become the secretary of the extremist committee attempting to take control of the Akali Dal: And were transport facilities arranged for him? The Union Home Minister should be specific when pontificating on the media's alarmist reports.

It is most necessary for the media to highlight these matters, whatever the gaping loopholes in its democratic logic, because the new parliamentary enactment against terrorism and disruption passes, as Judge Tarkunde of the People's Union of Civil Liberties, says, draconian power into the hands of government and its agencies. Such powers have been legislated by voice voting in Parliament, and with the support of a confused and listless Opposition. It is about time that concern be felt beyond the Sikh community.

The Terrorist and Disruptive Activities (Prevention) Act of 1985, an addition to the mass of repressive legislation already in force in many areas of the sub-continent, is so broad in its sweep that past experience teaches that it will be used against political dissent, even against writing that becomes destructive of the reputations of those who govern. Such misuse of power is certainly the rule. A cursory examination of the record of those who administer the Foreign Exchange Regulation Act (FERA) and related COFEPOSA laws, which were originally designed to curb the activities of our smuggler kings, will show how many fearful harassments are the order of the day—yes, even as the smuggler kings rule the roost and finance political formations. How else can we interpret the record of the GOI?

It is the height of naivette to imagine that these extraordinary powers, which should shame any democratic society, will be exercised with skill and sensitivity. We do not seem to have imbibed the minimum meaning of these words, and judging from the way in which the Home Minister criticises his police establishment for grabbing publicity, or the police factions battle among themselves in Delhi and elsewhere, and the patterns of arrest, torture and harassment that continue to prevail, the prospects for democratic functioning are most disturbing. This amalgam of anti-terrorist actions could lead to more terrorism.

We have got into the terrible habit of treating our own people as enemies linked to what babu English calls 'the foreign hand'. As enlightened rulers, we never try to see the situation through the eyes of those whom we are attempting to tame. We had better realise that there is deadly explosiveness in this style of rulership. It has to change, and fast. All the flattering plaudits that Rajiv Gandhi may gather on his foreign tours cannot dissolve these dangers.

Even as I read the text of the latest enactment, a somewhat terrifying experience if you see yourself as a vengeful police or paramilitary commander on a rampage against some section of the people, I ask myself what will happen to so many young men, misguided maybe, who are leading struggles to defend the down-trodden. We hear of 'encounters' and are given to understand that they amount to organised killings. Has anyone in the system tried to find out, or are we content to kill for 'democracy'?

And how long will the wandering mind of official Delhi take to see the terrorism of the Congress(I) gangster politicians in the Indo-Gangetic heartlands of northern India. District upon district in Bihar and neighbouring Uttar Pradesh is in the grip of these political marauders. The writ of the state often does not run in these parts of our sub-continent. And, believe it or not, Delhi Congressmen are already complaining that the new police system is 'uncooperative'.

We seem to be living in some dreamworld imagining that terrorism is a phenomenon confined to the Sikh communities. The politics of violence are taking over wherever governance breaks down or refuses to manage with justice and impartiality. And this is becoming a feature of our life, despite the illiterate comments of visiting foreigners which we are happy to project with all the energy at our command.

And while we are busy explaining away our latent authoritarianism—which, incidentally, is no answer to the terrorism we face—we had better practise some of our principles in Tamil Nadu. The Sri Lankan civil war is the result of many failures, but let us not run away with the notion that the guerilla squads gathering (and, it is said, training) in that state are beyond the scope of the new Act. An interesting double-think!

There are too many persons in government and politics who believe that concentrated power is all that is needed to control situations. This psychological state creates the sanctions for a lawless society. The fact of the matter is that such power has rested with the GOI for decades, and yet the breakdown of governance becomes increasingly visible from year to year. More power, more breakdown. So it goes.

The anxieties of today are rooted in our fears about the calibre of the persons who pretend to rulership all over the sub-continent—the lumpenised, the criminalised and the communalised. They know next to nothing about the past, and cannot possibly project themselves into the future. It's a very special crisis calling for qualitatively different alignments, and these are not taking place as rapidly as they should.

Here are some maxims which need to be drilled into the heads of those who rule us, and very stupidly:

- An indiscriminate use of uncontrolled power strengthens precisely those elements who are sought to be destroyed.
- The forces called upon to exercise these powers are so brutalised and criminalised that the worst distortions take place on the plea of establishing 'law and order'.
- The continuing accumulation of power by the various arms of an ineffective government system on the plea of crisis management only intensifies the political breakdown.

Where can we begin to halt the corruption of power, before total power corrupts us totally?

*Footnote:* Apparently, judging from the tame amendments to the Arms Act, it is the considered view of the GOI that a surrender of private 'armouries' would worsen the law-and-order situation!

*May 24.*

# STATISTICS

| **Index Numbers of Wholesale Prices** (1970-71 = 100) | Weights | Latest Week (11-5-85) | Variation (Per Cent) Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85++ | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| All ommodities | 1000 | 350.1 | 0.6 | 7.3 | 1.5 | 7.0 | 9.5 | 2.6 | 9.3 |
| Primary Articles | 417 | 326.1 | 0.4 | 4.9 | 0.7 | 4.8 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 303.4 | 1.2 | 6.4 | 1.4 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 309.8 | −1.9 | 3.0 | −1.0 | 2.3 | 15.1 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 555.6 | — | 9.5 | 1.9 | 2.6 | 7.6 | 7.5 | 20.7 |
| Manufactured Products | 499 | 335.9 | 1.2 | 8.9 | 2.3 | 6.0 | 8.7 | 0.6 | 5.2 |

| **Cost of Living Index** | Base | Latest Month | Variation (Per Cent) Over Last Month | Over Last Year | Over March 1984 | In 84-85 | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| For Industrial Workers | 1960 = 100 | $586^3$ | 0.2 | 5.0 | 5.0 | 6.4 | 12.6 | 7.8 | 12.5 |
| For Urban Non-Manual Employees | 1960 = 100 | $540^3$ | 0.7 | 6.9 | 6.9 | 8.1 | 10.3 | 8.0 | 11.9 |
| For Agricultural Labourers | July 60 to June 61 = 100 | $517^3$ | 1.0 | 0.6 | 0.6 | 0.2 | 11.4 | 5.2 | 12.4 |

| **Money and Banking** | Unit | Latest Week (10-5-85) | Variation Rs Crore (Per Cent in Brackets) Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85++ | In 83-84++ | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| Money Supply ($M_3$) | Rs Crore | 1,03,326 | 1,198<br>(1.2) | 14,958<br>(16.9) | 2,846<br>(2.8) | 15,443<br>(18.0) | 13,031<br>(17.9) | 10,115<br>(16.1) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 51,935 | 1,237 | 8,759 | 4,918 | 8,460 | 5,757 | 4,748 | 4,965 |
| Bank Credit to Commercial Sector | Rs Crore | 70,332 | 682 | 9,877 | 1,285 | 9,447 | 8,830 | 8,247 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 3,326 | 335 | 2,027 | 327 | 1,419 | −104 | −977 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 72,528 | 532<br>(0.7) | 11,342<br>(18.5) | 1,342<br>(1.9) | 10,590<br>(17.5) | 8,550<br>(16.4) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets** | Rs Crore | 7,247 | 294 | 1,853 | 286 | 1,463<br>(26.6) | 943<br>(20.7) | 911<br>(27.2) | −1,468<br>(−30.4) |

| **Index Numbers of Industrial Production** (1970 = 100) | Weights | Latest Month | Average of Months* |  | Variation (Per Cent) |  |  |  |  |
|---|---|---|---|---|---|---|---|---|---|
|  |  |  | 1985 | 1984 | In 1985++ | In 1984++ | In 1983 | In 1982 | In 1981 |
| General Index | 100.00 | $213.1^3$ | 207.1 | 200.3 | 3.4 | 6.6 | 4.5 | 4.5 | 9.3 |
| Basic Industries | 32.28 | $267.5^1$ | 267.5 | 247.1 | 8.3 | 11.7 | 5.5 | 8.0 | 14.6 |
| Capital Goods Industries | 15.25 | $217.4^1$ | 217.4 | 223.7 | −2.8 | 9.2 | 4.3 | −0.9 | 7.6 |
| Intermediate Goods Industries | 20.95 | $172.1^1$ | 172.1 | 162.0 | 6.2 | 1.7 | 7.9 | 1.9 | 3.7 |
| Consumer Goods Industries | 31.52 | $174.5^1$ | 174.5 | 172.4 | 1.2 | 1.3 | 0.4 | 5.8 | 8.2 |
| Durable Goods | 3.41 | $209.2^1$ | 209.2 | 178.7 | 17.1 | 13.0 | 0.1 | 3.6 | −0.1 |
| Non Durable Goods | 28.11 | $170.3^1$ | 170.3 | 171.6 | −0.8 | 0.5 | 0.5 | 6.5 | 9.3 |

| **Foreign Trade** | Unit | Latest Month (Feb 85) | Cumulative for* 1984-85+ | 1983-84+ | 1984-85 | 1983-84 | 1982-83 | 1981-82 | 1980-81 |
|---|---|---|---|---|---|---|---|---|---|
| Exports | Rs Crore | 928 | 10,288 | 8,633 | 10,288 | 9,868<br>(10.8) | 8,908<br>(14.2) | 7.803<br>(16.3) | 6,711<br>( 3.9) |
| Imports | Rs Crore | 1,477 | 14,915 | 13.930 | 14,915 | 15,763<br>( 9.8) | 14,356<br>(5.0) | 13,671<br>( 9.2) | 12,524<br>(40.6) |
| Balances of Trade | Rs Crore | −549 | −4,627 | −5,297 | −4,627 | −5,895 | −5,448 | −5,868 | −5,813 |

| **Employment Exchange Statistics** | Unit | Latest Month (Nov 84) | Cumulative for* 1984 | 1983 | 1983 | 1982 | 1981 | 1980 | 1979 |
|---|---|---|---|---|---|---|---|---|---|
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,649 | 23,649 | 21,707 | 21,953<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) | 14,334<br>(13.1) |
| Number of Registrations | Thousand | 447 | 5,991 | 6,019 | 6,555<br>(11.8) | 5,862<br>(−6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) | 6,132<br>(15.1) |
| Number of Vacancies Notified | Thousand | 51 | 686 | 784 | 828<br>(1.0) | 820<br>(−8.4) | 895<br>(6.6) | 840<br>(−4.1) | 876<br>(5.8) |
| Number of Placements | Thousand | 30 | 376 | 456 | 486<br>(2.5) | 474<br>(−6.1) | 505<br>(5.2) | 480<br>(2.6) | 468<br>(2.6) |

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* For current year upto latest month for which data are available and for corresponding period of last year.

** Excluding gold and SDRs.

+ Variation in current year upto latest month for which data are available over corresponding period of last year.

+ + Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript[1] indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

# The Terrorist Act

### A G Noorani

THE Terrorist and Disruptive Activities (Prevention) Act, 1985 is a wholly unnecessary and menacing piece of legislation and is a precursor to a perhaps even worse legislation. For, on May 18, Union Home Minister S B Chavan said that a new bill on sedition was in the offing. It will be a grave threat to the freedom of the press and, indeed, to the freedom of speech generally. One hopes the opposition will be more vigilant then than it was on the Terrorist Act. The Supreme Court sustained the existing law of sedition embodied in section 124A of the Penal Code only by giving it a restricted meaning. Nothing has happened to suggest that sedition has so grown as to reveal the law to be inadequate. On the contrary, the existing laws against secessionism embodied in the Unlawful Activities (Prevention) Act, 1967 itself has demonstrated the limitations of a legislative approach. Secessionism was contained in Jammu and Kashmir by the Indira Gandhi-Sheikh Abdullah accord of February 1975 not by the ban on the Plebiscite Front on the eve of the 1971 general election. The law itself is quite adequate. Only it cannot be a substitute for statesmanship. It can be used very effectively to tackle secessionism even as it stands today should a political approach fail.

Despite the Act of 1967, however, the Terrorist Act brings in secessionist activities under the definition of 'disruptive activity' in section 4 which is substantially similar to the definition of 'unlawful activity' in the 1967 Act. Why then the new Act at all?

Let us turn then to the part of the new Act which deals with terrorist acts as defined in section 3. In what respects has the definition of "terrorist" in section 2(1)(h) of the Terrorist Affected Areas (Special Courts) Act, 1984 been found to be inadequate. How are the special courts of this Act less effective than the 'designated courts' of the new Act?

The 1984 Act defined a 'terrorist' as a person who indulges in wanton killing or in violence or in disruption of services or communications or damaging property with any of the four specified objects. These are putting the people in fear; disturbing harmony between groups; coercing or overawing the state; and endangering the country's sovereignty or integrity. It is wide enough even to cover legitimate trade union activity.

What section 3 of the 1985 Act does is to omit the last object—undermining the sovereignty and integrity of India—and treat it under a separate head, 'disruptive activity', which is substantially the same as 'unlawful activity' of the 1967 Act. As for the other three objects mentioned in the definition in the 1984 Act, they are repeated in section 3 of the 1985 Act with greater verbiage but with no substantial difference.

It is an utterly unnecessary piece of legislation enacted at a time when Punjab was already reeling under the excesses of the 1984 Act. It was the result of an instant and typical reaction to the transistor bombs. An able Police Commissioner, Ved Marwah, was able to bring the offenders to earth swiftly without the aid of the new Act before it became law. On the other hand, no amount of legislation will suffice in the hands of an incompetent police chief and his force.

What is really needed for genuine crime detection and prevention is competent police intelligence, investigation and prosecution. The existing law is fully adequate for that. Under section 41 of the Criminal Procedure Code any police officer can arrest without a warrant any person on 'reasonable suspicion' of his having been concerned in any cognisable offence. Under section 151 he can arrest without warrant a person who is 'designing' to commit such an offence. Thus for the crucial stage of putting the offender or planner of offence behind the bars immediately the law is more than adequate. Preventive detention laws are unnecessary.

The Act is worse than unnecessary. It is insidiously dangerous. It defines terrorist and disruptive activities in sections 3 and 4, respectively, and proceeds in section 5 to endow the Government of India with enormous power to make rules the violation of which is punishable with arrest, trial and imprisonment on conviction. The rules can provide for 'preventing the disclosure of official secrets' and also for 'ensuring the accuracy of any report or declaration legally required of any person'. The threat to freedom of the press is obvious.

The Rules are yet to be framed. They should be carefully scrutinised when they are published.

The provisions in the Act for the trial of offences are draconic and have been universally attacked by civil liberties bodies and persons concerned with civil liberties. The police are empowered to keep a suspect under remand for 90 days in case of murder and 60 days in other cases without furnishing the charge-sheet for a whole year. Under section 17(5), the suspect cannot be released on bail if the public prosecutor opposes the application unless the "Court is satisfied that there are reasonable grounds for believing that he is not guilty of such offence and that he is not likely to commit any offence while on bail".

The Union government can transfer cases from one state to another. True, the concurrence of the Chief Justice of India is required on a motion by the Attorney-General. But transfers should be left to the Chief Justice to order, not merely to concur with.

There is also the provision for summary trials in cases where the offence is punishable with imprisonment for less than three years. What is the logic behind this? It is the unstated, unstatable proposition that safeguards for fair trial are relaxable in cases where grave charges are levelled. Incidentally, not only are committal proceedings dispensed with but prosecution can be launched by a private individual even without a police report.

Section 18 of the Act empowers the Centre to enforce the Act itself rather than through state governments. It is a provision of dubious constitutional validity and so is the Act. Entire 'public order' is exclusively a state subject and combating terrorist activity is part of maintenance of 'public order'. The Centre enjoys the power concurrently with the state to legislate on 'criminal law' but neither can use this to create offences in regard to matters in each other's list. Thus the Centre cannot create offences against 'public order'. It can amend the Penal and Criminal Procedure Codes but not legislate on 'public order'.

The Act is, therefore, as unconstitutional as it is unnecessary and vicious.

# Diversifying for Rural Market

### Hansavivek

*ATUL PRODUCTS* is seeking an industrial licence to manufacture 100 tonnes each of the two herbicides, metoxuron and isoproturon. The company has got a letter of intent for the manufacture of 950 tonnes of isocyanates, which are intermediates of these herbicides. On a reassessment of the herbicide market, the company is modifying the project for the diuron plant. It is still awaiting registration of tetradifon from the Central Insecticides Board. Due to serious difficulty faced in procuring meta dinitrobenzene, the company has started manufacturing it for captive use by utilising the spare capacity of its plants. A plant for making monochlorobenzene for captive use is also being installed. The government has finally rejected the company's application for the manufacture of DAP. The R and D department translated successfully processes for some intermediates on the hydrogenation pilot plant. The plant for removal of mercury from the caustic soda plant effluent, based on a process developed by it, has been successfully commissioned. The department has developed processes for some pesticides and their intermediaries and the company intends to put up plants based on these processes. The work on improving the efficiency of some intermediates and dyes as well as on developing processes for additional products is going on satisfactorily. The modernisation of the naphthol plant was completed and the new plant has been commissioned. The first phase of expansion of the DCP plant from 1,500 tonnes to 2,500 tonnes per annum has been completed. The company has also made changes in the caustic soda plant to improve its product mix.

The company has earned a gross profit of Rs 6.31 crore against Rs 5.72 crore in the previous year following increase in sales from Rs 66.94 crore to Rs 77.46 crore. Profit margins have been lowered due to the change in the method of valuation of stock of finished goods and materials-in-process from full absorption cost to direct cost basis. This has resulted in inventory being lower by Rs 2.94 crore and consequently the profit before tax is lower to that extent. The net profit is Rs 2.13 crore (Rs 1.25 crore). Dividend has been stepped up by 4 points to 20 per cent and is covered 1.42 times by earnings as against 1.04 times previously.

**The Week's Companies** *(Rs Lakh)*

| | | Atul Products | | Roche Products | | Asea | |
|---|---|---|---|---|---|---|---|
| | | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 |
| Paid-up Capital | | 750 | 750 | 480 | 400 | 190 | 148 |
| Reserves | | 2554 | 2451 | 394 | 361 | 285 | 206 |
| Borrowings | | 1865 | 1736 | 269 | 307 | 815 | 897 |
| *of which* Term borrowings | | 597 | 606 | 182 | — | 244 | 325 |
| Gross fixed assets | | 5472 | 5037 | 980 | 848 | 699 | 328 |
| Net fixed assets | | 1975 | 1869 | 581 | 531 | 595 | 467 |
| Investments | | 346 | 350 | 6 | 6 | 5 | 5 |
| Current liabilities | | 1257 | 1098 | 678 | 360 | 1087 | 744 |
| Current assets | | 4104 | 3815 | 1335 | 993 | 1773 | 1516 |
| Stocks | | 2572 | 2494 | 605 | 519 | 690 | 624 |
| Book debts | | 1195 | 909 | 424 | 404 | 932 | 741 |
| Net sales | | 7746 | 6694 | 2922 | 2226 | 2674 | 1753 |
| Other income | | 800 | 619 | 21 | 39 | 43 | 108 |
| Raw material costs | | 4579 | 3683 | 1889 | 1238 | 1862 | 1167 |
| Wages | | 716 | 705 | 522 | 492 | 236 | 192 |
| Interest | | 311 | 284 | 80 | 62 | 154 | 110 |
| Gross profit (+)/loss (–) | | 631 | 572 | 129 | 136 | 142 | 146 |
| Depreciation provision | | 368 | 378 | 65 | 59 | 45 | 24 |
| Tax provision | | 50 | 69 | 36 | 49 | 10 | 45 |
| Net profit (+)/loss (–) | | 213 | 125 | 28 | 28 | 87 | 77 |
| Investment allowance reserve | | 75 | 42 | 10 | 16 | 36 | 2 |
| Transfer to reserves | | — | — | — | — | 19 | 48 |
| Dividend | | | | | | | |
| Amount | P | — | — | — | — | — | — |
| | E | 150 | 120 | 33 | 20 | 32 | 27 |
| Rate (per cent) | P | — | — | — | — | — | — |
| | E | 20 | 16 | 8 | 5 | 19 | 18 |
| Cover (times) | | 1.42 | 1.04 | 0.85 | 1.40 | 2.72 | 2.85 |
| *Ratios* (per cent) | | | | | | | |
| Gross profit/sales | | 8.14 | 8.54 | 4.41 | 6.11 | 5.31 | 8.33 |
| Net profit/capital employed | | 6.44 | 3.90 | 3.20 | 3.68 | 18.32 | 21.75 |
| Inventories/sales | | 33.21 | 37.26 | 20.70 | 23.31 | 25.80 | 35.60 |
| Wages/sales | | 9.24 | 10.53 | 17.86 | 22.10 | 8.82 | 10.95 |

The company's plants worked satisfactorily and there was an overall rise in production. Better performance could have been achieved but for the acute shortage of naphthaline during the first half of the year. Moreover the textile industry, the main consumer of the company's dyes, passed through an acute financial crisis and one of the worst slumps in its history which resulted in closure of several mills. In spite of the trouble in Punjab and riots in the Bhiwandi area, the company was able to increase its sales of Atul Dyes. Sales of pharmaceuticals also improved. The directors point out that the sale of quiniodochlor is expected to go down in the future, as the use of halogenated hydroquinolines is being discouraged in the country and the company's main buyer, Hindustan Ciba-Geigy, is discontinuing its purchases. There was a substantial increase in the sales of chemicals. Intensive efforts to increase the sales of Atic Dyes resulted in an increase of 22 per cent. The company received recognition as an export house last year and is making vigorous efforts to increase its exports. During the year, exports increased from Rs 4.50 crore to Rs 5.78 crore. There was an overall increase in costs of raw materials, coal and electricity. Industrial relations continued to be cordial. The Industrial Tribunal has now made an award that the settlement arrived at with the recognised unions in 1982 was fair and just. A fresh charter of demand for revision effective from January 1 last has been received by the company. The company and the recognised unions have jointly applied for reference for adjudication of the demand by the Industrial Tribunal and orders have been accordingly passed. The company proposes to issue non-convertible secured debentures of the aggregate face value of Rs four crore on private placement basis to UTI to augment its long-term working capital. The subsidiary, Cibatul, has shown an impressive increase in sales as well as gross profit. It has commissioned the plants for polyaminoamide and vinyl ester resins. S S Baijal and Sunil S Lalbhai were appointed as additional directors with effect from June 13, 1984. Lalbhai took up the office of managing director from July 1, 1984.

*ROCHE PRODUCTS* has earned a lower gross profit of Rs 129 lakh in 1984 against Rs 136 lakh in the previous year even though it achieved a record increase of nearly 32 per cent in turnover from Rs 22.26 crore to Rs 29.22 crore. The drop in profit margins has occurred due to steep increases in raw material costs. Wages and interest on borrowings have also increased significantly and could not be recovered in increased prices due to the stringent controls of the Drugs (Prices Control) Order. The revision in the government's drugs policy, which was expected during the year, did not materialise. An increase in the price of Vitamin 'A' was granted in 1985 and the company is pursuing its applications for upward revision in the prices of all other products. With depreciation claiming more and tax liability less than in the previous year, net profit is unchanged at Rs 28 lakh. The directors have raised dividend from five per cent to eight per cent which is also payable proportionately on the additional capital raised by a public issue. The new shares were allotted on October 22, 1984. The proposed dividend will require over Rs 33 lakh (Rs 20 lakh) and is thus slightly short-earned. The company was able to step up export sales from Rs 124 lakh to Rs 574 lakh. The company has taken a credit of Rs 22 lakh, being refund received against provisional assessments of prior years and other taxation adjustments. To comply with the provisions of FERA, the company made an issue of 8,10,900 equity shares of Rs 10 each to the Indian public at a premium of Rs 2 per share and received an excellent response. Simultaneously, it also issued 2,43,270 secured non-convertible debentures of Rs 100 each which too was well received. After obtaining the government's permission, 50 per cent of the excess subscriptions were retained and 3,64,905 debentures were allotted on which Rs 50 each has been called up. The re-appointment of J Tanner as the managing director has been approved by the Central government for a period of five years from February 11, 1984.

*ASEA* is continuing to expand and achieve rapid growth, and to that end, investment proposals for the manufacture of SF6 and vacuum breakers in its switchgear division at Nasik are well under way. The company has received the capital goods licence for import of machinery for manufacture of these breakers. It is also actively engaged in its project for induction and melting furnaces, for which it already possesses an industrial licence. The company is now seeking approval of the government for the collaboration agreement. Besides, further investment opportunities, are being examined by the management. Meanwhile, the company has suffered a setback in its financial results, in 1984. Gross profit has dipped from previous year's Rs 146 lakh to Rs 142 lakh despite advance in sales from Rs 17.53 crore to Rs 26.74 crore, reflecting a sharp decline in profit margins. Substantial initial costs incurred in connection with the new factory at Bangalore, which houses the electronics and relay divisions and which commenced production from the second quarter of the year, and heavy interest burden were the main factors responsible for the reduced profit. Severe competition in the electrical industry in the country also lowered profits. With reduced tax liability, however, net profit has increased from Rs 77 lakh to Rs 87 lakh. Considering the bright outlook for the future, the directors have raised dividend by a point to 19 per cent, which is covered 2.72 times by earnings against 2.85 times previously. The company received during the year orders worth Rs 35.95 crore compared to Rs 22.4 crore during the previous year, leaving a healthy backlog of Rs 40.5 crore at the end of 1984. A large portion of the orders received is for imported equipment from the principals, Asea of Sweden. Upholding its position as a leader in electrical transmission technology, the Swedish company secured the first contract for $ 42 million for a high voltage DC system in India early this year. Of this, Rs 7.5 crore has been apportioned to the Indian company for the local portion of the contract. This order is not included in the aforesaid order backlog figures. The electronics factory has commenced manufacturing operations in 1984 and has sizeable orders on hand for despatch during the current year. The products offered by the division are accepted by customers for their technical superiority and the new Bangalore factory should contribute substantially to the company's business during 1985. A K Thiagarajan was appointed as managing director for five years with effect from July 1, 1984.

*RELIANCE TEXTILE INDUSTRIES* is on the threshold of spectacular growth as a result of the massive deversification programme now under implementation. According to Dhirubhai H Ambani, Chairman and Managing Director, the entire programme comprising four major new projects and the expansion of the polyester yarn capacity to 25,125 tonnes will be completed within 24 months, much ahead of schedule. The company would be commissioning (i) a Rs 166-crore project for the manufacture of 45,000 tonnes of polyester staple fibre per annum in technical collaboration with Du Pont of USA by end 1985; (ii) a Rs 288-crore integrated project to annually produce 75,000 tonnes of purified terephthalic acid (PTA) from indigenous raw materials in collaboration with ICI of UK and UOP Processes International USA by end 1986; (iii) a Rs 91-crore project to annually manufacture 40,000 tonnes of mono ethylene glycol (MEG) by early 1987; and (iv) a Rs 129-crore project to annually turnout 50,000 tonnes of linear alkyl benzene (LAB) by early 1987. To raise part of the finance for these projects, the company has already tied-up Rs 252-crore as foreign exchange requirements and would be coming out on June 3 with a non-convertible debenture issue of Rs 100 crore. Highlighting the possible impact of these projects on the company's performance at the annual general meeting in Bombay, Ambani pointed out that there would be a sizeable jump in the company's turnover and profits in the coming years. Besides, net worth which had gone up over the last seven years from Rs 10 crore to Rs 246 crore, would be more than double at about Rs 550 crore, while the fixed assets which had risen to about Rs 520 crore by end 1984, would jump to Rs 1,200 crore in the next two years. In spite of this massive investment programme, he stressed, the company's debt equity ratio would remain well below 1.3:1 against the accepted norm of 2:1, enabling the company to take up additional projects involving a further outlay of Rs 800-1000 crore. As the company's base gets widened, it would be easier for it to take up bigger capital intensive projects and move forward at a much faster rate. He revealed that the management is already on the look-out for opportunities of fresh investment in some other projects of national importance. About the current year's prospects, Ambani pointed out that sales had amounted to Rs 240 crore in the first four months of the current year and were expected to touch Rs 750 crore for the whole of the year, while the company's reserves by the end of the current year were expected to exceed five times the paid-up capital.

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FROM OUR CORRESPONDENTS

**EDUCATION**

# Quality over Access

## Responding to the Demand of the Elite

### Krishna Kumar

SOON after the Lok Sabha elections last year three persons were named for sorting out relevant ideas for the formulation of a new education policy. Initially it appeared that these three, namely P L Malhotra, Moonis Raza, and P N Srivastava, would constitute a formal advisory group. However, the role and status of the group were never precisely stated. In early April this year when the Union Education Minister replied to the debate in the Lok Sabha on his ministry's budgetary demands, he denied the existence of any committee. He said that many eminent educationists were being consulted. In addition to such consultations, he said, the recommendations of the different commissions appointed since independence could also be used for preparing a new educational policy. By the beginning of the academic session 1985-86, more specifically July 1986, the new educational policy will not only be ready but operationalised as well.

Three major issues that have been raised so far in the context of the new policy are: delinking of degrees from jobs, the introduction of modern techniques and equipment in education, and the starting of a 'Central' school in each district of the country. The idea of an 'open university' has also been mentioned as one mode of the use of modern communication technology in education. The common core of all these ideas is the concern that the quality of education available in the country is declining, and that the decline must be stemmed.

The suggestion of delinking of degrees from jobs is rooted in certain assumptions: first, that far too many young people are attending institutions of higher education; second, that a large number among them are attending merely for the sake of qualifying themselves for general service-type jobs; and third, that job-orientation dilutes the pursuit of education and knowledge. If we follow this set of assumptions, we arrive at the conclusion that the quality of higher education can be raised by dropping the job-oriented element among the students, in other words the ones who attend classes because they want a BA or BSc degree in order to become eligible for a job.

It is difficult to say whether anyone ever pursued education purely for its own sake, without any desire for power, status, or livelihood at the end of an educational career. Suppose we grant that there are such people, it can be safely assumed that such people will be members of the richer sections of society. Only they can be expected to afford to completely obviate the anxiety that lesser mortals feel about the outcome or use of any pursuit, physical or intellectual. The lesser mortals, whose presence in colleges and universities allegedly hampers the pursuit of education for its own sake, are largely members of the poorer sections of society—sections whose struggle for education is condemned to be polluted by the struggle for existence. The term 'poorer' can only be used in a relative sense here as there are enough studies indicating that the truly poor (by whatever standard we identify them; let us say, those below the poverty line) do not even have a token representation in higher education. Their children are forced to leave the educational system long before higher education starts. The 'problem' that delinking of degrees from jobs is supposed to solve has been caused mainly by the children of the relatively new entrants to the middle class, including the rural middle class. The 'delinking' thesis offers a psychological solution to the problem of population in India's 3,625 colleges. The solution consists of doing away with the factor that motivates the majority of students, if not all of them, namely the prospect of a job at the end of a degree programme. The 'delinking' thesis proposes that the government and other major employers should stop using the undergraduate degree as a minimum requirement for the bulk of service occupations.

Whatever the positive and negative features of 'delinking' may be, it is erroneous to describe it as an aspect of educational policy. If it is implemented, it will form a part of employment policy, and its only link with education would rest on the hypothetical influence that delinking would have on the psychology of the job-oriented among college and university students. It is not clear whether 'delinking' will actually be tried, and if so, when. Equally unclear is the method of deciding eligibility for service jobs that will replace the present degree criterion. Ideas like a National Merit Examination at the end of the secondary stage have been discussed in some quarters, especially the National Institute of Educational Planning and Administration. Another means of disorienting a large section of youth from colleges is vocational education, and this great idea of the post-World War I period is going through yet another round of seminars these days. Evidently, since the first mention of 'delinking' five months ago, its complications have been understood, and its fate may be, like that of the initial three-member committee, to be reconsidered as many times as it would take to file it away.

At the school stage, a major proposal that has been mooted is that of starting a 'Central' school in every district. At present, 'Central' schools constitute a small, elite sub-system within the government's network of schools. They cater mainly to the children of the Central government's employees. The proposed 'Central' school in each district will have places for the meritorious among the district's children, both rural and urban. Most likely, the meritorious will be selected on the basis of examination results and admission tests. The selective treatment that district 'Central' schools will offer will be based on the idea that separation of the worthy from the ordinary is necessary for harnessing the country's talent. In a society where talents have long been bounded by caste-grouping, new kinds of talent cannot be generated without allowing children of all social strata, both sexes, and different levels of manifest merit to stay and study together for as long as possible. Already, the rise of private schooling has set us in the opposite direction—towards further inbreeding of merit. By enlarging the 'Central' schools network, the government will strengthen the tendency that private schooling has initiated with its absurd procedures of selection among infants.

Between the two major concerns of education, namely access and quality, the government is obviously more inclined towards the latter. The only ideas currently being floated in the context of access are 'open university' and the expansion of non-formal education. Whenever the new educational policy is announced, we can expect it to reiterate the government's intention to fulfil the Constitutional promise of universalising elementary education, mainly by expanding the network of non-formal education and partly by increasing the number of schools. Non-formal education and 'open university' will act as shields, howsoever weak, against possible criticism that the government is neglecting the poor. The real emphasis will be on responding to the demand of the elite for an education system that works— better schools for their children (to be legitimised as pace-setters for other schools that do not work), pan-Indian curricula and examinations, computers, and value-orientation (a euphemism for revivalist orientation of school culture). These likely segments of educational policy, if and when it is announced, will steer the system away from the course that progressive developmentalists like Mudaliar, Srimali, Kothari and Naik had charted in the ethos of the first two decades after independence.

## SCIENCE AND TECHNOLOGY

# Whither Indian Aeronautics?

**Swaraj Bansal**

NO less than the Scientific Advisor to the Ministry of Defence and the President of the Aeronautical Society of India, V S Arunachalam, made a pointed reference to the dismal performance of aeronautics in India during the last twenty-five years while inaugurating the Society's 'Special Symposium on Technology Challenges of Ongoing Aerospace Programmes' at Trivandrum in April. Arunachalam related the failure of the industry to the lack of confidence in indigenous technology among its users.

The symposium consisted of eight invited lectures by eminent professionals from aerospace. The presentations, with slides and all, were informative but there was no debate or questions.

If the objective of the symposium was to draw the attention of the aeronautical professionals to the ongoing aerospace programmes and related technology requirements (challenges in fact), the symposium was far from achieving this objective. Firstly, it was not an 'open' meeting, in the sense that all the speakers were 'selected' and did not quite represent either the aerospace programmes or aerospace expertise. Thus there was no aerospace designer from HAL, ADE, IISc, or even ISRO and the IITs who could have made a technological contribution. There could not be a free debate on the aerospace programme and related issues of technology development; also, there was little scope for a critical appraisal of the current state of technology.

Secondly, within the framework of the selected talks, most of the presentations amounted to mere enumeration of the respective organisation's limited programmes with some reference to problems of technology development. For instance, the real technology challenge in productionisation of aircrafts lies in translating designs into hardware through die and tool designs, machining skills, application of numerical machine programmes for complex designs, etc, and not in the procurement of parts or raw material. Similarly, instead of focusing on the technological challenges in producing indigenously high-grade electronic components, the focus was on systems design in avionics. There is a symbiotic relationship between components/circuits and systems design, the latter not being immune to technological break-throughs in the former. The number of strategic space technologies which are being planned and indigenously developed and which still hold formidable challenges were not highlighted. Little light was shed on the role of R and D in the existing aerospace industry by the paper on the subject.

This brief resume of the Aeronautical Society's symposium reflects the existing state of the aeronautical industry. The history of aeronautics in India shows that project after project of the HAL has been shot down systematically in the past 25 years and the user agencies (primarily the Indian Air Force) have repeatedly gone abroad for the smallest of their requirements. Today even a small 20-seater light transport aircraft has to be imported (the case of German Dornier).

The pattern is all too familiar. The IAF puts up its requirements (operational specifications, to be precise), deliberations of sorts, mostly cosmetic, are held in aeronautical circles and claims to develop indigenously whatever is required are ridiculed. When nothing comes of it all for a while, the decision to import is taken, first a few parts (starting with the engine) and then the whole aircraft. With foreign collaboration, a productionisation plan is set in motion. Often, even here, first some parts and then the pre-assemblies and assemblies are imported. By the time the first assembly of the proposed aircraft rolls out, the aircraft (and its technology, whatever that may mean) is obsolete. Enter the next project and history repeats itself.

The forthcoming LCA (Light Combat Aircraft) is a prestigious project for the Indian aeronautical industry. The estimated cost runs to a four figure sum in crore. The aircraft is supposed to be a multi-high technology sophisticated weapon system compatible with the contemporary aircraft systems of the world in the 1990s. The aircraft is required to be delivered in 1990, but the project, barring a few wind-tunnel tests and studies on different configurations (three to be precise) has made little progress. The technology-options in configuration design, propulsion system (engine), material selection, avionics and weapon sub-systems (a very sensitive area for technological compatibility) are yet to be identified, finalised and major designs frozen. Besides these technological inputs (which are presumably available in the various far-flung aeronautical establishments in the country), a work of this nature requires large project teams with commitment and flair and experience, a massive co-ordination effort, integration and control, and above all systematic organisation development which evolves gradually from specific project requirements and meets its technology and sub-system development objectives in a controlled manner. This is the minimum recipe for delivering the goods in any high-tech multi-discipline project.

No such thing is happening in this case; it is possible that the project is already five years behind schedule. Many in the government might have already mounted a search in the international markets for an equivalent aircraft to fit the slot.

The atomic energy and space programmes, for example, delivered the goods because they had a mandate backed by massive infrastructure and organisational effort. All high technology development needs commensurate organisational effort, not only in excelling in technology development which is essential but also in systems integration, co-ordination and management. This in turn needs a systematic effort to build institutions (organisations of professionals engaged in various tasks towards common goals) where these efforts are culminated to bear fruitition. It is the harmony and synergy of these efforts that result in the success of large projects.

The aeronautics profession in India, in spite of individual pockets of excellence, is rather scattered even now. The profession has failed to respond to the demands placed on it and has consistently succumbed to the softer options of importing as against pooling its resources to put its house in order. Government policy too has been far from helping the building up of self-reliance in aeronautics. Government has jumped from one aircraft to another instead of planning for 10 to 20 years into the future and developing the requisite infrastructure to supply these weapon systems of the future. This is possible only through (a) government emphasis on self-reliance through concerted technological and organisation build-up, and (b) a kind of 'inner liberalisation' of the profession to permit larger participation and debate which would facilitate institution-building. Without such transformation there is no hope for aeronautics in India.

## CEMENT

# A Decontrol Success Story

**Sheetal Shankar**

BY all accounts the cement industry has fared remarkably well in the period following the dual price policy introduced in February 1982. This policy brought in a two-tier pricing system consisting of a levy price for government supplies and an open market price. The levy quota was roughly two-thirds of installed capacity while the balance could be disposed of in the free market. The policy thus amounted to partial decontrol of cement. The states were left to work out their own distribution machinery for quota cement. The levy price was raised, first in February 1982 and again in July 1984, to allow for cost escalations.

The new pricing policy signified a radical change from past policy. The government's administered pricing policy has involved somewhat conflicting objectives which have proved hard to reconcile. This has particular reference to the effort to secure a 'reasonable' price to consumers, while at the same time striving to ensure that producers get a 'fair' return on investment so that the requisite capital may continue to flow into the industry. Based on the recommendations of expert bodies appointed from time to time, the policy experimented with various alternatives ranging from a uniform price for all firms to a three-tier system in which three different prices were applicable each to high cost, medium cost, and low cost firms. Distribution controls went hand in hand with price controls. But cement prices were allegedly pegged at unremunerative levels, adversely affecting profitability. Meanwhile the capital cost of new plants went up sharply, thwarting the flow of fresh investment into the industry. The industry thus failed to grow apace with growing demand and cement shortages became acute, particularly from 1965 onwards. In the late seventies shortages were so acute that the Sixth Plan had to allow for cement imports to bridge the demand-supply gap, though the domestic potential remained unexploited. Against an expected consumption of 38 mn tonnes by 1984-85, the Plan allowed for cement imports of 2-3 mn tonnes a year.

Prior to the 1982 policy change, the post-Independence cement situation had on the whole been one of demand exceeding supply, though a few sporadic years of excess supply could be cited. The relatively low volume of production constrained consumption and a general atmosphere of shortage encouraged blackmarketing in the commodity.

Apart from allowing for imports to relieve immediate shortages, the Sixth Plan, in a sober reckoning, was critical of past policy. This paved the way for the liberalisation of price and distribution controls which were finally announced in February 1982. As mentioned, the industry's performance during the period of partial decontrol has been remarkably good. There now seems to be promise that the era of shortages, blackmarketing and constrained consumption will come to an end as the gains are consolidated.

For every plan period upto the end of the Fifth Plan capacity installation in cement had trailed behind the target based on projected demand (Table 1). The Sixth Plan has been the first in which the achieved capacity of 44 mn tonnes has exceeded the target of 43 mn tonnes. During the Sixth Plan the industry will have added close to 22 mn tonnes to the existing capacity of 22 mn tonnes in 1979, a performance equal to the achievement under all the previous plan periods taken together.

Though the production target for the Sixth Plan has not been fully attained, the industry has increased annual production by 13 mn tonnes. Thus by the end of the Sixth Plan the industry was producing 32.5 mn tonnes against a production of 19.5 mn tonnes at the end of the Fifth Plan. The increase in production equals the achievement of the preceding 25 years. With the commissioning of new capacity and improved capacity utilisation, the annual rate of production is likely to go up considerably in the coming years.

With improvement in domestic production and availability of cement, the import requirement has been reduced, with imports in 1984-85 estimated at only half a million tonnes.

Data relating to the financial performance of selected groups of cement com-

TABLE 2: FINANCIAL PERFORMANCE OF PUBLIC SECTOR CEMENT COMPANIES UNDER CCI

*(Rs lakh)*

| | 1982-83 | 1981-82 |
|---|---|---|
| (1) Sales | 19,768.24 | 7,318.40 |
| (2) Profits | 2,487.38 | 882.47 |
| (3) Percentage of Profits before tax | | |
| (a) to sales | 22.46 | 16.50 |
| (b) to gross fixed assets | 15.04 | 6.82 |
| (c) to capital employed | 13.27 | 6.39 |
| (4) Reserves and surplus | 3253.88 | 765.70 |
| (5) Internally generated funds | 3804.80 | 1,619.86 |
| (6) Internally generated funds as per cent of totoal funds raised | 52.27 | 38.84 |

*Source*: Cement Corporation of India, Annual Reports.

TABLE 1: CEMENT IN THE FIVE-YEAR PLANS

*(million tonnes)*

| Five-Year Plans | Capacity | | Production | |
|---|---|---|---|---|
| | Target | Achievement | Target | Achievement |
| I (1951-1956) | 5.3 | 5.0 | 4.8 | 4.6 |
| II (1956-1961) | 16.0 | 9.3 | 13.0 | 8.0 |
| III (1961-1966) | 15.0 | 12.0 | 13.0 | 10.8 |
| IV (1969-1974) | — | 19.8 | 18.0 | 14.7 |
| V (1974-1979) | 23.5 | 22.8 | 20.8 | 19.5 |
| VI (1980-1985) | 43.0 | 44.0 | 34.5 | 32.5 |

*Source*: Planning Commission.

panies are available for the year 1982-83, the first full year of dual pricing. They provide evidence of a spectacular improvement in financial performance within a year of the change of policy. Table 2 gives selected indicators of the financial performance of public sector cement companies under the Cement Corporation of India (CCI) in 1981 and 1982. These companies accounted for around eight per cent of total production of cement in these years. It may be seen that in 1982-83, sales were 270 per cent of the previous year's sales, while profits were 280 per cent of the previous year's profits. The various profitability ratios also show very significant improvements. A massive ploughing back of profits resulted in a large increase in reserves and surplus and a sizeable increase in the proportion of internally generated funds to total funds raised.

An idea of the performance of private sector cement companies can be obtained from the ICICI's report on the financial performance of a sample of ICICI aided companies for the year 1982-83. Of the 417 companies in the sample belonging to different industry groups such as automobiles, fertilisers, machine tools, shipping, textiles, etc, nine companies belonged to the cement group. In 1982-83, most industry groups exhibited a deceleration of sales and profits. But in the case of cement there was a significant increase of both sales and profits. Table 3 gives selected indicators of the financial performance of cement companies provided by the ICICI report. The considerable improvement in profitability ratios may be noted. The increased profits were utilised to augment reserves. It may be seen that while the ratio of dividends to pre-tax profits declined drastically, there was a corresponding increase in the ratio of retained profits to pre-tax profits. This resulted in a 400 per cent increase in the reserve fund in 1982 compared to the previous year.

TABLE 3: FINANCIAL PERFORMANCE OF SELECTED ICICI AIDED CEMENT COMPANIES

| | 1982-83 | 1981-82 |
|---|---|---|
| (1) No of companies | 9 | 9 |
| (2) Profits before tax as percentage of sales | 13.10 | 1.50 |
| (3) Return to capital employed (percentage) | 22.50 | 9.70 |
| (4) Dividend as percentage of pre-tax profits | 14.30 | 85.90 |
| (5) Reserves and surpluses (Rs crore) | 102.20 | 24.07 |
| (6) Retained profits as percentage of profits before tax | 82.10 | 14.10 |

*Source:* "Financial Performance of Companies: ICICI Portfolio, 1982-83", ICICI, Bombay.

TABLE 4: INDEX OF CEMENT SECURITIES
(Base: 1970-71 = 100)

| | Cement | All Industries |
|---|---|---|
| 1971 | 96.7 | 95.1 |
| 1975 | 84.8 | 97.3 |
| 1981 | 154.7 | 191.7 |
| 1982 | 237.5 | 180.7 |
| 1983 | 282.1 | 198.0 |
| 1984 (av for 8 mths, January-August) | 260.7 | 203.7 |

*Source*: Central Statistical Organisation.

The cement group planned the largest increase in capital expenditure for modernisation and expansion in 1983-84 and 1984-85 as compared to other industry groups in the ICICI portfolio. The improved reserves position for 1982 increased the scope for internal financing of capital expenditure, but the planned investment to the tune of Rs 213 crore in 1984-85 on top of an investment of Rs 186 crore in the previous year would necessitate fresh borrowings on a large scale.

The impact of the new policy on the investment climate in the cement industry is readily visible in the behaviour of the index of cement securities (Table 4). The index increased by 82.8 points in 1982 over the previous year, against an increase of only 58 points in the course of ten years between 1971 and 1981. The index increased by a further 44.6 points between 1982 and 1983, and though there was a slight decline in 1984, the index continued to be high. The buoyancy of the investment market for cement compared to other industries is reflected in the fact that the level of the cement index in 1982, 1983 and 1984 was higher than that of the composite index for all industries in these years. It may be noted that the opposite was the case in the period 1971-1981.

It seems that the twin objectives of the new policy of increasing production and improving financial position of firms to enable them to finance a large part of expansion and modernisation plans from internal sources are within reach. Within a short period of three years the stagnation of the past has come to an end.

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# Anti-People Development
## Case of Inchampalli Project

(By a Special Correspondent)

THE Central Indian forest region has been in the news recently not only for the increased activity of various Marxist-Leninist groups but also for the 'developmental' activity being undertaken by the Central and state governments there. One such project is the Inchampalli multi-purpose dam project which concerns the Madhya Pradesh, Maharashtra and Andhra Pradesh governments. This project has evoked considerable opposition in Maharashtra since it is the southern and eastern portions of Gadchiroli district that are going to be most adversely affected by it.

The Gadchiroli district, created from the larger Chandrapur district only three years ago, lies at the eastern end of Maharashtra bordering both MP and AP. A large part of the district is under forest and the southern part, the old Sironcha taluka, has 83 per cent of its total area under forest. These are part of the forests that stretch from Chandrapur through Adilabad into Orissa. The district is also potentially rich in minerals. It is said that there is iron ore to be found near Bhamragadh. Before the Tatas set up their steel plant at Jamshedpur, they had apparently considered setting it up in this area.

These hilly dry forests are inhabited by tribals. According to the 1981 Census, 41.5 per cent (2.5 lakh) of the total population comprise scheduled tribes. There is no industrialisation in this district and an overwhelming majority of the population is dependent on agriculture and the forest for its livelihood. Even agriculture is backward with single crop, subsistence cultivation being the norm. The main crops are jowar and rice. There is very little irrigation, though the district is criss-crossed by the Godavari, Wainganga, Pranhita and Indravati rivers.

An agreement was reached between Andhra Pradesh, Maharashtra and Madhya Pradesh on August 7, 1978 to take up the Inchampalli project as a joint venture on the river Godavari which acts as a boundary of the three states. The agreement was signed in the days when K L Rao was Minister for Irrigation in the Central cabinet. Immediately on reaching the agreement the Andhra government had a survey done. Though this is ostensibily an inter-state project, in fact almost all the benefits of irrigation will go to Andhra Pradesh. Apparently the Maharashtra government was told that if its approval was not forthcoming then perhaps sanction for some other projects might not be granted.

The Inchampalli hydel and irrigation project is to be built about 12 kms from the confluence of the Godavari and Pranhita rivers in Manthani taluka of Karimnagar district of Andhra Pradesh. The 116.13 metres high and 2,056 metres long dam will submerge 1,00,858 hectares of land in 146 villages of the three states. Of this, 39,333 hectares are in Maharashtra, of which again 19,593 hectares are forest land. Along with Inchampalli, a feeder dam is to be built near Bhopalapatnam along the MP-Maharashtra border on the Indravati in Maharashtra and an equivalent area in Madhya Pradesh. 19,013 hectares of forest land in Maharashtra are likely to be submerged. While the Inchampalli dam is estimated to cost Rs 362 crore, the Bhopalapatnam project will cost Rs 403 crore. Besides these two dams, the project envisages a series of smaller dams northwards at Tutuli, Kathani, etc.

The Inchampalli dam will generate an estimated 660 megawatts of power and irrigate 1,31,400 hectares, while the Bhopalapatnam project's estimated capacity for electricity generation is 1,225 megawatts. The three states of MP, Maharashtra and AP are to share the electricity in the proportion of 38:35:27. From the Inchampalli project 1.6 mn acres of land in AP are likely to be irrigated while 16,000 hectares in Maharashtra will get lift irrigation facilities. The cost has to be borne by the states in the proportion of 76.10 per cent (AP), 11.40 per cent (MP), and 10.50 per cent (Maharashtra).

### BENEFITS FOR WHOM?

If looked at a little closely, it becomes clear that the benefits claimed for the projects are not going to accrue to all sections of the population. The irrigation facilities will benefit those who have the land. The tribals in this region have neither the large holdings to be able to maximise the use of irrigation facilities nor the capacity to pay for them. Besides, with the entry of the Forest Development Corporation as a commercial enterprise to tap forest resources a large number of the tribal forest dwellers are becoming wage labourers.

Even in terms of the employment generated during the period of construction, how much the local people will gain is a moot point. It hardly needs stating that skilled labour will be inducted from outside the region. Even for unskilled workers, the general policy of contractors has been to bring workers from outside to prevent unionisation. Even if this does not happen, from the experience of other such projects it is obvious that local people will be absorbed partially in casual, temporary employment. For the Gadchiroli tribals this will mean a sudden transition from a settled life in relative isolation to a marginalised life dominated by 'outsiders'.

The monetary cost of the Inchampalli dam does not give an idea of its real cost, if we consider the loss of forest wealth, cultivable and uncultivable lands and rare species of animals and plants. The cost of completely uprooting a people cannot, of course, be calculated in terms of money.

In Maharashtra, it is land from the Sironcha and Etapalli talukas that will be submerged. About 40,000 hectares of forest land (the teak in this area is famous as being second only to Burma teak) will go under water. Even the Tehsil headquarters, Sironcha, a big village, will be submerged. Parts of the highway too will be submerged. The forest shelters rare species of flora and fauna which will be impossible to rehabilitate as stipulated in the Forest (Conservation) Act, 1980. This forest is also the habitat of a rare variety of wild buffalo.

Ecologically speaking, this multi-purpose project is a disaster. The process of destruction of forests in Maharashtra began at the turn of the century and at present the state has less than 30 per cent of its original forest cover. At the time of the transfer of power in 1947, the state had 39,000 sq kms of forest, but in 1963, according to a study of the NCAEER, only 14,000 sq kms of forest were left. Since then a further 4,400 sq kms have been denuded reducing the area under forest to about 10,000 sq kms.

According to a study by the Tribal Research Institute, Pune, "the likely loss of forest will be about Rs 3,372 lakh which is unrecoverable. The loss of forest will be a permanent national loss forever". Out of this total amount, the losss of Rs 146 lakh will be of high quality teak and other timber. It is estimated that the clearing of the forest for Inchampalli alone will yield 1,46,000 cubic metres of timber, 7,60,000 beats of fuel, 5,000 tonnes of bamboo over a period of 10 years. This would mean an annual destruction of 16,100 cubic metres of timber, 14,000 fuel beats and 500 tonnes of bamboo.

The Centre of Studies in Resources Engineering, Bombay, had taken up a survey in 1979 to assess the availability of natural resources in the region around Sironcha. 20 lakh tonnes of barium have been located at Amdali, about 16 kms from Sironcha, and at Devalamarri. It was estimated that there are about 10 mn tonnes of lime deposits of chemical, flask and cement grade. At Gorewada, near Kamalapur, deposits of graphite have been located while at Manlapur deposits of sillenite have been found. Iron ore has been located at Bhamragadh. Much of this wealth will be submerged when the two dams are built.

### ADVERSE IMPACT ON TRIBALS

The controversy about these two dams has arisen specifically because a major part of the area that will be affected has a high concentration of tribals and the area is full of forests. The mineral and other resources likely to be lost due to the project can be set against the power and water resources that are likely to be generated after the project's completion. Hence the most important aspect that needs to be considered is the loss in human terms that is likely to occur. Incomplete official estimates state that in the three states 66,000 people will be displaced due to the two projects.

The forest is inhabited by various tribes among the Gonds: the Madias, the Raj Gonds, the Parshans and a small number of Kolam as well. Most of them practice settled cultivation, but a section of the Madias, inhabiting the remote tracts of Bhamragadh area, still practice shifting cultivation in spite of the government schemes to force them to take to plough cultivation. They are all forest dwellers who have lived in this forest for centuries. Their economic and cultural life is inextricably linked to the forest.

Modernisation has come into the lives of these tribals not so much through the developmental schemes of the government as much as through the enhanced commercial exploitation of the forest wealth by the forest departments and paper mills. The activities of the Maharashtra Forest Development Corporation and the Ballarpur Paper Mills have brought the tribals into contact with a money economy and exploitative relationships. The increased forest regulations have curtailed their earlier access to the forest and its products, the sudden expansion of the administrative machinery of the forest department with forest guards and rangers have put them at the mercy of these newly created kings of the forest. Already the tribals and other forest dwellers in this area have faced a deterioration in their life and culture, they have found their earlier freedom curtailed and they have been reduced to potential labour for the forest department.

The uprooting of these tribals and their proposed rehabilitation outside the district, in a distant non-forest area like Nanded district, raises several questions. Firstly, will the new environment provide them with sufficient livelihood? Secondly, will they be able to culturally and socially adjust? Further, the tribals are to be compensated for the land under cultivation at the rate of Rs 4,000 per hectare. Here there is an additional complication in that many of the people do not have registered pattas to the lands they have been cultivating for years. How the work of compensation will be handled by the revenue department, notorious for its bureaucratic delays and corruption, needs little imagination to foretell.

Given the experience of past projects and the above background, it can easily be seen that these forest dwellers are not going to settle in Nanded to a better life of settled cultivation. Their economic condition is bound to deteriorate. They are most likely to become casual labourers at the mercy of contractors, factory owners, etc. The women will be forced into menial jobs and into the flesh market. Apart from the fact that the compensation being offered is measly, the exchange of land for money will further impoverish them. Unused to a money economy they are likely to be cheated by the more sophisticated plainsmen to part with the compensation money.

The deterioration in their conditions and increased exploitation in the past decade has led the forest dwellers to organise themselves under the banner of the Adivasi Kisan Shetmajur Sangathana (AKSS). The organisation has emerged all over Sironcha, Aheri and Etapalli talukas under the leadership of the CPI(ML) (People's War), inspired by the movements in neighbouring Karimnagar and Adilabad districts of Andhra Pradesh. In fact it is the growing influence of the AKSS that prompted the Maharashtra government to come down heavily on the efforts of the AKSS to hold its first conference at Kamalapur village in February 1984. Since then there have been waves of repression by the police in the three talukas. All this has created resentment and hostility towards the government and the police. The forest dwellers are thus in no mood to accept any project by the government which adversely affects their lives.

## POPULAR OPPOSITION

While the AKSS has expressed its opposition to the project and campaigns are being conducted at the village level, public action against the dam has been led also by Baba Amte, the well known social worker from Chandrapur. In February 1984, at his annual gathering at Hemalkasa (near Bhamragadh), Baba Amte spoke about the dangers inherent in the dam project. This was followed by a public meeting and morcha on April 9, 1984 at Gadchiroli. Apart from Baba Amte, Raja Vishweshwarrao from Aheri, ex-MP, and Lalshyam Shah from Rajnandgaon were also present at the head of the morcha. They tried to mobilise the people from both Maharashtra and MP. The memorandum opposing the entire project, including the proposed 20 dams, was submitted to the Collector. After that at his annual meeting at Hemalkasa in February 1985, Baba Amte once again reiterated his opposition to the project. Earlier Baba Amte had written to Prime Minister Indira Gandhi and this had elicited a reply from her which spoke in favour of preserving our natural environment. But to retain it, she wrote, would require an arduous struggle in which all conservationists would have to unite. Against whom the struggle will have to be waged was not mentioned by her, considering that it was her party at the Centre and the state which had approved the project. It must also be remembered that the Centre had virtually ordered the Maharashtra government to accept the project though the latter had been reluctant.

The first effort to stop the project began in 1980 when the Congress(I) MP from Chandrapur, Shantaram Potdukhe, brought the issue to the notice of the Centre as well as the state government. N K Tirpude, former Deputy Chief Minister of Maharashtra also took up a campaign against the Inchampalli project through his Vidarbha Vikas Mandal. Privately, many forest department officials in the state have also expressed their opposition to the project. But the World Bank, contractors and the rural and urban rich, who are interested in the Inchampalli-Bhopalapatnam project because of the irrigation and power it will provide, are advancing the argument that the destruction of the forests and the uprooting of the forest-dwellers are some of the inevitable costs of development.

Some liberal social workers organised a 'jungle bachao, manav bachao' convention at Sironcha to oppose the Inchampalli dam. Environmental and conservationist groups have also supported the campaign against the project. Considering that this project will inundate almost one and a half lakh hectares of land in the three states (much of which is prime dry deciduous forest, compared to 850 hectares of forest land that was to have been submerged in the Silent Valley project) the campaign against this project has so far been markedly on a low key. The project is likely to affect the central Indian forest belt beyond repair with serious ecological consequences. Most importantly, it will adversely affect the Gond population of the area, their economic, social and cultural life.

## NOT A PLEA FOR TRIBAL ISOLATIONISM

One argument that is being put forward about the negative impact of the project on the tribals is that the tribal culture will be destroyed, that the project will lead to tribal genocide. This concept of 'tribal culture' that needs preservation and protection is, however, rather vague. Apart from wanting the preservation of Gondi language, the Raja of Aheri, for example, has been able to say nothing more specific. The concept of tribal culture is also assumed to include the preservation of the tribal values of communal social life, religion, dance and song. But there is a pitfall in this argument. For the argument creates the impression that what is being sought is the preservation of the tribals in the conditions in which they have lived for all these decades. This is a revival of the isolation thesis, on the lines of the reservations for Red Indians in the US, to keep them in their primitive economy and life style—in short the fossilisation of a people.

There is no doubt, of course, that the sudden displacement and dispersal of these people from their forest habitat to a drought-prone plains area, from an economy where internal class structure and class relations have developed only to a limited extent to a semi-feudal economy with a sharp and developed network of class relations and a rigid caste hierarchy will not merely disorient them but completely disrupt their existing culture. Already we have enough examples of such disruption and its dehumanising effects on the tribals of the Chotta Nagpur plateau over the past century. The destruction of a traditional culture, the breakdown of social tics of co-operation with no alternative set of values except that of the market, have had the effect of marginalising, dehumanising and demoralising simple communities. But these are the effects of an economy controlled by and based on the principle of profit; they are the effects of the policy of 'development' pursued by the present ruling classes. When development is oriented towards the enrichment and enhancement of contractors, traders, industrialists and their likes it can only be at the cost of the lives and conditions of the masses, whether in their own environment or in another. And the impact of these developmental policies is already being felt even in the forest environment. The tribals have already become victims of the 'development policies' of the government.

The alternative to this 'development' cannot be stagnation as the above argument tends to project. The forest dwellers want and need development of their conditions. And this requires the political mobilisation of the forest dwellers, a mobilisation to understand, expose and resist the existing exploitative 'development'. This requires, essentially, opposition to the present state which is the main vehicle through which these development are being implemented, its socialist slogans being merely a cover.

The development of the forest dwellers can best be in their own environment through mobilising their own efforts, which includes opposing the exploitative nature of the state. And it is a recognition of this fact that has led the state to take repressive measures to crush any political organisation in the forest areas of central India—in Gadchiroli, Bastar and Adilabad. To save the people of this area, to help them in their efforts to develop and to save India's ecological balance, the government must be compelled to give up the Inchampalli-Bhopalapatnam project.

# Washington, Delhi, and the Sikhs

## Adventures in Wonderland

**Barbara R Joshi**

ON April 17, Indian newspapers carried a front page story, datelined UNI-Washington, and titled "Indian Embassy Strongly Protests US Congressional Caucus Hearing". The article went on to claim that Sikh separatists were successfully mobilising the US Congress on behalf of a separate Khalistan. In a subsequent story UNI continued to charge that "Hardline Sikhs, led by G S Dhillon, J S Bhullar, and Ralph Singh, are creating an atmosphere amenable to their secessionist cause". Parliament held a three hour debate, and a press release on April 19 assured the public that the government had lodged a strong protest with the US government in Washington and in Delhi.

Strange sequel to a seminar featuring lectures on Indian human rights issues by people urging steps to improve Indian unity. But then these are strange times.

The catalyst was a public seminar in the Reyburn Building in Washington on April 11, one of a series hosted by the Congressional Human Rights Caucus and a shifting array of human rights and citizen action groups. The seminar was to have been composed of four panelists—Ralph Singh, Barbara Joshi, and representatives who had been invited from the US State Department and the Indian Embassy—with Laurie Wiseberg, executive director of Human Rights Internet, a private human rights information agency, acting as moderator. We ended with three panelists. Leo Rose was sent by the State Department. The Indian Embassy declined the invitation in a letter that strongly protested "giving a human rights colouration to what is a purely political problem in India". The letter went on to argue that Sikhs were honoured and well integrated Indian citizens.

Laurie Wiseberg began the meeting by reading the Indian Embassy letter and expressing regret at a missed chance for dialogue. Barbara Joshi, reading from a paper made available to the audience, suggested that recent anti-Sikh riots should be seen as part of more pervasive problems. "Policy decisions based on short term political expediency, taken by a variety of governments, have established precedents and expectations that are dangerous for India as a whole, not just for one minority or another." After reviewing some recent instances of large-scale violence against a variety of caste, class, and religious target groups, the paper concludes by noting the growth and rationale of non-partisan civil and human rights organisations in India. "They are convinced that unless they can break the linkage between social violence and political authority—a pattern in which social violence is assured of political protection and after-the-fact political absolution—they will witness the destruction of both the nation and democracy. It is this logic that has led several of these groups—predominantly non-Sikh in composition—to press for a judicial enquiry into the Delhi riots of 1984, and even more importantly, for effective prosecution."

The second panelist was Ralph Singh, who now finds himself branded a hardline Khalistan separatist. Singh also read from a prepared text which was distributed to the audience along with an information packet featuring such items as the PUDR/PUCL report on the Delhi riots, "Who Are the Guilty?"; Madhu Kishwar's "Gangster Rule: The Massacre of the Sikhs" (*Manushi*, Winter, 1984); and Samata Era's "Army Action in Punjab" (Delhi, 1984). Singh's paper argues that denial of human rights makes "any hope of a lasting solution impossible. It is our hope, indeed our prayer, that this meeting today will provide the focus needed to begin a constructive dialogue aimed at the restoration of these basic freedoms to the Sikh community so that they may once more be free to contribute to the growth of their country". The presentation of this dangerous gentleman concludes with his own suggestions and a quotation:

> Perhaps a few suggestions: (1) Open Punjab. Let in some fresh air, in the form of press and human rights groups. (2) Hold an inquiry in Delhi, and punish the guilty. (3) Compile a list of casualties so that families may be relieved of their burdens. Especially the children. (4) See that the damage is accurately assessed so that Sikhs can start to rebuild, not just their own property but the country at large.
>
> "The unity of a vast country like India is achieved not in spite of but through diversity. Not by suppressing or merely tolerating diversity but by creatively recognising and accommodating it. The various group identities which constitute India should be given recognition, accommodation, a sense of belonging to the unity, of being partners and shareholders in the unity, not its servants." ("Army Action in Punjab", p 20.)

### STATE DEPARTMENT ON HUMAN RIGHTS IN INDIA

The last speaker, Leo Rose, has suffered the strangest fate of all. Rose is a professor at the University of California who is serving as a consultant to the State Department. At the meeting he condemned the previous speakers as biased, and strongly defended the Indian government's actions, a position congruent with that previously taken by the US State Department. He was subsequently quoted in the Indian press as suggesting that several leaders of the Indian government should be shot. The State Department now denies that he represented the Department. Since the organisers had asked for a State Department representative, and since the preceding speakers were, in large measure, responding to the Department's published views, perhaps it would be fairest to quote the Department's "Country Reports on Human Rights". Throughout its 1984 report, the Department takes occasional note of such cautionary voices as that of

Amnesty International, but reaches conclusions that read very much like those of the Government of India itself. For example, the November massacre of the Sikhs is described thus:

> Prime Minister Indira Gandhi's assassination on October 31 by two of her Sikh bodyguards triggered anti-Sikh rioting in New Delhi and elsewhere in northern India, resulting in the deaths of over 1,200 persons. Following his appointment as Prime Minister, Rajiv Gandhi appealed for an end to the anti-Sikh violence and ordered deployment of the army and other security forces to quell the disturbances. The government also offered to pay compensation to the victims of the rioting. As a result of an investigation into alleged dereliction of duty by the police during the riots, several senior police officials have been dismissed, demoted, or reassigned (p 1220).

Continuing caste/class violence is downgraded to the observation that

> Press reports of violence against scheduled castes or scheduled tribes have decreased from previous years. The basis of such violence is often economic, involving perceived threats to the economic position of higher castes by lower economic groups demanding legal minimum wages or land tenancy. The government provides some legal and physical protection to the victimised groups, and in the last two years the judiciary has taken an increasingly hardline against perpetrators of mass killings of harijans.

The case of Brahma Chellaney, charged with sedition when he became the only journalist able to provide eyewitness reporting on Operation Bluestar, raises no ripple of concern.

> The Constitution guarantees freedom of speech and, by extension, of the press. However, material which, in the view of government authorities, may incite religious or communal hatred is proscribed from print. In October the Punjab state government registered a case against an Indian citizen representing a foreign news agency under provisions concerning provoking riot and disaffection among communal groups. He had reported from Amritsar that some persons had been tied up and shot during an army operation there. The story also appeared in the Indian press. There is no indication that any other journalist was similarly charged (p 1225).

Not until the public question hour succeeding the seminar did Dhillon and Bhullar made their appearance, and then probably went unnoticed by most of those present. Their names are not familiar to most Americans, and neither brought up issues likely to attract attention. Dhillon complained of not being invited to participate and proceeded to complain further of too few industrial permits for Punjab. Bhullar praised his own exploits as a general and complained of declining Punjabi representation in the Indian army. A variety of Americans in the audience raised questions regarding the analysis and arguments presented by Rose. One also asked if the State Department would co-operate if any formal hearings were held, and was told by a visiting Department trainee that this was not a decision for the State Department to make. The meeting ended on a relatively positive note when Ravi Khanna, a Voice of America employee who had taped the proceedings, noted that just before the meeting he had seen a wire report announcing an official enquiry into the Delhi riots.

Long day. Tiring. Nothing very exciting—until hysteria broke loose in Delhi several days later on April 17.

Question: What happened between April 11 and April 17 to a story presented to the Indian public as a major threat to India's survival? Khanna of Voice of America has stated that he told a friend in UNI-Washington about the meeting, and that UNI later relayed the story to India. Several days later? If UNI—or anyone else—attempted to research a lead, they apparently did not contact the chairman of the House Foreign Affairs committee on Asia and the Pacific, Steven Solarz (D-New York City), who has been a focus of extensive (and legal) social lobbying by the Indian government and the larger Indian citizen groups. Solarz is reported by all human rights activists in Washington to be opposed to formal hearings on any human rights issues in India. Certainly UNI did not contact Ralph Singh until April 18, the day after its first story was released in Delhi, and then proceeded to repeat charges of separatism in spite of protest from their outraged victim. I have yet to hear from UNI, but perhaps I should simply count my blessings. Throughout the fracas, both UNI and Indian Embassy had easy access to the printed copies of the papers presented at the seminar. The Embassy has reached out quickly to international human rights agencies with offices in the US when concerned about persons of Indian descent in South and East Africa, Sri Lanka, and Southeast Asia.

Question: Were we watching a well-staged charade, or the unintended by-product of propaganda in which every Sikh is by definition a separatist/terrorist? Is there still a difference between charade and self-sustaining hysteria in the desperate world that has become Delhi? Certainly men like Dhillon and Bhullar will play Delhi's tune for their own ends. Once again it is Delhi itself that has boosted their support base by helping them claim influence they do not have.

Prospects: Back in America enthusiasm continues to build over visions of expanding private investment opportunities in India. Bhopal was just an accident; there's really nothing like a good dose of international private enterprise to cure any country's problems. There is even talk of celebrating the dawn of a new era with an arms deal. It is all so familiar—the yeasty blend of American geo-politics, multinational business, and authoritarian governments egged on by America's own vision of the kind of 'firmness' needed to create Third World stability. When pressures build beyond endurance and one more pot bubbles over, the American public will be invited to reflect on the fact that Third World societies are incurable, and patriotic tax-payers will be invited to cover the lost investments of American corporations.

Those of us who continue to argue the inherent insanity of it all do have to wonder at our own sanity. Why do we even try to speak out in the face of such converging pressures from opposite sides of the global village? Maybe it all comes down to sharing the conviction of an exhausted but determined Indian.

> I have no doubt such words have little virtue, and less force, where our rulers are concerned, and we invite their contempt, if not their wrath. But that's a risk we must accept, for it's our agony that makes us people, and it's our voice which makes us human. The rest is a question of faith in an essentially faithless world. (Darshan Singh Maini, 'Oh Delhi, Delhi!', in "Voices from a Scarred City", Delhi: Lokayan, 1985.)

## AEI

ALTERNATIVE ENERGY INDUSTRIES (AEI), pioneer in the manufacture of solid fuel from agricultural wastes on a commercial scale in India, is doubling its capacity to 28,000 tonnes per annum. The project, estimated to cost about Rs 116 lakh, is to be financed partly by the issue of 8.50 lakh equity shares of Rs 10 each at par. Out of the issue, 1.90 lakh shares have been reserved for preferential allotment to non-residents of Indian origin on repatriation basis. The subscription list for non-residents opened on May 29 and for the Indian public it will open on June 12. The plant located at Pondicherry went into production in January last and has attained rated capacity. The plant is equipped mainly with Swiss machines supplied by Fred Hausmann AG. The company markets its product under the brand name 'AGBURN'. The Madras-based Parry and Company, marketing agent, has assured sales of the company's entire production. The company hopes to achieve a turnover of Rs 80 lakh for the year ending October 1985 and show a cash surplus after providing for depreciation. Turnover in 1985-86 is expected to be around Rs two crore with a pre-tax profit of Rs 60 lakh. The issue is managed by H B Financial Consultants. New Delhi.

# Bank of Madura Limited

## Statement of the Chairman **Shri S Kumarasundaram** at the forty second Annual General Meeting of members of Bank of Madura Ltd held at Madurai on May 25, 1985.

Ladies and Gentlemen,

I EXTEND you a cordial welcome to this Forty Second Annual General Meeting of members of the Bank, the second in my tenure as Chairman.

The Directors' Report, the audited accounts of the Bank and the Auditors' Report for the year ended December 31, 1984 have already been circulated to you. With your permission I shall take them as read.

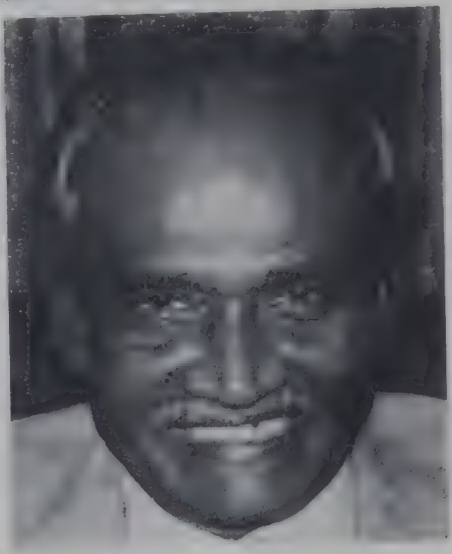
### BANK'S WORKING DURING 1984

After years of rapid growth, 1984 was a year of stability for the Bank of Madura. Aggregate deposits of the Bank stood at Rs 187 crores as at December 31, 1984 and advances at Rs 136 crores. Deposits and advances showed modest growth rates of 11% and 7% respectively over the previous year. In compliance of statutory requirements, the Bank's investments in Government and Government guaranteed securities were stepped up. Advances in support of priority sector and export activities expanded at a somewhat faster rate than general advances.

The Bank's annual accounts, after allowing all necessary provisions, disclosed a net profit of Rs 51 lakhs for the year 1984 as against Rs 41 lakhs for 1983. The Directors of the Bank have recommended a dividend of 12% for the year under review, which absorbs about a fifth of the net profit earned. As the members are aware, one of the regulatory instruments wielded by the Reserve Bank, relates to dividend levels in a bank. This particular regulation stems from a concern for augmenting the equity funds of the banks through ploughback of earnings. Though there can be more than one view in this matter, your Directors cannot but defer to the Reserve Bank's judgement. The dividend rate of 12% may not seem attractive to some of our members, but on behalf of your Directors I should perhaps point out that the stability in our dividend rate is a measure of the Bank's strength. This is not to say that members' claims for a higher dividend distribution will remain unattended should our earnings show further improvement.

### BANK PROFITS

Banking, whether in India or abroad, has not been a high-profit industry but comparing its position with our industries, returns to shareholders tend to be much less unstable. In India, bank profits have been unduly depressed for many years, a consequence of the regulatory environment in which the banks have to operate and the relatively high wage levels prevailing in the industry. The regulatory environment has three aspects, first a detailed prescription of interest rates on deposits, secondly a still more detailed prescription with respect to lending rates and thirdly a system of allocation of the banking funds on the one hand for priority sector and developmental activities, and on the other, prescriptions as to the amount of cash holdings with the Reserve Bank of India itself.



**S. Kumarasundaram**
Chairman

Salaries and other perquisites payable to employees in the industry are indexed and are inflation-prone. The same holds good for much of the remaining establishment costs, such as premises, stationery and telephones. Each round of inflation leaves the banks' position weaker. Banks, however, do not go entirely uncompensated by inflation. In this respect, the private banks tended to receive less of the fall-outs from inflation and therefore more adversely affected by the cost and price inflation than the Government owned banks.

### PRIVATE BANKS

There was a time when, barring the State Bank of India group, the banks were simply classified on the basis of their standing in terms of the Banking statutes. Though this classification continues to be valid in the eyes of the Reserve Bank of India, lately a less scientific and an ownership-based distinction is being promoted in the minds of the public. The widespread practice of classifying banks as between those under private or public ownership and placing the latter on a higher pedestal does disservice to private banks, many of whom have an established standing in the country.

Private banks in India have been under a handicap *vis-a-vis* Government banks. For one thing they have to mobilise their deposits in a hard way as bulk deposits as well as low-cost deposits are not easily available to them. In particular, the avenues for Government and Government associated deposits remain closed to them. There is some evidence that the transaction balances of some of the Government entities have been increasing in recent years. Whether this is necessarily a good thing or not, the fact remains that private banks are being placed at a disadvantage to secure their due share of deposits.

Credit administration for private banks has also become an expensive exercise because their lending is mostly to small business and small-scale industries.

As people engaged in collection of small deposits and as agencies primarily doing business with small entities, both with a considerable social content, their role in the Indian banking scene though significant, goes unnoticed.

Private banks are as much under an obligation to observe the official directives whether it be subscription to Government securities or the financing of priority sector activities. Operational data of private banks would confirm that their progress in this respect is quite creditable. In the case of public sector banks the costs of their social banking activities in principle could be passed on to the Government. These banks which have access to bulk deposits or have outlets for deploying bulk funds have a lower per unit cost of operation and can also comply with the social ratios with less cost to themselves than a typical private bank.

### PRODUCTIVITY AND COST EFFECTIVENESS

Given the environment governing the

banking industry, and in particular the private banks, I must hasten to assure the members that Bank of Madura is already well set to take action on several fronts to safeguard its operational viability. The key elements of action here are: accent on increased earnings on the Bank's funds and non-funds business, creation of profit-consciousness amongst the managers, competitive provision of banking and financial services, and securing higher staff productivity and cost effectiveness (as distinct from pure cost-cutting programmes).

An immediate task is to create a general awareness about profitability in the Bank. The average yield on the Bank's advances is not as high as it should be and certain categories of banking services have not been charged in line with costs incurred. As the areas of manoeuvrability are limited due to controls on lending rates, profit-consciousness is being instilled at all levels while deploying Bank's funds and services.

The Bank has launched three new deposit schemes namely Madura Pension Scheme, People's Deposit Scheme and Madura Gift Certificate Scheme. The first two schemes have been introduced in order to provide a support during the later part of life even for those who are not covered under any approved pension scheme and who do not earn any regular income.

The Bank is aware of the developments taking place in the Indian Financial Market. As a commercial banking institution, the Bank sees opportunities for providing certain new financial services complementary to its existing activities. Towards realising some of these opportunities the Bank's Board has given its approval for setting up a Financial Services Division.

Computerisation in a rudimentary way, is already in use in the Bank. We are making certain planned moves in this direction, and by the end of 1985, on completion of first phase of computerisation, the Bank is expected to have a stronger Management Information System and make some definitive progress in branch level mechanisation. Computerisation however involves considerable short-term costs. By the same token, it is not necessarily a cost-saving aid. But it is an essential tool of modern management, offering cost-effectiveness and significant long-term gains in productivity.

Before I conclude I must acknowledge my indebtedness to my colleagues on the Board for the help I have been receiving from them. Chairmanship of a Board particularly Executive Chairmanship could place the incumbent in a position of isolation. In this past one year of my Chairmanship the fact that I had never for a moment felt this isolation was a measure of the quality of the Board participation in the policy making process in the Bank and the counsel that I could so readily obtain from my colleagues on the Board.

I wish to express my gratitude on behalf of my colleagues on the Board and on my own behalf, to the authorities in the Reserve Bank of India for their advice and cooperation. I also wish to thank the staff and officers of the Bank for the many kind gestures and the cooperation I have received from them in an unstinted measure. Last but not the least, I wish to thank you all, the esteemed shareholders, for your continued trust and confidence.

Thanking you once again.

# Bank of Madura Ltd

758, Anna Salai, Madras 600 002

## ABRIDGED BALANCE SHEET AS AT 31st DECEMBER 1984

| Previous Year Rs. | Capital & Liabilities | 31-12-1984 Rs. | Previous Year Rs. | Property & Assets | 31-12-1984 Rs. |
|---|---|---|---|---|---|
| 78,95,579 | 1 Paid up Capital | 79,36,367 | 39,26,44,677 | 1 Cash and Bank Balances | 33,26,01,152 |
| 8,104 | 2 Share Fractional Certificates & Premium | 8,104 | 44,90,50,512 | 2 Investment in Government Securities, Shares, etc. | 64,54,58,260 |
| 1,46,90,000 | 3 Reserve Fund & Other Reserves | 1,87,40,000 | 127,54,43,706 | 3 Advances | 135,75,44,260 |
| 175,06,76,698 | 4 Deposits | 187,08,08,160 | 17,55,74,227 | 4 Bills Receivable Contra | 18,49,36,929 |
| 13,43,11,854 | 5 Borrowings from Banks, IDBI, NABARD, etc. | 19,75,07,531 | 30,94,98,007 | 5 Constituents Liabilities (including Chit Assets) Contra | 31,27,07,854 |
| 4,22,02,820 | 6 Bills Payable | 6,01,41,969 | 1,01,67,884 | 6 Premises | 1,00,98,762 |
| 17,55,74,227 | 7 Bills for Collection Contra | 18,49,36,929 | 89,42,039 | 7 Furniture & Fixtures | 98,75,273 |
| 22,19,37,899 | 8 Other Liabilities | 24,79,64,736 | 3,67,07,833 | 8 Other Assets | 4,88,67,640 |
| 30,94,98,007 | 9 Acceptances, Endorsements (including Chit Liabilities) Contra | 31,27,07,854 | 30,483 | 9 Non-Banking Assets | 46,168 |
| | 10 **Profit & Loss Account** | | | | |
| | 18,224 Profit B/F 66,710 | | | | |
| | 41,45,956 **Add:** Profit for 1984 51,17,938 | | | | |
| | 41,64,180 51,84,648 | | | | |
| | **Less:** Appropriations: | | | | |
| | Statutory | | | | |
| | 20,00,000 Reserve 25,00,000 | | | | |
| | General | | | | |
| 12,64,180 | 29,00,000 9,00,000 Reserve 13,00,000 | | | | |
| | 38,00,000 | **13,84,648 | | | |
| 265,80,59,368 | | 290,21,36,298 | 265,80,59,368 | | 290,21,36,298 |

** Subject to adjustment for Dividend @ 12%

# On the Political Structure of a Liberal Democracy

**Mrinal Datta Chaudhuri**

THERE is a major difficulty in having a serious discussion around important political concepts. The difficulty stems from the fact that these concepts have constantly been used and abused over a long period of time in the battle-grounds of actual political conflicts all over the world. Such a process necessarily simplifies, obliterates and emasculates the meanings of complex, many-sided concepts. At the end, what often remain are certain vague associations of ideas. Such associations of ideas are then mercilessly exploited by political combatants in creating 'brand-names' for the packages they want to sell or in attacking the opponents they want to fight. Thus we have in the world today some extremely illiberal regimes managed by rigid self-perpetuating oligarchies being labelled as 'democratic', and some extremely inegalitarian political groups calling themselves 'socialist'. 'Fascism', of course, has plainly become a term of abuse.

In such a situation, understandably, social scientists associate names of important social thinkers with specific concepts. The reason is that the serious intellectual contributions of such people are available in written form and it is possible to examine and analyse these writings in preparing a proper agenda for discussion. This would, one hopes, bring about a measure of discipline in the intellectual discourse around these concepts.

Liberal democrats all over the world almost invariably invoke the name of John Stuart Mill in defining the system of their beliefs. More than any one else in the history of social thought, John Stuart Mill embodied in his works—in economics, moral philosophy and political thought—the essential ingredients of liberal values, which must constitute the core of a democratic society. His book on Political Economy and his major essays like 'On Liberty' and 'On Representative Government' still remain definitive works on the subjects concerned. But the importance of Mill to liberal social scientists lies in the fact that he not only wrote on the conceptual categories of liberal values and democratic institutions with great analytical ability and insight but he was also an insightful commentator on the various reform movements which took place at his time in England. Since that was the time when the British political institutions were evolving as a model of political democracy to be initiated by many nations in subsequent periods, the commentaries from a thinker of Mills stature on contemporary events become invaluable to students of liberalism. We have in Mill's works not only analytical writings on abstract principles but also illustrations of how to apply the logic and the principles of liberalism in designing as well as reforming an actual social system. Therefore it is not surprising that John Stuart Mill stands out as the most important source of inspiration for people who believe in liberal democracy.

The system of thought which John Stuart Mill created also has suffered due to simplifications.[1] Some of the crucial concerns of Mill in defining the structure of a liberal democracy have been all but forgotten by latter-day liberals, although these remain equally relevant today. For example, most people would be surprised if they were told that Mill opposed the introduction of the secret ballot in England or that he had serious reservations about the basic principle of universal suffrage, i e, one-man-one-vote. These reservations arose because, unlike most liberals today, Mill did not believe that the formation of representative government through free and fair election would always ensure enlightened liberalism. Mill was afraid that without many carefully thought-out checks and balances in the system, a simple application of the first principle of liberalism, i e, the formation of representative government through competitive politics might produce unenlightened and illiberal outcomes.

Mill opposed secrecy in voting because he believed that in exercising his political choice a citizen is required to act as an altruistic, moral person and he should be required to do so openly in the eye of everybody else. Here Mill was making a fundamental distinction between individual choice in the context of a free market economy and individual choice in the context of a free political system. In the former case, there is little justification for asking a consumer to abandon the privacy surrounding his likes and dislikes. But in the latter case, since his action affects the well-being of others, he should be made morally accountable to others. The strength of Mill's argument becomes obvious when one asks whether the voting records of our parliamentarians on every single issue of legislative action should be made public or not. There is a strong case for making the public actions of a legislator known to the voters in his constituency.[2] Of course, Mill was aware of the argument in favour of the secret ballot, namely, avoidance of intimidation, but on balance he felt that the principle of the openness of political action was more important and needed to be upheld.

## Two Routes

If, unlike private consumers' choice in the economic sphere, political choice is supposed to be a moral act to be exercised in an altruistic manner, how does one try to ensure it by suitably designing the constitution of a liberal democracy?[3] There are two possible routes: one, by examining the credentials of individuals with respect to their ability to act as altruistic moral agents, and two, by creating a number of safeguards in the actual working of a democratic system if necessary by compromising the first principle of liberalism.

The first route takes one away from the principle of one-man-one-vote. Here Mill was against restricting the franchise by disqualifying some citizens from exercising their voting rights.[4] He was in favour of tilting the balance of the electorate by giving multiple votes to 'qualified' people. Here education was an obvious candidate as a screening device.[5] There could be other indicators like sex, occupation, property ownership, etc. Luckily for social scientists multivariate statistical analysis was not developed in those days. Otherwise, there could have been a surfeit of quantitative research with variance-covariance matrices to determine the moral ability with the help of other statistics. The history of democratic experience during the last hundred years or more shows clearly that the uneducated (or for that matter any other socio-economic category of people) are not less able to act as moral agents than educated citizens.

This takes us to the second route, namely to design adequate safeguards in the working of the system. Much has been written as well as experimented with during the last hundred years. In this brief essay, we shall take up only one suggestion of John Stuart Mill. It relates to the reservation of seats in the Parliament for certain important minority groups. Here again the question of reservations for minority groups applies not only to legislatures but also to jobs, schools, etc. As everyone knows these constitute some of the most important problems faced by all unequal, plural societies today. But here we shall take up the question of political representation only, because it brings out an important problem of political formations in a plural society.

Mill said. " . . . the principle of universal suffrage requires that, as far as is consistent with practicability, every minority in the constituency should be represented by a minority in the representative body; and a mode of voting which does not keep this object in view is contrary to popular government; it does not *sum up the opinion of* the community correctly"[6] (italics added). He provided an example of this situation by saying, "In France, for example, it is probable that the Protestants do not form the numerical majority of any constituency. If the politics, therefore, of the moment were to turn on any question specially interesting them as Protestant, they would be entirely unpresented".[7]

Mill initiated a lively discussion around the 'democratic' principle that the minority should be represented by a minority. His own proposals for electoral reforms suitable for England at that time differed from those formulated by others like James Garth Marshall. In this brief essay, it is not necessary to go into the merits of those different proposals for electoral reforms. What concerns us is the implication of this principle for competitive politics in a liberal framework.

If the purpose is to evolve an electoral system in which the correct opinion of a community is to be summed up and represented by a member of the same community, then that community must be allowed to have a political formation along communal lines. Because, as Mill correctly pointed out, the exercise of political and electoral rights is not just a once-for-all event at the time of elections but an important instrument of moral and intellectual training.[8] Behind the exercise of political rights there has to be a continuing process of discussion, debate and sharpening of issues among the members of the community. If the Protestant citizens of France think of themselves in an important way as Protestants and perceive a commonality of interest in the political sphere among themselves, then the only way they can express it properly in a framework of competitive politics is by organising themselves as a political group. Therefore, the logic of Mill's democratic principle of minority representation by the minority would take us to the position where they should be encouraged to form political parties or political pressure groups in a system of competitive politics.

But then the question arises as to whether this principle of political formation should be applied to all communities constituting the society. If it were to be so, the nature of political competition for seats in the legislature will essentially highlight the conflicts of interest among the organised interest groups formed along communal lines. Should a liberal in the tradition of John Stuart Mill welcome such a proposal for a liberal democracy? In such a situation he should be worried about destroying another important requirement of an enlightened liberal democracy postulated by Mill: It is that in exercising his choice a voter should try to act as far as possible as an altruistic moral agent. If he is made to give up secrecy in order to discourage him from acting according to his narrow selfish interests, how much better he will be if he is cornered into acting essentially as a member of an ethnic or religious community? Mill's principal aim in advocating an open system was to prevent the representative government formed through competitive politics from becoming essentially a bargaining equilibrium of narrow interest groups. Party formation along ethnic or religious lines would certainly contribute towards achieving that unenlightened outcome.

This dilemma posed by the seemingly conflicting objectives of a liberal democracy cannot be resolved without bringing in some demographic facts about the nature of the plural society. If the society consists of a large number of religious or ethnic groups, each of relatively small size the problem of minority representation loses much of its meaning. In such a situation there is no danger of majority rule bcoming the dictatorship of *the* majority community. However, there may be a situation, where several communities gang up against one particular group over any single issue. Since there is usually a multiplicity of issues and no single community is numerically dominant, each community can hope to have some bargaining leverage in a democratic framework.

The problem becomes serious if the plural society consists of one numerically dominant community and one or more numerically small ethnic or religious groups. Bangladesh, India, Israel, Malaysia, Philippines and Sri Lanka are obvious examples of such Nation States. In each of these countries at some time or other fears have been expressed by the members of certain minority communities that the majority rule threatens some rights considered important by them. Often, the intensity with which many members of a minority community have shared this belief has made the orderly working of the plural society rather difficult. Liberal solutions to these difficult problems were not always sought or found. The purpose of this brief article is not to examine the anatomy of these communal conflicts, but to analyse the implications of liberal values for the political development of these societies.

The success of a liberal democracy depends on the ability of its citizenry to act in the political sphere by and large as altruistic moral agents and not according to their selfish or sectarian interests. If they fail to do so the outcome of a democratic process will be a short-sighted bargaining equilibruim of dominant interest groups, who have neither the ability nor the interest in preserving and furthering the liberal content of the social framework. On the other hand, certain important minority groups should be given the freedom of association necessary for ensuring a meaningful minority representation in the legislative bodies. This means that sectarian politics should not only be allowed but also be encouraged to develop among these minority groups. Otherwise, the democratic process might produce a dictatorship of the majority community.

This brings out a certain kind of assymmetry in the required political behaviour of different groups in a plural society. If the minorities do not behave in a sectarian way, the liberal content of society cannot be ensured. But if the majority community tries to achieve sectarian goals, they will end up in creating an illiberal regime like a theocratic state. Political history of Malayasia and Israel in the recent period illustrates the dangers of this outcome.

Another way of stating this proposition is that a liberal democracy cannot afford to accommodate or tolerate the phenomenon of 'backlash'. Competitive politics has the inevitable tendency of generating a heighten ed consciousness of conflicts, potential o actual. If active political formations exist i case of certain minority communities the will inevitably at times threaten the interest of the majority community. A real test fo a liberal democracy in a plural society is th ability of the majority community to resis the temptation of fighting back with th same weapons. It seems, at present Sri Lank is going through these difficult tests. Th polycentric structure of the Hindu societ along with its caste and regional differentiations makes the aggregation of the majority backlash somewhat difficult in India Nonetheless, there are several danger signal clearly discernible in the Indian politica scene today.

## Notes

1 Karl Marx, perhaps, is the worst sufferer i the hands of simplifiers. Today a larg number of Marxists think of Marx as a theorist of a two-class society propelled by simpl forces of economic determinism.

2 Mill wrote, "A Member of Parliament however secure against misleading influences from without, would often promote his private interest by voting wrong; and the chief security against this violation of his trust, is the publicity of his vote, and the effect on the minds of the opinion which will be formed of his conduct by other people" in "Thoughts on Parliamentary Reform", 1859.

3 Some Founding Fathers of the American Republic like Hamilton and Madison showed concerns about the possibilities of a political democracy becoming illiberal and unenlightened. They wrote profusely on the necessary corrective measures.

4 Mill wrote "The possession and the exercise of political and among others electoral rights, is one of the chief instruments both of moral and of intellectual training for the popular mind; and all governments must be regarded as extremely imperfect, until everyone who is required to obey laws, has a voice or the prospect of a voice in their enactment and administration" in "Thoughts on Parliamentary Reform", 1859.

5 Mill found the pre-requisites of the Oxford University entrance test to be a good indicator of the moral maturity of a citizen.

6 Ibid.

7 Ibid.

8 This has implication for the entire gamut of activities leading to the election of a legislator. Mill would have disapproved of the prevailing Indian practice, where the "high command" of each party nominates its candidate for each constituency a few weeks before the polling day. A citizen is then asked to chose one among them. An adequate moral and intellectual training for the citizenry would certainly require a more participatory system.

REVIEW

# From Kin to Class

R S Sharma

**From Lineage to State** by Romila Thapar; Oxford University Press, Bombay, 1984; pp 189 + one map, Rs 110.

THE work starts with an excellent summary and critique of the current anthropological theories regarding the origin of the State. In the process Romila Thapar explains the lineage theory in which elders enjoy authority and better access to resources at the cost of the juniors because of their kin-based seniority. She also clarifies the concept of the householding economy, which means a large, self-sufficient household comprising several small houses, all belonging to the same kin group. The head of the household enjoys power and authority over its members, and also employs labourers not belonging to the kin. It is Thapar's thesis that the Vedic communities, which practised reciprocity and redistribution, were organised on the basis of lineage and householding economy and the development of these institutions led to the formation of the State. The State, on the basis of Lawrence Krader, is understood as a political authority operating with its functionaries within a territory, deriving its income on an impersonal basis, and integrating social segments with different ritual roles and economic functions (p 11).

The problem of transition from classless and stateless societies to class-based and state-based societies is very complex. Anthropologists have tried to tackle it in the context of Black Africa and Latin America. Some work relates to tribal India in modern times. A similar exercise in respect of ancient India is made doubly difficult by the intractable and fragmentary nature of the sources and the inadequacy of the generalised anthropological findings. Vedicists and other scholars including K P Jayswal and U N Ghoshal have referred to the tribal, kin-based character of Vedic institutions. Some others have stressed the pre-class and pre-State nature of Vedic society and highlighted the tribal character of *jana, vis, grama* and *vrata* together with that of the Vedic assemblies. But Romila Thapar's search for the operative kin group at a lower level has materially advanced this argument further. In the context of Vedic society she finds the term 'tribe' to be imprecise and inadequate. She considers *sabha, samiti, vidatha, parishad*, etc, to be clan gatherings. More importantly, she uses the concept of 'lineage' to explain the nature of society in Vedic times and its change-over to class and State society in the middle Ganga plains around 500 BC. In doing so the ecological and archaeological evidence is put to good use. Her study leaves no doubt that a major portion of the Vedic age had its archaeological counterpart in the western Ganga plains. However she bases her argument mainly on the Vedic and Pali texts. She shows an acute awareness of the current anthropological concerns with the problem of transition, particularly in the writings of French Marxists on the subject. In her view lineage, which is different from the egalitarian band, plays a dominant role in determining access to economic resources, power and status; this is true of the predominantly pastoral society of Rigvedic times and the agricultural society of the later Vedic age. No significant agrarian changes took place between the second millennium BC and c 500 BC. Although iron was known, its use was limited to weapons. The lineage distinction appeared in the *Rigveda* in the form of that between the *rajanya* and the *vis* and it continued in later Vedic texts. But the relationship between the two became more distant in later Vedic times (p 32). The *rajanya* represented the senior lineage and the *vis* the junior lineage. The place of the *rajanya* was taken by the kshatriya who represented power. The *vis* made prestations (payments of levies or a kind of forcible presentation) to the chief, who reallocated to the kinsmen the things that he received. However claims to sovereignty and increasing demands for prestations were justified through coronation rituals.

The development of the lineage system led to an 'arrested development of the State' in the west Ganga plains in later Vedic times. Though territory emerged as an important element and the raja enjoyed a high status and effective control, increase in resources through agriculture was "not sufficient to finance a state system". The destruction of wealth in the ritual placed severe limitations on chiefdoms and prevented easy transition to a State system (p 66). [We could add that cattle sacrifice hindered the progress of agriculture.] There developed several impersonal institutions round the kshatriya king who emerged as the head of the State because of the authority conferred on him by the senior lineage. The twelve *ratnins* or functionaries who took part in the 'royal' coronation 'remained essentially within the orbit' of the clan (p 60), though their existence shows 'the emergence of a group of non-kinsmen' (p 61). Lineages were so important that *janapadas* or territorial states were named after them. Apparently because of its inherent exploitative tendencies lineage led to the institutionalisation of the political leadership. Further, because of the principle of descent the kshatriyas and brahmanas emerged as separate varnas. The element of heredity in the varna system was derived from the lineage system. Those who view the varna as class or as a symbol of social status ignore the importance of lineage leading to its formation.

This bare outline may not do full justice to the various other ideas, insights and interpretations found in this study, which puts forward some original views on the nature of the *gana-samgha* of the Vrijis and distinguishes betwen the internal working of the monarchies and that of the *gana-samgha* in the middle Ganga plains. Romila Thapar rightly points out that in post-Vedic times the functioning of the sudra and not of slavery was the crucial variable. Her study is further enriched by a critical appraisal of historiography, both Buddhist and brahmanical, and by a keen perception of the role of the geographical factors in economic and social changes.

## NATURE OF PRE-CLASS SOCIETY

The nature of the pre-class and pre-State society is viewed in different ways. The French Marxist anthropologist Maurice Godelier talks of the nuclear family, the enlarged family, the clan and the tribe as kin-based units of consumption which could also coincide with production units. The Soviet ethnographers think of (i) the extended family (which is identical with the lineage system), (ii) patronymic community, (iii) late gens (or clan), (iv) primitive (heterogeneous) neighbouring community, (v) the fraternal family community, etc. These do not occur in any sequence and may exist simultaneously in pre-State societies. In their view the concept of 'military democracy', propounded by Engels in his pioneering work on the origin of the State, "fails to cover the whole of the period of transition to class society", for military hierarchical and obligarchical structures emerge in the process. Those who have not done field work are likely to pick up any of the models or think of some other on the basis of confrontation between their hypothesis and the empirical evidence.

In Romila Thapar's view the term 'lineage society' is 'perhaps more precise' than 'tribal society' (p 18) in the context of the Vedic society. She therefore uses it as a tool of analysis, which taken together with the 'householding economy' contains "a certain degree of hopefully creative speculation" (p 18). A few comments may be offered. The notion of kin is central to the tribe, clan and lineage. Of the three, the tribe is the largest and lineage the smallest kin unit. In between comes the clan. Both clan and lineage are descent-based either on the male or the female side. Descent in the first may be stipulated, but in the second it is true and remembered. In our view kin groups are not purely biological phenomena, but they are formed to obtain subsistence and make the group reproduce itself. Certain Vedic terms such as *gotra, vra, vraja, vrata,* etc, which connote kinship at a later stage, originally indicate groups of those who come together either for cattle herding or for 'booty production' through wars. *Vamsa* is rightly considered in this study as the equivalent of lineage. But the term does not occur in early Vedic texts, and later texts use it for the family tree of the kshatriyas and brahmanas. Nevertheless the basic idea that in a kin group chiefs, elders or seniors enjoy more access to resources and better claim to status and authority is true of many primitive societies. Privileges flow from age, skill and experience in procuring subsistence, ability to lead in wars and so on, but these are frozen and formalised on the basis of heredity. Eventually seniority based on genealogy is turned into that based on the ideology of patrilineal descent, and genealogical kinship converted into ideological kinship. Some Marxists equate the lineage system with relations of production in which seniors strengthen their position *via* booty, elite goods, redistribution, genealogical knowledge, and above all through control of exchange of women. Many of these have been discussed in this book, but the idea that the control of young men's marriage amounts to the control of labour force needs exploration. Claude Meillassoux and Emmanuel Terray hold that the seniors can perpetuate their supremacy only if they control the circulation of women and bride-prices. But the detailed description of Surya's marriage with the two Asvin brothers in the *Rigveda* does not support this generalisation. Similarly the well known marriages of Rama and Arjuna do not indicate that the elders enjoyed such a control, although they occasionally arranged marriages in the epics. In post-Vedic texts, the *arsha* and *asura* forms of marriage indicate bride-price comprising a pair of cow and bull, probably provided by the seniors. But such bridal gifts cannot be called 'elite' goods. On the other hand bride-price attests the importance of women, and marriage in the matrilineal context may mean exchange of men rather than that of women.

The concept of the lineage mode of production is based on the study of very few primitive societies; to make it more viable many stateless communities, including those in India, will have to be studied by the anthropologists. Lineage does not exist among the Mbutis in the Gongo region of Africa. In some primitive societies no chiefs are found, and in others they are elected not because of their lineage but because of their generosity. Hereditary chiefs appear in Vedic texts, which also indicate that a person was elected raja because of his physical and other personal qualities. Indra was chosen for the great coronation because he was "the most vigorous, the most strong, the most perfect, the best in carrying out any work". Even then many kin-based or 'lineage' societies show the distinction between its 'elder' and junior members. Kin groups or lineages generate genealogical inequality, but it is not the same as class inequality based on access to land (p 41) and its products. Kin-based differences may give rise to classes only in a productive economy. The surplus, over and above the subsistence needs of the cultivators, may not alone explain the rise of the class and the State, but its centrality cannot be ignored. Only in the agricultural society of later Vedic times the tribal chief appears as the eater of the settlers/cultivators (*visamatta*), i e, of their products. Although the context alters the meaning of a term, Vedic scholars may find it difficult to render *vis* either into lineage or junior lineage. Generally the term indicates clan (occasionally tribe) in the *Rigveda* and settlement or tribal cultivators in later Vedic texts. Originally a kin group, when the *vis* took to agriculture, it came to mean a house or a settlement. The analogy of *grama* is well known. But the *rajanya*, literally the kinsmen of the raja, may have been divided into junior and senior lines. How hierarchies in various lineages or kin groups were combined into the network of domination and exploitation called the State needs more research.

Polanyi's householding economy, equated by him with the patrilineal lineage (p 39), is applied to the later Vedic period. It presupposes the employment of labour outside the extended family circle, for which we have little evidence in Vedic texts. Sudras do appear as the most inferior group, but they are rightly considered as 'addenda' by Thapar; at best non-kin labour covered domestic servants and women slaves. A large household could be an intermediate economic unit between the clan control over land and its family possession. Its non-kin component could undermine the lineage system, but if the household meant the extended family (p 33) "the nature of its association with the lineage", which was a wider unit, may need some rethinking. Evidently a family needed extra labour only if it grabbed more land than it could manage. Such units of production became important in post-Vedic times, when the vaisyas or the *gahapatis* became the principal tax-payers.

The 'lineage'-varna continuum cannot be denied. Hutton and others held that caste endogamy was derived from tribe endogamy and *gotra* exogamy from clan exogamy. Recently the idea of the tribe-caste continuum has been elaborated by Indian anthropologists. But the continuity of lineage was overshadowed by the social division of labour on which the varnas were erected. Division of functions paved the way for the rise of new lineages. In post-Vedic times priests and warriors tried to congeal their surplus consuming privileges by reinforcing heredity and fabricating family trees. The author rightly holds that the brahmanas comprised several non-Vedic elements. This is also true of the kshatriyas, who understood the ideological and validitary value of the lineage. In the past both the raja and the *vis* practised agriculture. Gradually the vaisyas were compelled to stick to it. How some families monopolised war and tax-collection, others adopted religion and the receipt of gifts, and the two together pushed the majority to producing and paying has to be solved satisfactorily.

Many other valuable points made in Romila Thapar's book deserve attention. She has undoubtedly produced a thoughtful and stimulating study, full of fresh ideas. Analytical and interpretative in the main, the book also supplies new pieces of information. It provides several leads for further inquiry. As a significant contribution to study of ancient Indian polity and society, it is indispensable reading not only for ancient historians but also for those who are interested in the problem of transition from kin-based societies to class-based and state-based societies.

# The Bhopal Tragedy: A Middle Word

**Pushpa M Bhargava**

*The Bhopal tragedy, with few parallels in human history, was totally avoidable. It has pointed out serious weaknesses in policies and their execution. It has also brought to the fore the ugly truth as to how little premium we place on human life—specially of those who do not belong to the privileged class.*

*The last word on the Bhopal tragedy has not been written, nor will it be written for long. The epilogue might be longer than the drama. It is incredible that with our infrastructure, we still do not have a complete list of all those who died as a result of the Bhopal tragedy. The estiamtes vary from less than 1,500 (the official figures) to 30,000 (unofficial figures).*

*What is particularly tragic is the lack of information from those who have it, or* should *have had it. One would have like to see an objectively written, comprehensive, reliable and authentic white paper on the tragedy. It is not the lack of expertise but the lack of a culture of concern, of thoroughness, of efficiency, all round, which generates such tragedies—and then sustains them, instead of ameliorating them, through time. The blame does not lie entirely with anyone in particular, but with the system that sustains instead of closing the schism between the privileged and the unprivileged that has been, and continues to be, the bane of our society.*

IT is said that some people are born great; some achieve greatness, and on some greatness is thrust. The same is, perhaps, true of accidents. On some accidents, man has no control—such as a hit by a meteorite or lightning, or an earthquake, storm or landslide. Some accidents we bring upon ourselves, such as accidents due to driving under the influence of liquor. And, some accidents are thrust upon us—like the Bhopal tragedy.

## FACTS

Methyl isocyanate (MIC), $CH_3NCO$, is a liquid at temperatures obtained in air-conditioned rooms, slightly lighter than water (specific gravity 0.96); its boiling point is 39°C. In the gaseous form, it is heavier than air. It is an extremely reactive substance, generating methylamine in the presence of water; one mole of methylamine reacts with another mole of MIC to give dimethyl urea with the generation of heat. Many of its other reactions have already been described often and I shall not refer to them. It has, however, not been adequately recognised that isocyanates, in general, can react with carboxylic acids to generate a peptide bond with the liberation of carbon dioxide according to the following scheme:

$$RNCO + R\ \ COOH \rightarrow RNHCOOCOR \rightarrow RNHCOR' + CO_2$$

Under the influence of a large number of metals and other catalysts, MIC enters a violent exothermic polymerisation reaction. On heating and burning, it generates several toxic decomposition products, such as nitrogen oxides, hydrocyanic acid (HCN) and carbon monoxide.

From what I have said above, two possibilities which have not been so far adequately considered, should be taken into account in relation to the Bhopal tragedy:

(a) MIC could react with the free carboxyl group of proteins (the carboxyl group at the terminal or the free carboxyl group of an interior aspartic or glutamic acid). If such a reaction occurs with an enzyme such as DNA polymerase, one can conceive the possibility that the altered enzyme could lead to an error in the replication of DNA which could, in turn, lead to a mutation-like event. Such an event could lead to a teratogenic effect—that is, an abnormal development resulting in a malformation in the embryo.

(b) HCN gas *could* have been liberated during the accident. Unlike MIC, HCN is stable and could, therefore, last for long in the environment.

## TOXICOLOGY

Again, much has been said in this regard; so, let me restate only the more important features briefly. MIC has a strong irritant effect on tissues such as skin. It leads to suffocation; therefore, the chances of damage and death would increase if one runs when MIC is present in the atmosphere as, during running, the oxygen requirement increases. An acute exposure to MIC would lead to death. As regards the long term effects, a prominent effect is residual lung damage leading to progressive fibrosis and the consequent loss of function. It can lead to keratitis and corneal ulcers which, in turn, could cause opacity of the cornea. MIC is a potent sensitising agent; just 0.02 parts per million in the atmosphere could do the damage in this regard. This means that one could erupt into an allergic response on a second exposure to not only MIC but also to other isocyanates, on account of possible immunological cross reactivity between MIC and other isocyanates. Isocyanates are commonly used, industrially important compounds and one may find them even in materials such as textiles.

The hypoxia caused by MIC could lead to brain damage in the progeny in the case of pregnant mothers.

## WHAT IS NOT KNOWN

No cytogenetic test data is available for MIC or related compounds such as dimethyl urea or phenylmethyl urea. No carcinogenic data or reliable mutagenic data is available for MIC. The only related chemical tested in this regard is methyl urea. It has been shown to be marginally positive in sister chromatid exchange (SIE) experiments, but negative for aberration induction in Chinese Hamster cells *in vitro*. No work appears to have been done in which the effect of MIC has been tested on various metabolic processes in cells grown in tissue culture or on plants.

It would obviously have been of importance to have obtained as much as possible of this missing information as quickly as would have been feasible, after the Bhopal tragedy. Unfortunately, this was not done. I am not aware of any effort that might be underway even now, which is likely to lead to *reliable* information in regard to any of the above points.

## THE TRAGEDY

Just before midnight on December 2, 1984, the second shift workers at the MIC plant in Bhopal noticed the temperature rising in tank E-610 at the factory. It appears that the control room had even earlier noticed malfunctioning of this tank and that it was for this reason that tank 611 was used for feeding the Sevin plant (MIC was being used at the plant in Bhopal for making the pesticide, Sevin). The senior plant officials were informed of the above rise in temperature and a mention of suspected MIC leakage made in the log book. The senior officials of Union Carbide India Limited (UCIL), including the Manager, were on the site. At 11.30 pm, even though the developments were, perhaps, getting out of control, and the possibility of even an explosion must have been no doubt envisaged, no efforts were made to alert the people.

What happened subsequently is now history, well known and often repeated. Whatever leaked out of the tank that black night of the December 2-3, 1984, led to the death of, perhaps, as many as 10,000 people. This figure is based on an evaluation of first-hand reports of many of the people who visited the site after the tragedy and attempted to make a reliable estimate. Between twenty and fifty thousand people might have been affected seriously and as many as two-and-a-half lakhs affected at least marginally. The total population of Bhopal is about one million.

### Why the Tragedy?: A Case of Negligence and Callousness

Let us first look at some specific issues.

(1) As already mentioned, MIC is an extremely reactive substance. It is known to polymerise on storage for long periods. Therefore, any stored MIC must be monitored constantly. Tank No 610 at Bhopal was filled with MIC three months prior to the accident. It would appear that the tank was not monitored adequately during this period. There are indications that certain meters in the control panel which was supposed to monitor the MIC tank and which could have given early warning of any malfunction, were not functioning.

(2) The chances are that the build-up of the reaction—whatever it was that led to the accident—was aided by lack of chilling of the tank. The chilling unit appears to have been switched off as an economy measure.

(3) The primary saftey system at Bhopal consisted of a caustic soda scrubber; alkalis such as caustic soda would neutralise MIC. However, at the time of the accident, the vent line leading into the relief valve vent feeder was being washed and, therefore, was unusable. This means that no MIC could flow into the scrubber. Further, the motors that pump caustic soda into the vent gas scrubber (VGS) were down. Apparently, no stand-by system existed which would have allowed caustic soda to flow into the scrubber. It would seem that, for an emergency, a stand-by system using passive flow under normal gravity could have been easily installed.

(4) Even if all had worked well with the above mentioned safety system, it turns out that it was heavily under-designed with respect to the quantity of the gas stored. The system could take care of only 5 tons of MIC during the first half hour, and only one ton every subsequent half hour. The tank had 40 tons of MIC.

(5) In the safety system existing at the Bhopal factory, any toxic gas which remained unneutralised following passage through the VGS, would go to the flare tower for burning. On the day of the accident the line connecting the VGS and the flare tower was down for repairs. It had suffered extensive corrosion due to constant neglect, and there was no back-up parallel line; installation of such a parallel line would not have required either major work or investment.

(6) The staff available was not enough to ensure adequate safety. In the words of Delhi Science Forum, "In the company's economy drive, measures of retrenchment, incentives for voluntary retirement and policy on work-load manning and training have been prominent during the last two years. A large number of skilled and well trained personnel have left the firm. The company has been giving incentives for voluntary retirement, offering additional benefits ranging from Rs 12,000 to 25,000 for the middle-level technical manpower. The company also has been taking economy measures in respect of manning of the plant at the lower levels. For the MIC plant where there used to be earlier 8-9 operators, the company had at the time of accident, reduced the strength to five with one extra in emergency. This resulted not only in increased workload for the remaining personnel but also stationing of untrained personnel in various crucial sections of the plant. The MIC and CO plants, separated by more than 100 feet, used to be supervised by two different production supervisors each specifically trained for their tasks. *Now* there is no separate production supervisor for the MIC plant. Instead, the CO plant supervisor is incharge of both the plants. This would have been unthinkable in the early phase of UCIL. The intensive training and evaluation programmes that were in vogue at the early phase have now been completely discarded. Also the fail-safe principle of having one additional person besides the minimum necessary at each station which had been dramatically emphasised while the plant was being set up, had been abandoned (e g, staff of two at the 15 feet wide control panel had been reduced to one). It is clear that the company's drive for making profits and effecting economies has been at the expense of safety and well being of its workers and that of the city's population."

(7) That the MIC plant at Bhopal was both obsolete and unsafe would be clear by comparison with the Union Carbide Plant in the United States. The two plants appear to have differed significantly in respect of instrumentation and the controls employed. The US plant has a computerised safety system, whereas in Bhopal most of the controls were manually monitored and operated. The US plant has a four-stage alarm system, whereas the Bhopal plant had only one manual back-up alarm system. Most important, the US plant does not use a system which, unlike in the case of Bhopal plant, would require the storage of MIC in large quantities; the MIC produced in the US plant is quickly converted to the end product. It is, therefore, not surprising that the Bhopal plant had been beset with accidents for a long period. Much has already been written about these earlier accidents; the warning implicit in these accidents appears to have been totally ignored not only by the UCIL but also by the other authorities concerned. Some responsible quarters have even indicated that the Bhopal plant was in fact obtained second-hand from the United States. Other reports say that Canada had earlier refused to locate this plant on its own territory.

But, no matter whether these apprehensions are true or not, it is quite clear that UCIL as well as all those concerned with granting permission to the UCIL to instal and locate this plant at Bhopal, and with the subsequent monitoring of the plant, are guilty of negligence, callousness, indifference and a lack of concern for the people.

### What Should and Could Have Been Done

If genuine concern for the people was an important ingredient of our policy towards multinationals, we would have never permitted UCIL to locate this plant *anywhere* in the country. Again, as the Delhi Science Forum report says, "[this incident has ] convincingly brought home once again, in extremely tragic form, the truth that multinational corporations operating in Third World countries pay scant attention even to technological imperatives for ensuring human safety, in contrast to the measure they adopt under the vigilant eyes of the people of Europe and the USA. The Bhopal accident starkly exemplifies the inherent tragedy to the logic of pursuing maximum profits at minimum costs, more so in Third World countries whose populations are considered expendable by MNCs."

This incident is also a sad reflection on the pesticide policy of the country. It has been pointed out as far back as some fifteen years ago by responsible and knowledgeable scientists that India should invest heavily in research on *biology*-based pesticides as they would, indeed, be the pesticides of the future. This was not done. On the other hand, much repetitive work on *chemistry*-based pesticides (in some cases, on those which we now know have not been permitted to be used elsewhere) was started and encouraged in the country; in addition, technologies were imported for manufacture of pesticides which are known to be hazardous to man and environment. The pesticide, Sevin (carbaryl), that was being made in the UCIL factory at Bhopal from MIC, is one of the most toxic pesticides known. In 1976, the Environmental Protection Agency of the USA placed it on the list of compounds that are "possibly too hazardous to man and environment". Sevin is highly toxic to mammals and is recognised as a human teratogen (teratogens are chemical substances that can lead to birth of malformed progeny) by a panel of the US Department of Health, Education and Welfare. Sevin is also known to be carcinogenic in tests on animals. Foreign agencies are known to have invited research organisations in our country in the past to work on substances such as chlorinated hydrocarbons which are extremely toxic (one may recall the Seveso accident in Italy in 1976 caused by leakage of dioxin, an extremely toxic substance which is a chlorinated hydrocarbon). Fortunately, many of these attempts did not bear fruit as we were vigilant. Why did we miss out on Sevin?

Even if, for any reason, UCIL had been permitted to manufacture Sevin, why was Sevin permitted to be manufactured by the process that was being used? Apparently, the Union Carbide in the US itself holds a patent for an alternative process in which phosgene issued to react with sodium-l-napthoxide, and the product is then reacted with methylamine. Although phosgene is poisonous too, it would not be as dangerous as the one using MIC, for phosgene is produced by a continuous process (unlike MIC) and, therefore, need not be stored in large quantities. Alternatively, MIC could have been *imported* in small containers as firms in Britain and France have been doing. According to the Delhi Science Forum report, a division of Ciba-Geigy Chemicals is the only company permitted to deal with MIC in Britain. Located two miles from Grimsby, a small town, it imports and stores the chemical in 45-gallon stainless steel drums. No more than 60 tons of the chemical is kept in stock at any one time. In France, a Union Carbide affiliate imports the chemical from the US in highly protected drums carrying 213 kilograms each; they must be handled separately and cannot be stacked together. The drums are stored in separate sheds equipped with water sprinklers which are automatically activated by gas detectors that set off an alarm in case the concentration in the atmosphere reaches a certain low level measured in one-hundredth or one-fiftieth of one part per million. What prevented us from doing the same?

Even if MIC *had* to be manufactured at Bhopal by the process presently employed, why was it necessary to store it, for the Union Carbide itself holds the patent for production of Sevin without storage of MIC: the process that it is using in its American plant? And, of course, if it *had* to be stored, why wasn't there enough staff, and why weren't the usual mandatory monitoring and other safety precautions taken?

Then, why were the people of Bhopal left so ill-informed? Why were they not told ahead of time what is known about the acute toxicity of MIC; what its long-term effects are; and what could *possibly* happen, for example, to pregnant mothers?

Why weren't they also told what we do not know—for example, the lack of information on the carcinogenicity and the teratogenicity of MIC?

Why wasn't there an emergency plan made out ahead of time for a possible accident, and announced at the time the factory was set up? With the toxicity of MIC so well known to experts (including those who must have cleared the MIC plant for being set up in Bhopal), why did not the UCIL or the state authorities—individually and collectively—work out a disaster or crisis management plan.

There are, similarly, questions one might ask pertaining to the events after the tragedy.

Why was there so much delay in the state government authorities moving in? They should have been the first to recognise the magnitude of the tragedy—and this should have been done while the sun was still not up. Why were all available media—radio, television, vehicles, loud speakers—not pressed into immediate service to tell people what had happened and to keep them informed? Every other broadcast from the All India Raio and Doordarshan should have been stopped immediately.

MIC is heavier than air. It would surely have been destroyed wherever it came in contact with water. But, there is no doubt that there would have been dry pockets and corners in the area around where, being heavier than air, it would have settled and not been destroyed. Why were these places not sought, and air samples collected from there. Today, in fact, one is not even sure whether it was MIC which did all the damage. *I* am certainly not sure of that. A WHO report, following a visit by one of their scientists to Bhopal between seventh and 13th December 1984, says that "there is no indication that the cloud consisted of anything but MIC" implying that till that time there was no positive evidence of the killer being partly or totally MIC. The same report, in fact, mentions that on heating and burning MIC would generate substances such as hydrogen cyanide; the report also refers to the finding of cyanide in blood and tissues of some of the "most severe cases" by Dr Daunderer of West Germany and his team, and says, in true scientific spirit, that this finding is unexpected and unexplained. Subsequent findings of Indian scientists and doctors have supported the above finding of the West German scientist. It seems to me incredible that we still do not know what it was that caused all the damage in Bhopal.

What is particularly tragic is that even today, people have not been made aware of all the facts we know. One would have, indeed, liked to have a statement from the authorities concerned, giving the state-of-art information on what we know, what we don't know, what the various possibilities are, and what is being done. It is most unfortunate that everything was kept so hush-hush. As was recently said in an article in one of our newspapers, "Right to information is a basic right. Information and knowledge are the single most important and crucial commodities in the world of today, and talk of democracy becomes a farce when they are denied to people." No suggestions were asked—not even from many scientists in the country who could have advised. Where suggestions were given, they were often ignored.

There hasn't even been an *assurance* from appropriate authorities that a review of all safety regulations in regard to hazardous material will be taken up and that it will be ensured that the country does not allow the marketing or testing of products prejudicial to its interests on the basis of world-wide evidence and local considerations. A statement from responsible quarters, *immediately* after the tragedy, saying that steps will be immediately taken to see that the stipulated safety regulations are implemented wherever required, would have helped raise the morale of people around the country. No definitive statement was issued in this regard. People have a right to know what is being done in this respect. We, indeed, underestimate people's ability to understand and appreciate facts and truth, and to take the right decisions when given the facts. On the other hand, we overestimate our own ability to fool them; ego seems to be an inescapable concomitant of power and authority in our country.

We needed a court order—the exhortations of scientists were not enough—to store a little of the MIC. Apparently, it has so far been made available only to one laboratory, that too only months after the tragedy, and to study only the chemistry of MIC, whereas the information we needed the most was on its biological effects. MIC should have been made available to a much wider range of laboratories and scientists who were keen to carry out various types of studies on it, and were capable of doing so. We should remember that a large number of laboratories in the country deal with many hazardous materials. HCN is a common laboratory reagent. And, we would have never been able to make useful vaccines if we could not, at some places, deal with viruses that are dangerous. Every pathological laboratory which identifies human pathogens runs a risk. However, one of the major objectives of training in science is to ensure that these risks, wherever they need to be taken, are minimised, if not eliminated. How many deaths occur every year in our homes on account of electrocution, or cooking gas? This does not mean that we stop using these amenities. It only means that we ought to train people better in regard to their usage. The staff of several laboratories in the country is responsible and quite capable of taking care of small amounts of MIC, observing the highest standards of safety. I dare say our own laboratory, Centre for Cellular and Molecular Biology, is one of them, yet we could not have any access to MIC. We could have done—indeed, we offered to do—

experiments using human peripheral blood lymphocytes *in vitro*, to look at sister chromatid exchange in them when exposed to MIC. We could have looked at the effect of MIC *in vivo* in animals, specially sister chromatid exchange in and blastogenic effect on lymphocytes. We could have studied the effect of MIC on various metabolic processes in cells grown in tissue culture. We have not been able to do any of these studies. In fact, I should be surprised if there is any biological experiment that is being done in the country on MIC which could be useful even in retrospect, whereas so many experiments *could* have been done. Indeed, if some of them were done early enough, we might have given people enough information to allow them to make their own decisions: for example, whether or not a pregnant woman should go in for an abortion. Speed at that time in organising scientific work was of the utmost concern. We totally missed out on that.

What prevented a country like India from having 500 full-time doctors put on the job of monitoring and taking care of the affected 2,50,000 people for a period of at least one year: one doctor for every 500 persons. There should have been a detailed medical follow up of *every* person in certain areas of Bhopal. One would, for example, like to know how many would come down with an allergic response. We have missed out on this too. What a marvellous opportunity lost for worthwhile scientific investigation which could have benefited the population of Bhopal in the years to come, for as I have already mentioned MIC is known to have long-term effects.

Knowing very well that MIC is a potent sensitiser so that a second exposure not only to MIC but to any related isocyanate could lead to an allergenic response, we have not even published anywhere, for public information, a list of all items in the preparation of which isocyanates are used or in which isocyanates could be expected to be present. We should have collected blood (for peripheral lymphocytes) from 5-10,000 persons immediately after the accident to see if there is any increased sister chromatid exchange in the cells. This work could have been easily organised in several laboratories around the country. A country which could do such an excellent job of organising the NAM or the Asiad could certainly do this. But, again, we failed.

And, of course, there is the haunting question to which we would all like to have an answer: Was it just an accident or was, somewhere, an act of deliberation involved? Is it true that when bewildered doctors at the Hamidia Hospital telephoned the UCIL when patient after patient started pouring in on that dreadful morning of December 3, the UCIL doctors told them that there was nothing to worry and advised them to give the patients symptomatic treatment?

And why was it necessary to permit the American lawyers to come and file suits on behalf of those affected? It is common knowledge that in such cases, those affected stand to gain extremely little. Anyone who is even cursorily familiar with the American legal set-up knows this well.

Couldn't we have frozen the entire UCIL assets in India and sealed them immediately after the incident?

## THE RESEARCH CONNECTION

Apparently, there is a research and development set up at the Union Carbide in Bhopal. What does it do? We surely have a right to know. According to the Delhi Science Forum report, the UCIL's R and D set up at Bhopal has entered into a collaborative agreement with the Union Carbide of the United States to synthesise new types of chemical structures, test them on tropical pests and supply the research data to the Union Carbide in the United States for an annual fee of US dollars 300,000. The research centre is, apparently, also receiving, on a regular basis, new chemical compounds from the parent company in the United States for which residue analyses and bio-efficacy studies are being conducted through various agricultural universities and institutes in the country. The results of these experiments are sent to the parent company in the United States. Our universities and institutes are probably not made aware of what the implications of these studies might be. Starved for research funds as they are, they generally welcome funding, specially if it is as liberal as must be the case in this instance, from any source. (This is unfortunate but a fact of life that we must try to understand.) Has anyone constantly kept a check on what the compounds tested are, and what the results have been? I doubt it. The possibility that some of these compounds could not have been tested in the parent country, cannot be ruled out. Past experience would even make it likely.

## CONCLUSION

It has been a tragedy with no parallel in human history—excepting, perhaps, Hiroshima and Nagasaki on different counts. It was totally avoidable. It has pointed out weaknesses in policy and their execution. It has brought to the fore the ugly truth as to how little premium we place on human life, specially of those who do not belong to the privileged class. I wonder what the situation would have been if the UCIL factory at Bhopal was surrounded by houses in which lived some of our most eminent businessmen, executives and senior government servants. I would predict there would have been no such accident. In fact, they would have never permitted the plant to be located there. Or they would have pushed it out.

Many of us seem to have forgotten the truth that a poor child of a poor mother is as dear—if anything at all, a little dearer—to her as the rich child of a rich mother is to the latter.

The last word about the Bhopal tragedy has not been written, nor will it be written for long. The epilogue might be longer than the drama, with all the tragico-comic trimmings of the country's celluloid of mass appeal. We seem to reduce everything to that state. Seriousness is confined to words alone; in action we drift. It is incredible that with our infrastructure, we still do not have a complete list of all those who died as a result of the Bhopal tragedy. The estimates vary from less than 1,500 (the official figures) to 30,000 (the unofficial figures). To whom will we, then, give compensation, supposing that we have a substantial amount to disperse, *a la* Union Carbide or anyone else? And will we be able to (*not*, can we) devise a machinery which would be fair, uncorrupt and humane?

What is particularly tragic is the lack of information from those who have it, or *should* have had it. One would have liked to see an objectively written, comprehensive, reliable and authentic white paper on it. It is not the lack of expertise but the lack of a culture of concern, of thoroughness, of efficiency, all round, which generates such tragedies—and then sustains them, instead of ameliorating them, through time. The blame does not lie entirely with anyone in particular—many in the country have indeed done a great deal to help, paying, as one might expect, a penalty at times. It lies with the system that sustains rather than close the schism between the privileged and the unprivileged that has been, and continues to be, the bane of our society.

[Most of my information is derived from published literature, from material made available to me by many friends and organisations from within the country and abroad—many of whom had visited Bhopal and spent some time there (they have included scientists, lawyers, doctors and others). I have liberally drawn on the excellent report of the Delhi Science Forum on the Bhopal Gas Tragedy in the preparation of this article, this report has substantiated a great deal of what has been said by many other reponsible individuals and organisations who had one thing in common—objectivity and concern. Yet, as information has been difficult to come by, even for those who have tried hard, I might have erred on certain counts. The only apology is that, if I have erred, it is not due to lack of effort or to any bias. This article is, indeed, not an indictment of anyone in particular; it is an indictment of many. It is an expression of sorrow, of concern and of anger, on the part of one who could not be of any use. It is my own indictment, as a common citizen of our country.]

# Rural Non-Farm Sector in Asia

## A Characterisation

Swapna Mukhopadhyay

*There have been some attempts to collate the quantitative information on the size and structure of the rural non-farm sector. However, there have been few systematic attempts to characterise or analyse its role in the developmental process. In fact, a lot of the conflicting evidence and controversies that are found in the literature regarding the rural non-farm sector arises precisely because of the lack of a clear definition and of an analytical framework characterising its nature and place in the economic system.*

*A large part of this confusion disappears if one analyses the components of the rural non-farm sector and realises that for all intents and purposes the sector has a rather sharply bimodal nature. The bifurcation is not so much along aggregated product lines, but more along production technology, linkage patterns and surplus generation.*

*Much of the controversy regarding the nature and dynamics of rural non-farm activities can be resolved if one allows for their essential heterogeneity within the sector. An attempt is made here to characterise a prototype Asian rural economy when a rural non-farm sector with its bimodal character is embedded in the system.*

## I

THE non-farm sector has come to acquire an importance of its own in discussions of the rural economy. Estimates of allocation of rural labour time in non-farm activities in the Asian region have been found to be strikingly high.[1] In rapidly growing East Asian countries like South Korea, the rate of growth of income generated in the rural non-farm sector has been very substantial. In surplus labour countries of South Asia like India and Bangladesh, this sector is absorbing a growing amount of human labour. In mainland China, where in spite of a lower land/man ratio, as compared to India, yield per unit of land is higher, the new economic policy is directed at massive rejuvenation of rural industries so as to absorb over two-fifths of the rural labour force in the non-farm sector in the near future.[2]

In each case the explanation of observed trend or the rationale behind official policy might be somewhat different from the other. In Korea, for instance, imperatives for reducing urban congestion along with the advent of development programmes like the rural Saemul Undong might have provided the major initiative for the choice of the location of small scale industries. In large parts of South Asia a conglomeration of factors like low rates of labour absorption in the modern industrial sector, over-crowding on land characterised by fragmentation of holdings and high population growth has resulted in a swelling in the supply of labour available for non-farm activities in the rural sector.[3] In China, estimates of trend in the productivity of agricultural labour in recent years suggest that labour productivity on land is rising but at a decreasing rate. Given her policy of strict regulation of internal migration, the only sensible way to counter this tendency would be to absorb extra rural labour outside the farm sector and/or to augment productivity on land by further infusion into agriculture of indigenous technology developed in the rural industrial sector—a phenomenon which has been China's forte in the development of her agriculture.[4] Notwithstanding the apparent diversity in the factors leading to the growth of the rural non-farm sector in different countries of the region, the importance of this sector is well recognised.

There have been some attempts to collate the quantitative information on the size and structure of the rural non-farm sector. However, there have been few systematic attempts to characterise or analyse its role in the developmental process. In fact a lot of the conflicting evidence and controversies that are found in the literature regarding the rural non-farm sector arises precisely because of the lack of a clear definition and of an analytical framework characterising its nature and place in the economic system.

One such controversy that can be located in the literature is the likely dynamics of the rural non-farm sector (RNS) as the economy develops. In one of the earliest characterisations of the rural economy incorporating the RNS, Hymer and Reanick stipulated a steady decline in the latter as development proceeds.[5] Others have refuted the thesis citing empirical evidence to the contrary.[6] It will be argued in this paper that a large part of the disagreement in this regard arises from the confusion regarding definitional matters and logical categories.[7]

A second source of controversy has been the impact of growth in rural non-farm activities (RNA) on income distribution. While the case for rural industries has often been forwarded with the plea that these correct distributional imbalances, there is micro evidence to suggest that the development of RNA promotes inequalities in rural income generation. Once again it can be shown that a large part of the confusion arises on account of the heterogeneous nature of RNA.

Countries at different stages of development have been seen to have similar percentages of work force employed in RNA. On the other hand countries with very different labour allocation patterns in the RNS can be deemed to be passing through a common phase of development. Perhaps as a result of this non-monotonicity, the characterisation of the developmental process in relation to RNA growth has not been very satisfactory.

As has been argued elsewhere, a large part of this confusion disappears if one analyses the components of the RNA sector and realises that for all intents and purposes the sector has a rather sharply bimodal nature. The bifurcation is not so much along aggregated product lines, but more along production technology, linkage patterns and surplus generation. The two broad prototypes of RNA are as follows:

(i) The RNA sub-sector I which comprises of products and/or activities exhibiting the following traits: enterprises run on more or less stable basis with an eye on surplus generation and growth, using primarily hired labour and a certain degree of technological sophistication.

(ii) The RNA sub-sector II comprising of products and/or activities which are often, though not always, seasonal, which are run with the help primarily of unpaid family labour, using rather primitive technology, catering mostly to the local market and responding more to the supply side of the labour market than to the market demand for output.[8]

Much of the controversy regarding the nature and dynamics of RNA can be easily resolved if one allows for their essential heterogeneity within the sector. We try below to characterise a prototype Asian rural economy when a RNS with its bimodal character is embedded in the system.

## II

A phenomenon which has a crucial bearing on the structure of RNA is the pattern of landownership that prevails in the rural sector. The prevalence of RNA-II is seen to be directly linked with the incidence of landlessness or nearlandlessness. In South Asia where this is high, weight of RNA-II in the total RNS is also high. The same can be said of South East Asian countries like the Philippines, whereas in South Korea where landlessness is minimal, it is RNA-I or the more dynamic component of RNA which prevails. While the possible explanation for this association may be fairly straightforward, all the ramifications of such a link-up may not be all that obvious.

To see this, let us resort to a classification of the farming population in a rual economy that has been done by Roemer (1982) in his highly innovative extension of Marxian analysis of class and exploitation. Assume that there are three main categories of people in the rural sector: (i) capitalist farmers; (ii) owner-operators and, (iii) landless labourers. The capitalist farmer hires wage labour from (iii) and possibly (ii) at a price. It has been argued that in the presence of surplus labour on land the hiring price of labour will be less than the competitive market rate (Bardhan 1974). The owner-operator primarily works on his own plot which may or may not yield enough output for his subsistence. The allocation of labour time by the owner-operator between working on his own plot of land and hiring his services out for wage labour on capitalist farms will depend on the relative weight or productivity of his own plot and the going wage rate. Clearly, the higher the former, cet par, the lower will be his availability for wage work. If it outstrips the latter, the owner-operator may even hire in labour services. The landless labourer of course has no option but to hire himself out for wage work on capitalist or owner-operated farms.

Within this set up Roemer (1982) expounds the emergence of five classes in a prototype rural economy characterised by accumulation. Individuals are differentiated by their position *vis-a-vis* the labour market, i e, whether or not they are hiring in or hiring out labour services and whether or not they are self-employed. Based on possible combinations of labour market characteristics, five classes emerge. These have the profiles shown in Table 1. The five classes correspond to (1) pure capitalist farmers; (2) owner-operators using hired labour; (3) pure owner-operators; (4) marginal farmers and (5) landless labourers. By the Class Exploitation Correspondence Principle as expounded by Roemer, these classes fall in a hierarchy of status, with classes hiring in labour services corresponding to Marxian exploiter classes and those hiring out such services coinciding with the exploited.

TABLE 1

| | Self-Employment (SE) | Hiring In (HI) | Hiring Out (HO) |
|---|---|---|---|
| (1) | = 0 | >0 | = 0 |
| (2) | >0 | >0 | = 0 |
| (3) | >0 | = 0 | = 0 |
| (4) | >0 | = 0 | >0 |
| (5) | = 0 | = 0 | >0 |

How does this stylised picture of the rural economy change if we introduce RNA of the two varieties? Clearly the landless worker has more than one option now: he can work in the non-farm sector rather than go in for agricultural wage work. But so do other categories of people.

If RNA-I broadly corresponds to rural manufacturing and service activities with linkages with capitalist agriculture and urban industry, it is likely that the rural rich may indeed get involved in these activities. Evidence from South Asia suggests that the proportion of family income contributed by RNA is high for large land-owning classes (Islam 1983). In South Korea, much of the increase in income generated by RNA is attributable to salaries and wages earned in non-farm enterprises in the rural sector. Clearly such enterprises will fall in the RNA-I category. However, presumably t.. only kind of employment that RNA-II can provide is self-employment. In any case, with the inclusion of the two kinds of RNA and the labour market characteristics of a person with respect to them, the possible class categories get multiplied several times. With each of the earlier five categories, one now has to combine the available options in RNA-I and RNA-II. Since by definition, RNA-II is a subsistence activity, there are only two options open to an individual with regard to RNA-II: either to be self-employed in RNA-II or not to indulge in it at all. However, with RNA-I, which operate primarily with the help of the labour marke for wage work, the options are many. I principle corresponding to the thre categories of labour use (SE, HI and HO) there should be eight possible combinations The choice of an individual agent consist of picking one element out of each one o the column subsets. Clearly some option are ruled out for obvious reasons. For instance, (Table 2), option A6 from column one, coupled with option I.8 from column (2) and option II.2 from column (3) would be ruled out as this combination would characterise a non-worker rather than a worker. Similarly all options combining A1 or A2 with II.1 are ruled out, because it is highly improbable that a landowner who operates his farm primarily, if not solely, with hired labour is going to also indulge in low-productivity self-employment in the rural non-farm sector. In the same vein, a landless agricultural labourer or marginal farmer is not very likely to own or hire in wage labour in the more sophisticated variety of RNA. Thus options combining A.4, A.5 or II.1 with options I.2, I.3, I.5 or I.7 are rather improbable.

TABLE 2

| Agriculture | | | | RNA-I | | | | RNA-II | |
|---|---|---|---|---|---|---|---|---|---|
| | SE | HI (1) | HO | | SE | HI (2) | HO | | SE (3) |
| A1 | =0 | >0 | =0 | I.1 | >0 | =0 | =0 | II.1 | >0 |
| A2 | >0 | >0 | =0 | I.2 | >0 | >0 | =0 | II.2 | =0 |
| A3 | >0 | =0 | =0 | I.3 | >0 | >0 | >0 | | |
| A4 | >0 | =0 | >0 | I.4 | >0 | =0 | >0 | | |
| A5 | =0 | =0 | >0 | I.5 | =0 | >0 | >0 | | |
| A6 | =0 | =0 | =0 | I.6 | =0 | =0 | >0 | | |
| | | | | I.7 | =0 | >0 | =0 | | |
| | | | | I.8 | =0 | =0 | =0 | | |

TABLE 3

| | SA | RNA-I | CA | RNA-II | RW |
|---|---|---|---|---|---|
| SA | X | X | 0 | 0 | 0 |
| RNA-I | X | X | 0 | 0 | 0 |
| CA | 0 | 0 | X | X | X |
| RNA-II | 0 | 0 | X | X | X |
| RW | 0 | 0 | X | X | X |

Without getting into the process of complete enumeration of likely combinations, it is easy to see that the introduction of RNA, especially of RNA-I into the picture, throws overboard the simple correspondence of class categories with the incidence of 'exploitation' as expounded in Roemer's CECP (class exploitation correspondence principle). In the same way, it invalidates the Hymer-Resnick proposition that the rural non-farm sector necessarily contracts with growing income.[9]

This happens because the hiring out of labour services under RNA-I would in general be done by the more affluent sections of rural society. As mentioned earlier, some of the fastest growing components of rural income in S Korea are comprised of wages and salaries earned in industrial units located in the rural sector. The expropriator of surplus in such cases, if at all identifiable, may perhaps be located outside the sector. No such problems are posed by the presence of RNA-II however. For the purpose at hand option II.1 can be treated at par with categories A.3, A.4 or A.5. A combination of (A.3, I.8, II.1) for instance would entail a case of pure self-reproduction, while (I.8, II.1) combined with either A.4 or A.5 clearly generates a state of exploitation. However, RNA-I cannot be treated at par with capitalist agriculture in such analyses, because the labour market correlates of the two are quite different. Introduction of RNA-I into the picture considerably complicates the task of formalisation of the structure of the rural economy.

## III

While introduction of RNA-I leads to a break-down of Roemer's CECP in terms of systemic analysis, it lends itself to a simple representation in a static input-output framework. If RNA-I and RNA-II are haracterised by different types of produc- on linkages, the static inter-industry flow atrix of a rural economy with RNA can e represented as in Table 3 where SA, CA nd RW stand for subsistence agriculture, apitalist agriculture and the 'rest of the orld' (comprising of the domestic urban nd export sector) respectively. In terms of roduction linkages, therefore, the system is fully decomposable one. The interlinkages merge mainly through consumption as well s factor supplies.[10]

One way of going about the task would e to look into the consumption profiles of, nd income generation processes for, all ossible categories of households as is done n the analysis of Social Accounting Matrices—or SAM, as they are popularly alled.[11] Along with this, one could try to race out the sector-wise consumption inkages. RNA-II producers as well as sub- istence farmers who produce less than their equirements, need to buy food from capi- alist agriculture, which is the major source f marketable surplus of foodgrains in the ystem. This in turn is made possible by the rovision of labour services by land and asset- ess people on capitalist farms. Thus, capitalist griculture provides the crucial link—both vays—between the two sub-systems.

The parameter that emerges to be of trategic importance is the price of food. The oodgrains sector is hardly competitive. With ssured demand and subsidised inputs (like rrigation water and fertilisers), prices are sticky downwards. In years of good harvest, those involved in subsistence agriculture and RNA-I gain in terms of steady demand for abour and real wages. However in bad years, the vulnerability of this category of people is compounded by a fall in labour demand in capitalist farming and consequent overcrowding in subsistence activities, as well as by fall in real wages through the rising price of food and depressed money wages. Any attempt at modelling the dynamics of the system has to capture these crucial dependencies.

The picture that emerges is clearly one of dualistic growth, but it is a dualism that, unlike the classical dualism of Arthur Lewis or Ragner Nurkse, cuts across sectors. In other words, a realistic characterisation of the Indian economy for instance, can no longer presume the entire farm sector to be of the subsistence type or for that matter, the whole of the manufacturing sector to be of the capital intensive, modern variety. The broad logic of the earlier vintage of dual economy models whereby steady growth in the modern industrial sector uses up an increasingly larger proportion of labour on land has failed to characterise the experience in many Asian countries plagued with a high rate of growth of population and a low rate of absorption of labour in the modern manufacturing sector. Rather, the spread of technology seems to have penetrated almost all the sectors but has done so only to a limited extent. Thus every sector, so to speak, seems to have its modern as well as the low-technology, 'informal' components.

Recognition of this dualism within the farm sector has led some researchers to try modelling the implications of a dualistic agriculture (Sen 1965, Bardhan 1972, 1984). While the major thrust of Sen's paper has been on the characterisation of peasant farmers as suppliers of labour, Bardhan's work is more concerned with the likely dynamics of the system. In Bardhan's 1972 model, the structural dualism of the system is reflected in the differential access of the capitalist farmer and peasant cultivator to inputs, credit and other infrastructural facilities. This in its turn is embodied in discrimination in input prices, which in the model is visualised as a decreasing function of landholdings. The pattern of growth that emerges is thus embedded in the structural postulates whereby accumulation of land in the hands of capitalist farmers leads to continuous depletion of land and labour supply in peasant agriculture.

We feel that any realistic modelling of the rural economy with the two kinds of RNA would have to take into account the essential production and consumption linkages of the system as specified in Section III above. The dynamics of the system will depend upon the rate of sectoral accumulation of capital and the nature of use to which it is put, as also on some relatively exogenous parameters, like the growth of labour on land and the growth of demand in the RW (rest of the world) sector. The latter includes the rate of growth of export demand (Thai textiles, or Philippino handicrafts) as well as the development of backward linkages in the urban manufacturing sector (S Korea). Establishing production linkages of rural industries with the farm sector (which we could call the Chinese solution) would be another way of revitalising the rural economy.

In the final analysis, all successful solutions to rural development problems—which, to our mind, is synonymous with the gradual shrinking in both relative as well as absolute terms, of subsistence agriculture as well as of RNA-II—have to do with ways of mopping up excess rural manpower in productive activities. The actual solution, however, will naturally have to take into account the specificities of the situation at hand.

## Notes

1 See Anderson and Leiserson (1980), Chuta and Liedholm (1979) and Mukhopadhyay and Chee (1985).

2 For details see the country studies in Mukhopadhyay and Chee (1985).

3 This has been the scenario in large parts of Bangladesh and Eastern India where the green revolution has not yet caught on.

4 The experimental path of development chosen by China under Deng Xiaoping in recent years has already come up with a spectacular performance. 1984 has seen a record output of 400 million tonnes of foodgrains (inclusive of tuber crops) on a total cultivated area which is barely 60 per cent of that in India. A massive rural industrialisation policy aims at absorbing upto 40 per cent of the rural labour time in the near future. See IBRD reports on China's new agricultural policy. Also Rawski (1979).

5 Hymer and Resnick did this for the "Z-goods" that are by definition not traded outside the rural economy. See Hymer and Resnick (1969).

6 See Leiserson and Anderson and Chuta and Liedholm. Also Fabella in Mukhopadhyay and Chee.

7 For details see Section II in Mukhopadhyay (1984).

8 Quoted from Mukhopadhyay and Chee.

9 To be fair to Hymer and Resnick, their Z-goods are commodities that are not traded outside the rural sector. They are more like our RNA-II commodities, which indeed would go down with a rise in income and contraction in the subsistence agricultural sector. Cf Mukhopadhyay and Chee (1985) on this issue.

10 For details see Section III in Mukhopadhyay (1984).

11 SAM, or social accounting matrices are being extensively experimented with to accommodate the analysis of income generation processes and consumption characteristics of different social classes alongside standard input-output analysis. The augmented SAM matrices for many countries have been constructed and being worked with. For an early description of the construction and use of SAM, see IBRD Staff Working Paper: 463. For an example of the use of SAM in computable general equilibrium models, see Dervis, de Melo and Robinson (1982).

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# Census of 1981 and the Structure of Employmen

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*The economic data available from the Census of 1981 has given rise to two diametrically opposite views on the change in the structure of employment. Even when the shift away from agriculture is granted doubts are expressed regarding the nature of change.*

*This paper examines the sectoral change at more disaggregated levels and relates the census data on employment to net domestic product and concludes that the shift in employment away from agriculture is likely to have benefited all except four per cent of the male and all but 12 per cent of the main workers of both sexes in 1981.*

THE economic data available from the Census of 1981 has given rise to two diametrically opposite views. Late J N Sinha argued that the structure of employment in 1981 was no different from what it was in 1961 or for that matter, in 1901.[1] J Krishnamurty, relying on the NSS and the Census, doubts the "conventional wisdom of changelessness of the structure of employment".[2] He accepts the fact of the shift away from agriculture but is not sure of its extent and much less of the nature of change. According to him, whether the change is for good or bad depends on its causes and he suggests three. First, the change may be a consequence of growth in income; secondly it may reflect the inability of agriculture to absorb the new additions to labour force and thirdly, it may reflect the increasing casualisation of labour brought about by the "trends" within agriculture. To him, the change in the occupational structure is welcome only if it is caused by the first of the three causes. It is not a "happy situation" otherwise.

One would have to resort to a large number of sources to judge the nature of change. The Census itself contains evidence which would throw some light on the nature of change. One would pursue the sectoral shift in employment to lower levels of aggregation and find out how the work force is distributed by industry divisions, major and minor industry groups and by occupational divisions and groups. Besides being of instrumental value in judging the nature of change, the disaggregated analysis has an intrinsic importance as well. Section I of this paper presents the disaggregated data with comments on its bearing on the nature of change and Section II presents changes in per capita NDP and other rather crude indicators of the nature of change, to derive the conclusions given in Section III. Throughout the three sections, we restrict ourselves to main workers and among them to males only in the hope that such a restriction would ensure for greater comparability in the decennial data. For the same reason we exclude Assam from the 1971 data.

## I

We begin with Table 1, which brings out the much debated sectoral shift in employment—away from primary and towards secondary and tertiary sectors, more towards the former than towards the latter. The Table shows that employment in the secondary sector grew the fastest among the three sectors—by a little over 47 per cent. The secondary sector consists of activities dominated by wage employment and hence could be presumed to afford less scope for disguised unemployment in relation to the other two sectors Changes within the tertiary sector are n less interesting. Employment in "Othe Services" grew eight percentage points les than in the tertiary sector taken as whole. Consequently its share within th sector was three percentage points smalle in 1981 than a decade earlier. The Censu of 1981 shows an absolute decline o 2,19,000 in Personal Services over 1971. Th workers in this group are likely to be the poorest in the sector and most likely to change their employment, should new opportunities present themselves.

TABLE 1: SECTORAL DISTRIBUTION OF MALE MAIN WORKERS 1971 AND 1981 AND PERCENTAGE CHANGE IN EMPLOYMENT BY SECTORS 1971-1981

| Sector | 1971 | 1981 | Percentage Change in Employment 1971-1981 |
|---|---|---|---|
| Primary | 69.67 | 65.60 | 15.07 |
| Secondary | 12.03 | 14.53 | 47.49 |
| Tertiary | 18.30 | 19.87 | 32.73 |
| Total | 100.00 | 100.00 | 22.20 |
| Tertiary (as 100.00) | 100.00 | 100.00 | 32.73 |
| Trade and commerce | 34.79 | 36.89 | 40.59 |
| Transport | 15.64 | 16.70 | 41.97 |
| Other services | 49.57 | 46.71 | 24.28 |

*Notes:* Data relate to India excluding Assam for both the years in Tables 1 to 8.
Primary includes agriculture and allied industries.
Secondary includes mining, manufacturing and construction.
Tertiary includes trade and commerce transport and other services.

*Sources:* "Census of India 1971, Series 1, India Part II B(i)", General Economic Tables.
"Census of India 1981, Series 1, India Part II-Special", Report and Tables based on 5 per cent Sample Data.

TABLE 2: DISTRIBUTION OF MALE MAIN WORKERS BY INDUSTRIAL CATEGORIES 1971 AND 1981 AND PERCENTAGE CHANGE IN EMPLOYMENT IN EACH CATEGORY 1971-1981

| Industrial Category | 1971 | 1981 | Percentage Change in Employment 1971-1981 |
|---|---|---|---|
| I Cultivators | 45.88 | 43.70 | 16.39 |
| II Agricultural labourers | 21.55 | 19.56 | 10.92 |
| III Livestock, forestry, fishing, etc | 2.24 | 2.34 | 30.76 |
| IV Mining and quarrying | 0.54 | 0.62 | 40.25 |
| V Manufacturing: | | | |
| a) Household industry | 3.42 | 3.18 | 13.44 |
| b) Other than household industry | 6.71 | 8.92 | 62.45 |
| VI Construction | 1.36 | 1.81 | 62.38 |
| VII Trade and commerce | 6.37 | 7.33 | 40.59 |
| VIII Transport, storage and communications | 2.86 | 3.32 | 41.97 |
| IX Other services | 9.07 | 9.22 | 24.28 |
| Total | 100.00 | 100.00 | 22.20 |

*Source:* Same as in Table 1.

Table 2 presents the changes in the distribution of employment by industrial categories. It shows that employment in non-household industry and construction grew at rates far above the average for all industries. The categories that grew much slower than the average and therefore lost their shares, relative to 1971, are agricultural labourers, household industry and cultivators. It is difficult to think of an explanation, bearing on the concepts used and instructions issued by the Census, that would have led to an undercount of workers in these categories and their misplacement in those that show high rates of growth. The other than household industry of the Census consists of factories and non-household non-factory establishments. According to the data available from Employment Market Information, the factory employment in India increased by 42.20 per cent, from 5,083 thousand in 1971 to 7,228 thousand in 1981.[3] Excluding the EMI factory employment from the Census employment in other-than-HHI we could arrive at the employment in the non-HHI non-factory segment of the manufacturing sector. Employment in this sector increased from 4,664 thousand in 1971 to 8,606 thousand in 1981, i e, by 84.52 per cent. Thus it is clear that the unorganised segment of the manufacturing sector (HHI + non-HHI non-factory) grew a little faster than the organised and consequently its share within manufacturing increased marginally from 65.48 per cent in 1971 to 66.35 per cent in 1981. Judged by this increase in the share of the unorganised manufacturing sector, the shift of the structure away from agriculture may not appear very beneficial to the economy. However the final judgment would have to depend on the change in per capita income consequent on the shift, rather than on the evidence of decline in the share of the organised sector.

The Census data on employment by division of industry excludes cultivators and agricultural labourers. Table 3 shows that employment in public utilities grew the fastest (at 98 per cent in rural, 75 per cent in urban and 84 per cent in both taken together). In rural areas, finance, transport, construction and manufacturing 3 registered substantially higher rates of growth. In urban areas it is public utilities, construction and manufacturing 3 that grew at rates far above the urban average. In both rural and urban India, the fast growing industries are not the types that could be characterised as "sponges" to absorb labour unable to find a place elsewhere.

In Table 4 we give the share of an industry division in the total change in non-farm employment. Total non-farm employment increased by 17,905 thousand,

TABLE 3: DISTRIBUTION OF MALE MAIN WORKERS* BY INDUSTRY DIVISIONS 1971 AND 1981 AND PERCENTAGE CHANGE IN EMPLOYMENT IN EACH INDUSTRY DIVISION 1971-1981

| Industry Divisions | Total | | | Urban | | | Rural | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share in Employment | | Per Cent Change | Share in Employment | | Per Cent Change | Share in Employment | | Per Cent Change |
| | 1971 | 1981 | 1971-81 | 1971 | 1981 | 1971-81 | 1971 | 1981 | 1971-81 |
| 0 Agr and allied | 6.88 | 6.38 | 27.76 | 1.82 | 2.01 | 59.40 | 12.81 | 12.00 | 23.32 |
| 1 Mining | 1.66 | 1.69 | 40.43 | 1.11 | 1.16 | 49.82 | 2.30 | 2.37 | 34.86 |
| 2<br>3 Manufacturing | 31.33 | 32.96 | 45.86 | 31.81 | 33.57 | 52.48 | 30.45 | 32.12 | 37.86 |
| 2 Registered | 19.12 | 18.98 | 36.76 | 18.19 | 17.98 | 42.83 | 20.26 | 20.22 | 30.42 |
| 3 Unregistered | 12.01 | 13.98 | 60.40 | 13.62 | 15.59 | 65.37 | 10.19 | 11.90 | 52.56 |
| 4 Public Utilities | 1.09 | 1.46 | 84.87 | 1.20 | 1.46 | 74.84 | 0.96 | 1.46 | 98.56 |
| 5 Construction | 4.17 | 4.92 | 62.38 | 3.97 | 4.57 | 66.40 | 4.43 | 5.36 | 58 18 |
| 6 Trade | 17.11 | 17.41 | 40.27 | 19.71 | 19.72 | 42.24 | 13.78 | 14.44 | 36.93 |
| 7 Transport | 8.78 | 9.04 | 41.97 | 11.90 | 10.96 | 32.99 | 5.18 | 6.58 | 66.02 |
| 8 Finance | 2.45 | 2.54 | 42.88 | 3.73 | 3.53 | 36.56 | 0.96 | 1.26 | 71.90 |
| 9 Services | 26.73 | 23.60 | 21.85 | 24.75 | 23.02 | 34.35 | 29.13 | 24.41 | 9.48 |
| Total | 100.00 | 100.00 | 37.61 | 100.00 | 100.00 | 44.43 | 100.00 | 100.00 | 30.67 |

*Note:* * Excluding cultivators and agricultural labourers.

*Source:* Same as in Table 1.

TABLE 4: CHANGE IN ABSOLUTE MALE EMPLOYMENT (IN '000S) BY INDUSTRY DIVISIONS: 1971-1981 AND SHARE OF EACH INDUSTRY DIVISION IN THE TOTAL CHANGE

| Industry Division | Total | | Urban | | Rural | |
|---|---|---|---|---|---|---|
| | Change in Employment | Share in Total Change | Change in Employment | Share in Total Change | Change in Employment | Share in Total Change |
| 0 Agr and allied | 902 | 5.04 | 275 | 2.45 | 627 | 9.37 |
| 1 Mining | 317 | 1.77 | 141 | 1.26 | 176 | 2.63 |
| 2 Manufacturing (registered) | 3323 | 18.55 | 1979 | 17.65 | 1344 | 20.07 |
| 3 Manufacturing (unregistered) | 3432 | 19.17 | 2262 | 20.17 | 1170 | 17.48 |
| 4 Public utilities | 435 | 2.43 | 229 | 2.04 | 206 | 3.08 |
| 5 Construction | 1232 | 6.88 | 670 | 5.98 | 562 | 8.40 |
| 6 Trade and commerce | 3260 | 18.21 | 2149 | 19.17 | 1111 | 16.60 |
| 7 Transport | 1744 | 9.74 | 998 | 8.90 | 746 | 11.14 |
| 8 Finance insurance | 497 | 2.78 | 347 | 3.10 | 150 | 2.24 |
| 9 Services | 2763 | 15.43 | 2161 | 19.18 | 602 | 8.99 |
| Total | 17905 | 100.00 | 11211 | 100.00 | 6694 | 100.00 |

*Source:* Same as in Table 1.

63 per cent of which was in urban and 37 per cent in rural areas. For the country as a whole, manufacturing 2 and 3 together accounted for nearly 38 per cent of the new jobs created. Trade and services follow with shares of 18.21 and 15.43 per cent respectively. The share of manufacturing does not vary between rural and urban areas but in the rural areas transport rather than services ranks as the fourth largest acceptor of labour.

Ten major industry groups in India accounted for nearly 57 per cent of the change in non-farm employment. These industry groups and their shares are given in Table 5 for the country and urban and rural areas separately. Retail trade and repairs are likely to be the industries in which productivity may be low. However, the collective share of these two divisions in the total change in employment in the 10 groups does not exceed 18 per cent anywhere.

If one observed the changes of occupation (Table 6) then too one finds that professional and technical occupations, production and transport equipment operators (occupation codes 7, 8 and 9), administrative, clerical and sales occupations grew between three to four per cent per annum during the decade 1971-1981 while service occupations (Code 5) grew at 1.4 per cent. Consequently its share in the occupational structure fell from 10.30 per cent in 1971 to 8.54 per cent in 1981.

In rural areas production and process workers, transport equipment operators, etc, accounted for nearly 52 per cent of the additional work force (Table 7). Its share in urban areas was 46 per cent and for the country, 48 per cent. The share of sales occupations at 15 per cent in urban and 14 per cent in rural areas, is relatively much smaller. In Table 8 we give the top 10 occupations ranked by their shares in the change in employment between 1971-1981. These ten occupations account for 54 per cent, 52 per cent and 61 per cent of the new employment generated during the decade for the country as a whole and urban and rural areas respectively. We could identify occupations listed in occupational groups X, 43, 99, and 79 as hotbeds of disguised unemployment. These occupations account for 20 per cent of the decennial change in employment at the national and urban level and 26 per cent at the rural level. Thus the evidence internal to Census suggests that the change in employment structure noticed during 1971-1981 is likely to have been brought about by what Krishnamurty calls "positive factors".

TABLE 5: TEN MAJOR INDUSTRY GROUPS ABSORBING OVER 50 PER CENT INCREASE IN MALE EMPLOYMENT BETWEEN 1971 AND 1981

| Industry Group | Description | Rank | Percentage Share in Total Change in Male Employment |
|---|---|---|---|
| **Urban + Rural** | | | |
| 65 | Retail trade in food and food articles, beverage, tobacco and intoxicants | 1 | 8.11 |
| 70 | Land Transport | 2 | 7.79 |
| 39 | Repair | 3 | 7.24 |
| 50 | Construction | 4 | 6.34 |
| 90 | Public administration and defence services | 5 | 5.95 |
| 26 | Manufacture of textile products (including weaving apparel other than footwear) | 6 | 5.22 |
| 92 | Education, scientific and research services | 7 | 4.50 |
| 23 | Manufacture of cotton textiles | 8 | 4.46 |
| 20 and 21 | Manufacture of food products | 9 | 4.23 |
| 99 | Services not elsewhere classified | 10 | 3.06 |
| | Total | | 56.90 |
| **Urban** | | | |
| 90 | Public administration and defence services | 1 | 8.21 |
| 65 | Retail trade in food and food articles, beverage, tobacco and intoxicants | 2 | 7.44 |
| 70 | Land transport | 3 | 7.13 |
| 39 | Repair | 4 | 6.23 |
| 50 | Construction | 5 | 5.39 |
| 26 | Manufacture of textile products (including weaving apparel except footwear) | 6 | 4.61 |
| 99 | Services not elsewhere classified | 7 | 4.42 |
| 23 | Manufacture of cotton textiles | 7 | 4.42 |
| 20 and 21 | Manufacture of food products | 8 | 3.51 |
| 68 | Retail trade in others | 9 | 3.27 |
| 92 | Education, scientific and research services | 10 | 2.89 |
| | Total | | 57.52 |
| **Rural** | | | |
| 65 | Retail trade in food and food products, beverage, tobacco and intoxicants | 1 | 9.23 |
| 70 | Land transport | 2 | 8.92 |
| 39 | Repair | 2 | 8.92 |
| 50 | Construction | 3 | 7.93 |
| 92 | Education, scientific and research services | 4 | 7.19 |
| 26 | Manufacture of textile products (including weaving apparel except footwear) | 5 | 6.23 |
| 01 | Plantations | 6 | 5.53 |
| 20 and 21 | Manufacture of food products | 7 | 5.45 |
| 23 | Manufacture of cotton textiles | 8 | 4.54 |
| 27 | Manufacture of wood and wood products, furniture and fixtures | 9 | 3.84 |
| 32 | Manufacture of non-metallic mineral products | 10 | 3.67 |
| | Total | | 71.45 |

TABLE 6: DISTRIBUTION OF MALE MAIN WORKERS* BY OCCUPATIONAL DIVISIONS 1971 AND 1981 AND PERCENTAGE CHANGE IN EMPLOYMENT 1971-1981

| | Occupational Division | 1971 | 1981 | Percentage Change in Employment 1971-1981 |
|---|---|---|---|---|
| 0-1 | Professional, technical and related | 8.30 | 8.64 | 14.72 |
| 2 | Administrative, executive and related | 3.43 | 3.43 | 0.38 |
| 3 | Clerical | 10.59 | 10.70 | 3.57 |
| 4 | Sales | 14.55 | 14.60 | 3.57 |
| 5 | Service | 10.30 | 8.54 | 16.18 |
| 6 | Farmers | 7.21 | 6.05 | 10.20 |
| 7, 8 & 9 | Production and related transport equipment operators and labourers | 44.14 | 45.35 | 46.21 |
| X | Workers not classified by occupations | 1.48 | 2.69 | 149.22 |
| | Total | 100.00 | 100.00 | 37.61 |

*Note:* Excluding cultivators and agricultural labourers.

*Source:* Same as in Table 1.

## II

As observed in the introduction, to judge the nature of change one would have to resort to many sources of data besides the Census. The debate could be settled conclusively if we had for the years 1971 and 1981 the distribution of personal income by industry and occupations listed by the Census. In the absence of such data we use a very crude indicator, the NDP. In columns 3 and 6 of Table 9 we compare the real net domestic product per main worker (male and female) in 1971 and 1981. Of the 11 industry divisions given in the Table real per worker NDP shows a decline in 1981 over 1971 in four divisions. They accounted for 75 per cent of the main work force in 1971 and 73 per cent of that in 1981. It would be wrong to conclude from this evidence that the shift in the structure has harmed nearly three-forths of the work force. We have to find out what the per worker real NDP would have been if the structure of employment in 1981 were the same as in 1971. Assuming constancy, the per main worker real NDP would have been Rs 1,225 instead of Rs 1,282 in agriculture; Rs 1,298 instead of Rs 1,262 in forestry, logging and fishing; Rs 6,155 instead of Rs 6,311 in construction and Rs 1,732 instead of Rs 1,470 in unregistered manufacturing. These figures show that the workers in agriculture are better off and those in forestry, logging and fishing, construction and unregistered manufacturing the worse off in 1981 with the change than without it. Thus viewed, the losers account for 11.9 per cent of the work force in 1981.

If we restrict ourselves to male main workers only then the comparison of columns (4) and (7) of Table 9 shows that the real per capita NDP improves marginally in agriculture and unregistered manufacturing but declines in forestry, logging and fishing and construction. These two divisions account for 4.1 per cent of the male workers in 1981. Either way an overwhelming majority—88 per cent of main workers of both sexes and 96 per cent of males are likely to be better off by the change in the structure of employment.

Our argument could be faulted on the ground that we have not taken into account the possibility of the worsening of income distribution. Here again no direct evidence is available. In Table 10 we compare the share of employee compensation in the factor incomes in 1971 and 1981. The employee compensation as a share has increased in primary, finance and real estate, community and personal services and for the economy as a whole. It shows

TABLE 7: CHANGE IN ABSOLUTE MALE EMPLOYMENT (IN '000'S) BY OCCUPATIONAL DIVISIONS 1971-1981 AND THE SHARE OF EACH OCCUPATIONAL DIVISION IN THE TOTAL CHANGE

| Occupational Division | India | | Urban | | Rural | |
|---|---|---|---|---|---|---|
| | Change in Employment | Per Cent Share in Total Change | Change in Employment | Per Cent Share in Total Change | Change in Employment | Per Cent Share in Total Change |
| 0-1 | 1700 | 9.49 | 1055 | 9.41 | 645 | 9.63 |
| 2 | 610 | 3.41 | 816 | 7.28 | −206 | −3.07 |
| 3 | 2042 | 11.40 | 1284 | 11.45 | 758 | 11.32 |
| 4 | 2626 | 14.67 | 1701 | 15.17 | 925 | 13.82 |
| 5 | 688 | 3.84 | 534 | 4.76 | 154 | 2.30 |
| 6 | 532 | 2.97 | 204 | 1.82 | 328 | 4.90 |
| 7-8-9 | 8658 | 48.36 | 5193 | 46.32 | 3465 | 51.77 |
| X | 1050 | 5.86 | 425 | 3.79 | 625 | 9.34 |
| Total | 17905 | 100.00 | 11211 | 100.00 | 6694 | 100.00 |

*Source:* Same as in Table 1.

TABLE 8: FIRST TEN OCCUPATIONAL GROUPS WHICH ABSORBED OVER 50 PER CENT OF THE TOTAL INCREASE IN MALE EMPLOYMENT 1971-1981

| Occupational Group | Description | Rank | Percentage Share in Total Change in Male Employment |
|---|---|---|---|
| **Urban + Rural** | | | |
| 40 | Merchants and shopkeepers, wholesale and retail trade | 1 | 7.95 |
| 35 | Clerical and related workers n e c | 2 | 6.85 |
| 98 | Transport equipment operators | 3 | 6.48 |
| X | Workers not classified by occupations | 4 | 5.86 |
| 43 | Salesmen, shop assistants and related workers | 5 | 5.75 |
| 75 | Spinners, weavers, knitters, dyers and related workers | 6 | 5.65 |
| 84 | Machinery fitters, machine assemblers and precision instrument makers (except electrical) | 7 | 4.75 |
| 99 | Labourers n e c | 8 | 4.60 |
| 79 | Tailors, dress makers, sewers, upholsterers and related workers | 9 | 3.53 |
| 15 | Teachers | 10 | 3.41 |
| | Total | | 54.83 |
| **Urban** | | | |
| 43 | Salesmen, shop assistants and related workers | 1 | 6.95 |
| 35 | Clerical and related workers n e c | 2 | 6.67 |
| 40 | Merchants and shopkeepers, wholesale and retail trade | 3 | 6.54 |
| 98 | Transport equipment operators | 4 | 6.28 |
| 99 | Labourers n e c | 5 | 5.40 |
| 84 | Machinery fitters, machine assemblers, precision instrument makers (except electrical) | 6 | 5.13 |
| 75 | Spinners, weavers, knitters, dyers and related workers | 7 | 4.77 |
| X | Workers not classified by occupations | 8 | 3.79 |
| 79 | Tailors, dress makers, sewers, upholsterers and related workers | 9 | 3.57 |
| 24 | Working proprietors, directors and managers, mining, construction manufacturing and related concerns | 10 | 3.09 |
| | Total | | 52.19 |
| **Rural** | | | |
| 40 | Merchants and shopkeepers wholesale and retail trade | 1 | 10.32 |
| X | Workers not classified by occupations | 2 | 9.34 |
| 35 | Clerical and related workers n e c | 3 | 7.16 |
| 75 | Spinners, weavers, knitters, dyers and related workers | 4 | 7.11 |
| 98 | Transport equipment operators | 5 | 6.81 |
| 15 | Teachers | 6 | 5.66 |
| 84 | Machinery fitters, machine assemblers and precision instrument makers (except electrical) | 7 | 4.10 |
| 43 | Salesmen, shop assistants and related workers | 8 | 3.73 |
| 79 | Tailors, dress makers, sewers, upholsterers and related workers | 9 | 3.47 |
| 65 | Other farm workers | 10 | 3.32 |
| | Total | | 60.92 |

*Source:* Same as in Table 1.

a decline in secondary and transport communication and trade. Of the secondary sector construction is the only industry division that shows a decline in per worker domestic product, while in transport, communication and trade there is no division which indicates such a decline. Thus barring a little over four per cent of the work force in 1981, the rest of the main male workers are unlikely to be worse off judged by the crude indicators available presently.

The shift in the employment away from agriculture may be reflective of a shift in private expenditure away from food to non-food items shown in Table 11. Real private consumption expenditure has shifted away from food, beverages and tobacco to clothing and footwear, furniture, furnishing and household, etc, medical care and health and transport and communications and miscellaneous goods and services. The shift in expenditure suggest that the observed change in the structure of employment could not be attributed to the incapacity of agriculture to absorb more labour.

## III

The following tentative conclusions emerge from the above:

1 The structure of employment in the Indian economy has shifted away from agriculture.

2 The Census data at the disaggregated level of industry divisions, major and minor groups and occupational levels does not contradict the claim that the shift away from agriculture may have taken place due to "positive growth factors". The data on private expenditure also suggests that the shift in employment may have been a consequence of the operation of Engel's Law.

3 The evidence on per worker net domestic product as well as the distribution of factor incomes suggests that the shift in the structure of employment has benefited an overwhelming majority of the work force.

TABLE 9: NET DOMESTIC PRODUCT AT FACTOR COST BY INDUSTRY OF ORIGIN, PER MAIN WORKER AND PER MAIN MALE WORKER (AT 1970-71 PRICES)

| Industry Division (1) | NDP in Crores 1970-71 (2) | Income Per Main Worker (M + F) 1971 (3) | Income Per Main Male Worker 1971 (4) | NDP in Crores 1980-81 (at 1970-71 Prices) (5) | Income Per Main Worker (M + F) 1981 (6) | Income Per Main Male Worker (1981) (7) |
|---|---|---|---|---|---|---|
| Agriculture | 16354 | 1330 | 1669 | 18977 | 1282 | 1690 |
| Forestry, logging, fishing | 626 | 1625 | 1921 | 630 | 1262 | 1514 |
| Mining, quarrying | 327 | 3601 | 4171 | 472 | 3734 | 4287 |
| Manufacturing: | | | | | | |
| a) Registered | 2874 | 5654 | 5654 | 4424 | 6121 | 62121 |
| b) Unregistered | 1745 | 1476 | 1810 | 2633 | 1470 | 1847 |
| Public utilities | 318 | 6069 | 6175 | 647 | 6643 | 6811 |
| Construction | 1853 | 8508 | 9382 | 2250 | 6311 | 7016 |
| Trade, hotels, restaurants | 3880 | 4505 | 4792 | 5859 | 4816 | 5159 |
| Transport | 1574 | 3660 | 3788 | 2875 | 4737 | 4874 |
| Finance, insurance | 1683 | 14084 | 14521 | 2695 | 15278 | 16274 |
| Services: | | | | | | |
| a) Administration | 1635 | 3343 | 3455 | 3588 | 5853 | 6189 |
| b) Other services | 1650 | 1660 | 2084 | 2185 | 1758 | 2273 |
| Total | 34519 | 1959 | 2376 | 47235 | 2123 | 2660 |

*Notes:* Columns (3) and (6) relate to all main workers (males + females) in the respective Censuses while columns (4) and (7) relate to main male workers. Workers in agriculture, in these columns include cultivators and agricultural labourers. Workers in other industry divisions except manufacturing are workers classified by industry divisions according to National Standard Classification of Industries in the Census. Employment in registered manufacturing relates to factory employment available from Employment Market Information. But as this data was not available by sex, income per worker in registered manufacturing in column (3) and column (4) as well as column (6) and column (7) are identical. Employment in unregistered manufacturing includes employment in household industry in the Census + estimated employment in non-household industry-non-factory sector as explained in the text.

*Source:* For columns (2) and (5), Reserve Bank of India, "Report on Currency and Finance 1983-84", Vol II, Statistical Statements, Statement 5, p 9. Census of India 1971, Series 1, India Part II B(i) "General Economic Tables". Census of India 1981, Series 1, India, Part II—"Special Report and Tables Based on 5 Per Cent Sample Data".

TABLE 10: SHARE OF EMPLOYEE COMPENSATION IN FACTOR INCOMES 1971 AND 1981

| Sector | Share of Employee Compensation in Factor Incomes (Per Cent) | |
|---|---|---|
| | 1971 | 1981 |
| Primary | 22.56 | 24.77 |
| Secondary | 57.69 | 51.76 |
| Transport, communication, trade | 40.76 | 36.60 |
| Finance and real estate | 26.50 | 33.36 |
| Community and personal services | 87.43 | 90.16 |
| Total | 38.71 | 40.86 |

*Source:* Central Statistical Organisation, "National Accounts Statistics 1970-71—1981-82", January 1984, Statement 8, pp 28-29.

TABLE 11: PRIVATE FINAL CONSUMPTION EXPENDITURE IN DOMESTIC MARKET BY OBJECT (AT 1970-71 PRICES)

| Item | 1970-71 | 1980-81 |
|---|---|---|
| 1 Food, beverages, tobacco | 68.4 | 62.5 |
| 2 Clothing and footwear | 7.2 | 9.8 |
| 3 Gross rent, taxes, fuel and power | 7.1 | 6.9 |
| 4 Furniture, furnishing, household equipment, etc | 2.9 | 3.5 |
| 5 Medical care and health expenditure | 2.0 | 2.7 |
| 6 Transport and communications | 5.0 | 7.1 |
| 7 Recreation entertainment, education and cultural services | 3.6 | 3.5 |
| 8 Miscellaneous goods and services | 3.8 | 4.0 |
| Total | 100.00 | 100.00 |

*Source:* Same as in Table 10, Statement II, pp 38-39.

## Notes

1 Sinha, J N, '1981 Census Economic Data', in *Economic and Political Weekly*, Vol XVII, No 6, February 6, 1982.

2 Krishnamurty, J, 'Changes in Indian Work Force', in *Economic and Political Weekly*, Vol XIX, No 50, December 15, 1984.

3 The employment in factories obtained from the EMI includes females and is not strictly comparable with the Census data relied on in the rest of the paper. Exclusion of female workers would strengthen our conclusion of the relatively faster growth of unorganised sector.

DISCUSSION

# Export Optimism and Import Liberalisation

**Jayati Ghosh**

RECENTLY, arguments that reject export pessimism and propound a macro-economic strategy which is based on a major aggressive thrust in export markets have become increasingly common in the Indian context. Bhagwati and Srinivasan (*EPW*, November 24, 1984) have reiterated their well known views that economic policies determined by "unwarranted export pessimism" have been responsible in large part for India's hitherto unsatisfactory performance. They take issue with Chakravarty (*EPW*, May 19-26, 1984), who has argued that "at this stage India is unlikely to emerge as a leading actor on the export front". Bhagwati and Srinivasan, by contrast, see substantial export growth as a feasible basis for an Indian development strategy, given micro policies for export promotion and "very good macro policies". The latter are implicitly seen to be similar to those of South Korea which has successfully restricted the growth of the product wage in industry and thus improved its competitiveness in world markets.[1]

The issue of export promotion is particularly relevant at the present time when Indian economic policies are undergoing a process of substantial reconsideration and revision. There are two ways of viewing the need for an export promotion strategy. The first, which is related to the general orientation of the growth strategy, is to see export markets as additional or alternative sources of demand which would counteract stagnation or recessionary tendencies in the home market. The second is to view export growth primarily as a means of acquiring foreign exchange to finance increases in imports. Since these two have varying policy implications, it is necessary to consider each in turn.

Consider first exports as a major alternative source of *demand* for domestic producers. The focus on exports in a growth strategy implies that the domestic production structure should be increasingly geared to the requirements of the international market. For a developing country this means that other domestic considerations may have to be relegated to secondary importance. Thus, the requirements of increasing domestic employment, ensuring a better balance between sectors, improving income distribution and providing basic needs may suggest policies which are contrary to those stemming from an export-led growth strategy. Resolution of such a contradiction is ultimately a question of political choice—in India the need for legitimation of the state cannot be ignored.

Besides this, there are other economic factors which affect the possibility of orienting domestic production towards exports. In the past decade the ratio of exports to GDP in India has been between six per cent and eight per cent—a very low proportion which implies that domestic demand has been the overwhelmingly important force in influencing the level of economic activity. In order for external demand to become an impetus sufficiently strong to counteract stagnation in home demand, exports would have to increase substantially as a proportion of GDP. Clearly the nature of the impetus will be affected by the type of forward and backward linkages of exports in the overall production structure. Given the size of the Indian economy, it is apparent that a major expansion in the volume and value of total exports would be required.

Such an expansion would have to be the result of boosting existing exports as well as of increasing diversification. Already in the late 1970s and early 1980s Indian exports have shown considerable diversification. There has been a decline in real value terms of such traditional exports as clothing, jute manufactures, leather and textiles. The highest growth has been recorded in engineering goods and in gems and jewellery—both non-traditional exports. The question is, given the marked decline in demand for a number of India's traditional exports, to what extent can non-traditional exports be increased in order to provide the substantial expansion in total exports that is called for.

## WORLD TRADE SITUATION

Here the world trade situation becomes a relevant concern. Bhagwati and Srinivasan may be quite correct to argue that India's poor export performance in the past has been due to particular economic policies rather than to the global environment, but this says nothing about its importance for the present. It would be foolhardy for an economy of India's size to attempt a major export-driven expansion with complete disregard for the prevailing and projected medium-term external economic context. This consideration was recognised by Bhagwati 1978, p 216 thus: "a corollary to such a prescription for export promotion for more than just a handful of developing countries is that the world trading system be reasonably open and accommodating to the trade needs of such a strategy". As it happens, world economic indicators are not particularly propitious for major increases in exports by a large developing country. There are several features which should encourage caution when estimating the possibilities for the growth of Indian exports.

Firstly, the world economy is recovering only in a very slow and limited way from the latest recession.[2] Furthermore, as the GATT 1984 Report points out, the international transmission of the current recovery has been lower in relative terms than that of any previous post-war recovery. The growth of the US and some other industrial economies has not been matched by a proportionate increase in the level of world trade. This is due both to increasing protectionism as well as to a change in the structure of world trade whereby many traditional OECD imports (including energy sources and some raw materials) are likely to play a diminishing role in future booms.[3] This means not only that the overall growth of the world market is limited and uncertain, but also that future export growth will be highly related to the response of high-technology trade-related investments in economies that can respond quickly and flexibly to changes in the pattern of world demand. An economy such as India's can only hope to achieve such flexibility with a significant time lag, and in any case it is not clear that this is where its comparative advantage lies.

The second feature of world trade that is of relevance is the increasing protectionism by the major industrial economies as well as by other newly industrialising countries, many of whom have been forced to curtail imports drastically in order to generate trade surpluses or wipe out deficits. Such protectionism can only be reinforced by exchage rate movements which tend to allow for the persistent overvaluation of some currencies *vis-a-vis* others. In Europe and North America, market access has been further tightened or has become more uncertain in a number of areas such as agriculture, textiles, clothing, copper, steel and light engineering goods. Meanwhile, primary commodity markets have remained depressed. Specific protectionist tendencies in industrial countries are strong for almost all of the commodities in the production of which some newly-industrialising countries have a comparative advantage. In addition there are growing pressures in the US to erect more general trade barriers to counteract the effects of the high dollar on the US balance of trade. It may be premature to speculate on future protectionism before the outcome of the next round of GATT negotiations is known, but it is unlikely that very many of the existing trade barriers will be dismantled in the near future.

Thirdly, there are now a number of newly-industrialising countries attempting to increase their exports substantially. Much of this thrust is related to the world debt problem, which requires major debtors to generate trade surpluses for purposes of debt-service. An IMF estimate for the next ten years suggests that for the debtor LDCs to repay their debts according to present rescheduling agreements, their total net exports would have to increase by at least 5.5 per cent per annum in real terms.[4] Many of the heavily indebted newly industrialising countries have flexible production structures and are fairly advanced in the export of manufactures—e g, Brazil and Mexico. Furthermore, as long as such countries continue to honour their debt rescheduling agreements rather than default, they will require trade surpluses of a magnitude which can be generated only through export subsidies, competitive devaluations and similar practices which are generally labelled as 'unfair' by trading competitors. Such competition has meant that even South Korea, the darling of the advocates of export-led growth, faced a substantial decline in *all* the major categories of her exports except electronics in 1984. India faces competition not only from the debtor countries but also from Japan and other East Asian economies and from relatively new entrants such as China. Already Indian exports are under pressure from Chinese goods in some Western markets for cheap cotton fabrics and yarn, and in Third World markets for light engineering goods.[5]

### IMPORTANCE OF EXPORTS

These considerations do not imply that India should not devote any energies at all to the development of an export market. On the contrary, some growth in exports is crucial for the economy, and the preceding analysis indicates that a major thrust in policy is required even for India to maintain her present low share of world exports or to increase it to some degree. However, a dependence on export markets as a major source of growth and an alternative to home demand does appear to be ambitious and over-optimistic. Growth in exports in the near future will be a significant, hard-won achievement for India in the present international trading environment.

The importance of exports is not only as a source of demand for domestic producers but also, and possibly more importantly, because of the need for growing imports. Expansion of exports allows for increasing imports as well, with all its consequent advantages in terms of greater domestic availability of goods, increased competition and greater efficiency in production. In any case there are inherent dangers in a balance of trade situation which has suppressed imports down to the level of absolute minimum necessities, as this leaves little leeway for adjustment to import price shocks or unexpected export shortfalls. Therefore, a systematic export promotion drive is necessary if India is to make any impact at all on world markets. What type of strategy should be pursued, is, however, not immediately obvious. Bhagwati and Srinivasan, among others, have argued that allowing domestic and border prices of commodities to move into congruence by removing exchange controls and trade barriers and other similar 'distortions' is the most effective export promotion strategy.[6] The argument is that trade liberalisation, which involves in essence the freeing of import and foreign exchange controls, promotes competition within the economy, dismantles an import-substituting structure which may imply inefficiencies and delays, and helps to make the economy more flexible and better able to adjust to changes in the world economy. The difficulties of a transition to a more flexible regime, in terms of balance of payments difficulties, loss of domestic employment and growing imbalances in the economy, are seen as essentially temporary. Possible long-run results such as greater reliance on foreign investment and foreign capital generally are considered as being beneficial in promoting efficiency and national competitiveness.

### IMPORT LIBERALISATION

The basic issues involved in this argument have been widely debated and will not be investigated further here. But certain points of immediate relevance to the Indian case deserve to be made. The first is that such trade liberalisation essentially results in a once-for-all level change in economic activity rather than providing a continuous impetus to the rate of growth of either the whole economy or exports alone. The second is the startlingly simple but often ignored point that such import liberalisation is essentially a gamble with respect to domestic demand and supply responses as well as world absorption of future exports. Thus, as Diaz-Alejandro has pointed out, "most LDCs can influence their long run import level by encouraging or discouraging exports, while they are unlikely to expand exports just by increasing their imports ... The least risk strategy is clearly *first* to get exports up and *then* to liberalise imports" 1975, pp 93-133 . Export promotion is intimately related to a whole range of domestic policies on the macro-economy, industry, infrastructural development, exchange rates, etc. Limitations on imports form only one part of this, and often are by no means crucial. This means that the simple freeing of imports may result in substantial balance of payments deficits, while the freeing of exchange controls could lead to capital flight such as that which has increasingly characterised capital flows from Brazil, Mexico, Chile and even South Korea.

Even if such a gamble pays off in the long run (an outcome which is highly unpredictable) there is little doubt that at least in the short and medium run, import liberalisation on a substantial scale will involve growing balance of payments deficits. Therefore it is necessary to be aware of how the economy will be able to finance these deficits, whether by approaching the IMF or private capital markets. In the near future there may be an incentive to use loans from Eurocurrency credit markets, because so far borrowing by India from international private capital markets is very low, India's credit rating is good and it would be possible to acquire loans at low spreads above LIBOR. (At the moment the estimate for new loans to India is a spread of between 0.75 per cent and one per cent above the London Interbank Offer Rate which generally is the basis for Eurocurrency loan transactions.)

Given the recent experience and continuing difficulties of countries which are heavily indebted to private capital markets, it is extremely unlikely that those determining Indian financial strategy will make a mistake of the same magnitude, so that caveats in this regard may be superfluous. Nevertheless it should be remembered that international financial markets are qualitatively very different now from what they were in the 1970s when most of the heavy debtors contracted their loans. Real interest rates are generally at their highest historical levels and do not have the promise of falling very much in the near future. The average maturity for loans presently available to India and similar economies is approximately nine years, with grace periods of two years or less, while LIBOR has been between 11 and 13 per cent in 1985.[7] Euromarket lenders have also become much more cautious in protecting their loans. LDC borrowers are not likely to be a major focus of private banks' interests in the next decade. There is evidence that banks are looking to the US and Japan as sources of the next boom, because of deregulation and lack of political risk, while profit increases in the future are more likely to be concentrated in the operating rather the lending side.[8] All this implies that private capital markets cannot be seen as an easy source of finance for Indian BOP deficits in the coming decade.

The point is that import liberalisation is not the only way to promote exports systematically, nor is it necessarily the most suitable method for all economic regardless of their particular circumstances. In fact, many of the most successful cases of export promotion have involved some degree of import substitution as well. This is true of the classic example of Japan as well as newly industrialising countries like South Korea and Brazil. Thus in South Korea the export drive took off from an industrial base built behind high protectionist barriers designed to promote labour intensive import substitution as well as exports.[9] Often the genuinely import-competing industries are still protected after partial decontrol of the trade regime, so that the import liberalisation measures are confined to goods and services that encourage exports but do not compete with established domestic industry.

Thus the nature of alternative regimes is not as clear-cut as Bhagwati and Srinivasan appear to imply. Even the IMF 1985, p 12 notes that an outward-looking approach "is not synonymous with export-led growth, since certain types of import substituting production are also likely to be encouraged".

### EXPORT PROMOTION STRATEGY

In the Indian case it is quite feasible to think of the following export promotion strategy. This would maintain a number of major import controls, but would liberate the regime to some degree for exporters by offering them duty-free access to imports worth upto some proportion of the value of their exports.[10] Such a strategy would counteract the anti-export bias in an import-substituting system and provide exporters with access to necessary or cheaper imports to promote efficiency. Meanwhile a system of dual or multiple exchange rates could provide additional incentives for exporters by making their goods more competitive in world markets. In fact there is a whole range of alternative strategies, the adoption of which would depend on the specific nature of the economy as well as the particular external environment it operates in.

With regard to the problem of generating exports to finance imports, it is also useful to look at the precise components of India's import requirement. The bulk of Indian imports consists of a fairly small set of commodities: petroleum and oil products, edible oils, ferrous and non-ferrous metals and fertilisers. These have accounted, on average, for more than half of India's import bill in the 1980s.[11] By contrast, machinery imports have been only 12 per cent of the value of imports on average, although this ratio appears to be growing. The point is that at least half of India's imports consists of goods for which there is substantial and growing potential for domestic production. This has been evident in the increasing substitution of domestic energy sources for imported ones, but the potential is if anything greater for the production of edible oils, which is directly affected by domestic pricing policy. Increasing domestic production in these and related areas would release foreign exchange resources for the import of machinery, including that embodying new microprocessor technology, chemicals and other goods and services which may have a direct impact on the efficiency and cost-effectiveness of domestic production.

But increasing production in such areas is directly related to the development of the domestic production and demand base. This is where the need for expansion of the home market, as Chakravarty has argued, becomes relevant. A strategy that concentrates on building up domestic production in certain crucial sectors and encouraging the growth of home demand need not be antithetical to export growth, given a judicious allocation of imports and suitable pricing policies. In fact the two are likely to be highly complementary.

The most critical advantage of gearing production to the home market rather than orienting it towards exports may well be one that has scarcely been touched upon here. It relates to the freedom which this gives policy-makers to strive for targets such as a more equitable distribution of income, reduction of poverty and improvement in the living standards of the mass of people, which may transcend the dictates of the market. It does not follow that a domestic-oriented policy will necessarily achieve any of these; indeed, such concerns themselves may appear irrelevant for the current obsession with growth. But concentration on a largely export-driven growth puts definite constraints on internal economic policies, which may leave no room for such considerations.

Bhagwati and Srinivasan castigate the Indian economic leadership of the past for failing to come to terms with these "obviously key issues". However, their own insistence on posing the problem rigidly in terms of the dichotomy of export promotion *versus* import substitution could lead to even more 'muddling under' in the Indian context. Certainly it is desirable to reconsider export policies for India and make a systematic attempt to improve export performance. But this does not require the wholesale adoption of a liberal trade regime in order to encourage exports. Nor does it imply that the fundamental need to develop the home market can be ignored in any future growth strategy.

## Notes

[I am grateful to Sukhamoy Chakravarty, Ajit Singh, Geoff Harcourt, P Balakrishnan and Ruchira Chatterji for discussions and comments.]

1 It is not immediately apparent why Bhagwati and Srinivasan dismiss questions on the relationship between South Korea's export success and its political and economic system as "non-sequiturs". Every major capitalist trading nation has found that the ability to-control wages is an important ingredient in maintaining competitiveness—and clearly this ability (or the lack of it) is related to the political and economic system.

2 The IMF analysis of the past year suggests that the present recovery may be even shorter than is believed at the present time, and prospects for future growth are uncertain. IMF (1985).

3 This is related to technical change in industrial processes, which are increasingly more economical in energy use, as well as to the declining importance of copper and other metals and the emergence of man-made substitutes for many traditional industrial raw materials. In addition there has been a shift to high technology investment in telecommunications and related areas, which straddles the industrial and financial sectors. OECD (1983).

4 *Financial Times*, March 15, 1985. It is worth noting that 1984 was the first year when debtor LDCs as a group were able to generate a trade surplus—and this after a massive export effort and drastic reductions in imports. In 1983 the combined exports of 16 major indebted countries actually contracted despite recovery in the industrial countries.

5 *Financial Times*, February 8, 1985. This has affected the performance of engineering exports in the very recent past. See "Economic Survey, 1984-85", Government of India.

6 What follows refers not only to Bhagwati and Srinivasan (1984) but also to their earlier work together and in collaboration with others such as Krueger (1973).

7 World Bank, "World Debt Tables 1984-85", Morgan Guaranty World Financial Markets, October-November 1984, March 1985.

8 Aronson (1985).

9 Kim Kihwan (1984); Anatole Kaletsky, *Financial Times*, May 15, 1985.

10 Interestingly, Wolf (1982), whose study is approvingly cited by Bhagwati and Srinivasan, suggests that this could be as viable a trade strategy for India as the completely free trade system.

11 Government of India, "Economic Survey, 1984-85".

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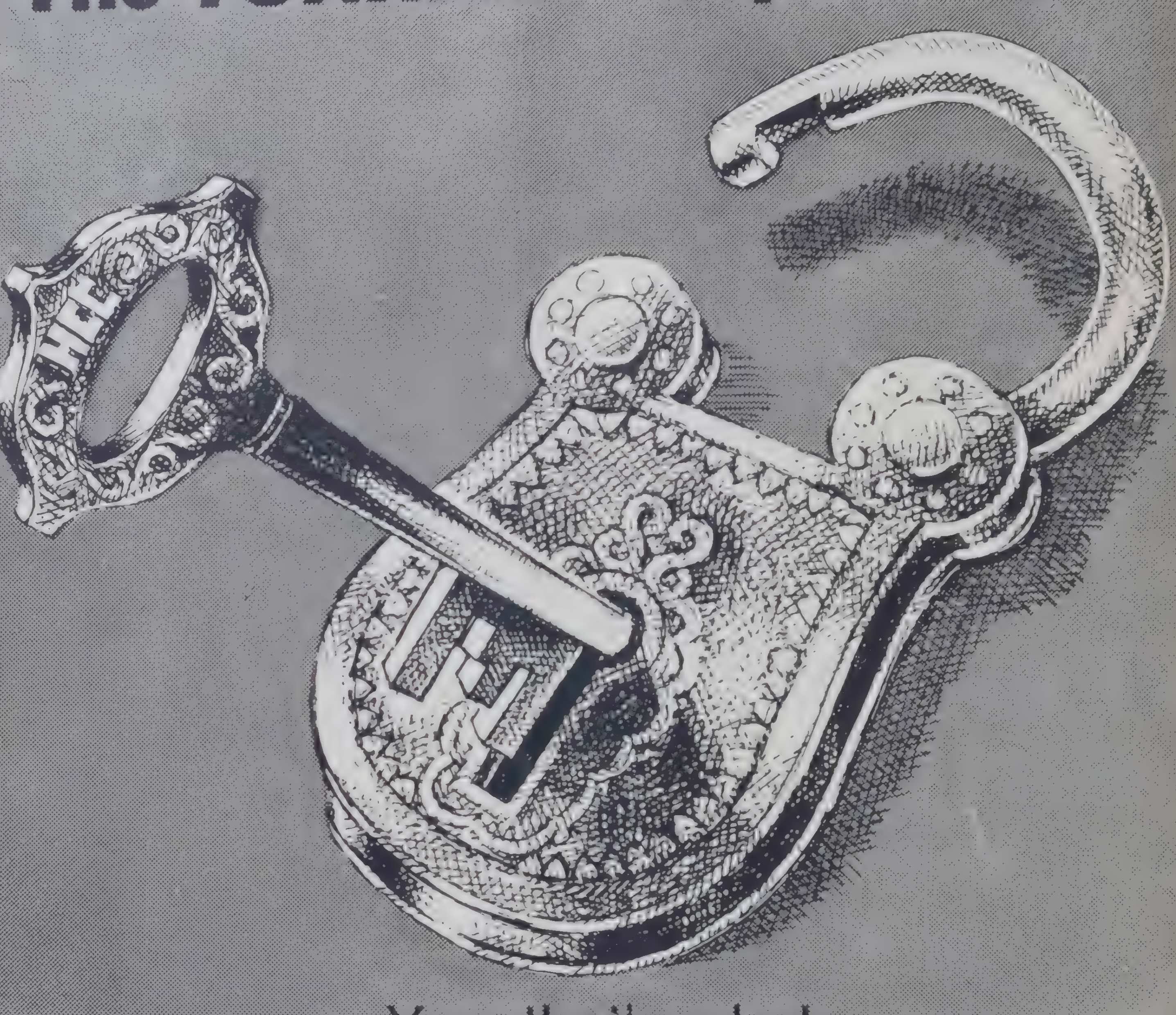

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# Textiles for Whom?

THE long-awaited textile policy, which was announced on Thursday, shows few traces of the prolonged study of the problems of the textile industry which is supposed to have gone on within the government, including by a committee headed by the secretary to the Department of Textiles. The policy statement itself contains the following tell-tale confession: "The textile industry has been subjected to a number of controls and regulations, many of which have become irrelevant or unnecessary with the passage of time. Such controls would be reviewed for elimination, phasing out or modification, as the case may be." Surely, such a scrutiny of the existing regulations and controls, the continuing relevance of their original purposes, their effectiveness, etc, should have preceded the formulation of a new policy. In the present case, however, as the official announcement confesses, this essential home-work has yet to be undertaken. In the circumstances the core of the textile policy announced this week amounts really speaking to a statement of the government's ideological biases and predilections.

The policy statement sets out the main task of the textile industry, quite unexceptionably, as that of increasing "the production of cloth of acceptable quality at reasonable prices to meet the clothing requirements of a growing population". This objective is proposed to be achieved by allowing the textile industry 'full fibre flexibility' as between cotton and man-made fibres; by increasing the availability of man-made fibres/yarn through increased domestic production supplemented by imports; by progressively reducing the fiscal levies on man-made fibres/yarn and on the intermediates used as inputs in their production; by allowing textile mills to freely expand and contract capacity; by permitting liberal import of textile machinery "at or near international prices", in other words, at low rates of customs duty; and treating powerlooms and mills on par and withdrawing preferential fiscal treatment of powerlooms in relation to the mills. This constitutes the core of the new textile policy and it could have been lifted, point by point, from any one of the numerous memoranda that the Indian Cotton Mills Federation, representing the textile mills, has been submitting to the government over the years.

This policy is certainly not meant to meet the "clothing requirements of a growing population". In keeping with the general orientation of the government's economic policies, it is intended to afford greater freedom to the textile industry to cater to the growing demand of the top 10 or 15 per cent of the country's population for synthetic and mixed fibre fabrics. Modernisation of the type envisaged in the policy cannot, is not intended to, reduce the cost of production; it will, on the other hand, expand the production of high-cost textile varieties the demand for which is sought to be stimulated through extravagant advertising and salesmanship. The thousands of crores of rupees which have so far been invested in the modernisation of a section of the textile mill industry have nowhere brought down cost of production or cloth prices. Similarly, while the textile industry has always alleged that high excise duties are responsible for the high prices of synthetic and mixed fibre fabrics it would be naive to imagine that a reduction in fiscal levies will bring down prices of cloth. It is interesting that even some sections of the textile industry itself do not believe that this will happen. The spokesman of the Clothing Manufacturers' Association, for instance, has disputed the claim that the new textile policy will lead to availability of cloth at lower prices. In this context it is also more than a little curious that the responsibility for production of 'controlled cloth' — "cloth at affordable prices for the poorer sections of the population", in the words of the textile policy statement—is sought to be shifted from the mills to the handlooms. When the central objective of the textile policy is said to be to make it possible for the mills to produce cloth at lower prices "to meet the clothing requirements of a growing population" and when towards this end the mills are being allowed the advantages of modernisation, flexibility with regard to fibre use and lower excise duties, why should they not produce the controlled cloth? This alone should be enough to expose which sections of the textile industry, what categories of textiles and which classes of consumers the new textile policy is intended to benefit.

The policy will, on the other hand, accelerate the displacement of labour in the textile industry—in the mills at one end and in the handlooms at the other. Reduction of employment in the mills is explicit in the emphasis on modernisation and rationalisation, on giving mills the freedom "to contract capacities", on closing down sick mills which are deemed to be unviable, etc. This is acknowledged in the policy statement in its repeated references to the need to "protect the interests of workers". Faced with the prospect of losing their jobs, what can be adequate protection of workers' interests and how is this to be secured? There is reference in the policy to a rehabilitation fund "to provide relief . . . for a limited period" for textile workers who lose their jobs. It has also been pencilled in that "displaced workers would be given priority in securing employment in other units under the same management or other industrial units in the same area". Those who know the realities of the labour market in the country will not, however, set much store by these fine sentiments. Ultimately it is the strength and vigilance of the workers' trade unions which will mitigate the costs of the new textile policy for the textile workers.

For the handloom weavers even this possible safeguard is not available. The textile policy contains nothing which is likely to stem the steady process of destruction of handlooms and displacement of handloom weavers which has been going on. The entire focus and orientation of the policy, as noted above, are quite different. True, the policy statement lists at some length as many as seven "main steps" to "preserve the unique role of handlooms", but these so-called steps are all restatements of measures which already exist on paper and which have failed to prevent the decimation of the handloom sector. And, unlike in the case of the textile mills in respect of which the textile policy at least formally acknowledges the likelihood of workers losing their jobs, there is not even a token recognition of the problem of displacement of handloom weavers in the policy. This is understandable because, as a contributor had pointed out in these columns (L C Jain, "Handlooms Face Liquidation", August 27, 1983), the phenomenon of weavers being thrown out of work is not as 'visible' or 'audible' as that of a sick textile mill. When handlooms are affected by 'sickness' the workers engaged in them become partially or largely underemployed in the first round and eventually fully unemployed. Their factories have no locks; they have no unions; they sink into penury and destitution unheard.

## *Maharashtra*

### Pre-emptive Move

THE change of chief ministers in Maharashtra this week serves to illustrate both the strengths and limitations of leaders with their own following within the Congress(I), in this case of Vasantdada Patil, and also indirectly of Sharad Pawar who intends to merge his Congress(S) with the party.

Vasantdada claims that he resigned as chief minister on June 1 because of the constant humiliations suffered by him at the hands of the Congress(I) High Command. Of late, Vasantdada's opinions have been ignored by the High Command on several occasions, such as the selection of MLCs to be appointed by the Governor, appointment of cabinet ministers and finally Prabha Rau being made the state Congress(I) president against Vasantdada's wishes, which precipitated his resignation. But he has borne worse humiliations before, especially when Indira Gandhi was in charge, to either cling to or to assume power. A classic instance in his cringing pleas to the late Prime Minister to make him chief minister again, if only for a day, after he was replaced by S B Chavan during the Emergency. So, it is difficult to accept that Vasantdada's resignation last week has much to do with honour, either his own or Maharashtra's.

It will be recalled that the Congress(I) had not fared too well in the March 1985 assembly poll, securing only 160 of the 288 seats. The High Command had reappointed Vasantdada as chief minister—though he was responsible for the poor performance inasmuch as he had selected the candidates and masterminded the campaigning—in the absence of any other leader who could hold on to the slender majority. Though the opposition Progressive Democratic Front had fared well in the election, its main constituent, the Congress(S), and more so that party's leader Sharad Pawar, faces an uncomfortable future. Pawar's popularity, like that of Vasantdada's, derives from a network of leaders and their followers at various levels in the state cemented together by political power. The lesser leaders, who mobilise the votes, support Pawar (or Vasantdada) with the expectation that they will move the government machinery to meet their need for irrigation facilities, loans, electricity connections, licences, co-operatives, and so on. Thus it was not surprising that as many as 49 of the 55 MLAs elected on the Congress(S) ticket in 1980 soon switched over to the Congress(I) since Pawar, their leader, being in the opposition, could not deliver the fruits of power.

Pawar is apparently aware that a similar exodus of his MLAs into the Congress(I) might again occur; the Congress(S) presently has a strength of 60 in the legislature. This likely eventuality will be a serious blow to Pawar's clout in the state since it would take him a stupendous effort to rebuild his party once again and wait for the uncertain outcome of the next assembly contest, five years away. Hence it is that this time Pawar himself has been keen on merging his party into the Congress(I), ostensibly to revitalise what he calls the 'Congress culture', which is nothing but a vague concept. The Congress(I) High Command too seems to be keen to bring in Pawar not only to rejuvenate the party in Maharashtra but also to fracture the opposition at the national level, in which Pawar played a prominent role till recently.

Pawar had usurped the chief minister's post in 1978 by disloding Vasantdada, and thus sparked the feud between these two Marathas from western Maharashtra who dominate the state's politics. Vasantdada apparently sensed that the Congress(I) High Command was planning to shortly replace him with his foe Pawar. So before Pawar's entry into the Congress(I) could crystallise, Vasantdada sought to pre-empt the High Command's intended move against him by resigning and ensuring that Shivajirao Nilangekar-Patil was elected the new chief minister by all the MLAs. Nilangekar-Patil is also a Maratha but from the backward region of Marathwada. Pawar, when he does join the Congress(I) will find it hard to dislodge the newly and unanimously elected chief minister, and that too a Maratha from a backward region. Vasantdada's domination of the state's politics will continue at least for a while through Nilangekar-Patil, his appointee. Ironically the Congress(I) High Command has had to swallow the humiliation of accepting as the new chief minister, a man who was denied the party ticket for the assembly elections on the ground that the party had lost in his assembly segment during the December 1984 parliamentary poll.

## *Punjab*

### Opportunity for Government

THE present situation does seem opportune again for pushing towards a stable solution of the Punjab conflict. But the question is whether the Congress(I) government at the centre will rise to occasion.

The first anniversary of the army assault of the Golden Temple passed off peacefully this week, barring stray and minor incidents. One likely factor behind the current 'silence' of the terrorists could be the fall out from last month's senseless transistor bomb killings of innocent persons in north India. These pre-planned explosions of May 10 seem to have precipitated a strong revulsion against terrorist methods amongst non-Sikhs so far sympathetic to Sikh grievances. On the other hand, within the Sikh community itself, moderate opinions appear to have gained wider acceptability, especially since the reprisals, hoped for by the terrorists, did not occur. Realising the failure of their attempt, the terrorists did not plan any further killings this week.

The predominant issue within the Sikh community at the moment is the tussle for leadership and popular support between moderate and extremist groups. The extremists, notably of the All India Sikh Students Federation, seem to be functioning through the 'United' Akali Dal set up recently by Baba Joginder Singh, the father of J S Bhindranwale. Pro-Khalistan slogans were reportedly raised at the group's convention held at the Golden Temple complex on June 6. But apparently the moderate leaders H S Longowal, G S Tohra and P S Badal, continue to command a greater following. This is reflected from the pressure successfully exerted, by 23 of the 36 Akali Dal MLA's and most of the party's office bearers, on them to continue as chiefs of the Dal, the Shiromani Gurudwara Prabhandak Committee, and the legislature party, respectively.

While no doubt the extremists partly derive their strength from the support of Sikhs abroad and from Pakistani officialdom, the fact remains that its basic sustenance wells up from the continued sense of fear and humiliation of Sikhs inside the country. For instance, even Jathedar Rachpal Singh, who heads a Dal splinter which has the Prime Minister's attention to the false implication of innocent Sikhs in the transistor bombs case.

The Union government has ordered a number of economic measures for Punjab: chiefly a Rs 200 crore coach factory to be set up in a couple of years and concessions/incentives to industries in Amritsar district. While these are welcome, immediate political initiatives are more necessary to firmly root the current mood of moderation amongst the Sikhs. Some of the Sikh demands ought to be unilaterally conceded: mainly the release of all political detenus, withdrawal of the numerous Acts curbing civil liberties in the state and leniency towards the Sikh soldiers who deserted the army last June on hearing of the assault on the Golden Temple. This will create an environment conducive for initiating talks with the moderate leaders.

But Rajiv Gandhi's government—apart from hoping to decimate the Akali Dal to suit the Congress(I)'s own ends in Punjab—seems to be in a way paralysed by the Hindu sentiment in north India which brought it overwhelming victories in the last parliamentary and assembly polls. So the government does not seem to have the courage to push on with a long-term strategy in the state, due to fear or in deference to the Hindu backlash which surfaces whenever Sikh terrorists strike to basically scuttle the reconciliation moves of the Akali moderates. Of course, legitimate sounding excuses—like the Akali Dal's endless list of demands and lack of a clear leadership in the Sikh community—are put out by official spokesmen, including at present for the government not taking the initiative as it ought to be doing.

## *Bangladesh*

### Political Parties' Failure

*A Correspondent writes:*

TWENTYONE people killed, hundreds wounded, hundreds arrested. These are the results of the massive malpractices and numerous clashes between supporters of competing candidates which marked the upo-zilla (sub-district) elections in Bangladesh from May 16 to 22. So there was obviously no boycott, in spite of the call by the three opposition political fronts. The opposition had managed upto now to prevent the military government from holding any election without first lifting martial law, but this time it failed, even though the 12-hour general strike on May 13 had been a partial success. Since March 1 all political and trade union activities have been banned, strict press censorship has been imposed, and all universities have been closed *sine die*. Hundreds were arrested all over the country, yet the boycott of the referendum on March 21 was a success: less than 10 per cent actually voted. General Ershad, desperately looking for some legitimacy, was resorting to this last trick to get an embarrassingly high 94 per cent 'yes', which showed how much pressure had been put on the bureaucracy, the police and the army to obtain the much wanted 'popular support'.

What happened between the referendum and the upo-zilla elections? Many more arrests took place and hundreds were picked up from the crowds celebrating Independence day on March 26. All opposition political and trade union leaders are today either in jail or underground (Sheikh Hasina, leader of the Awami League, and Khaleda Zia, leader of the BNP, have been under house arrest since March 1). The opposition movement has been halted, cut off from its mostly upper class leaders who do not seem interested in facing more repression nor may be in really challenging the *status quo*. The political parties seem to have lost public support, after having repeatedly failed to propose a programme to challenge the military government, while the trade union front may have lost interest in the struggle.

The referendum was meaningless to the people: even if there is a lot of discontent and opposition against the military government there does not seem to be a clear political alternative. The opposition is divided in three fronts which have different stands on the constitution and the political system. The Awami League has a long record of opposition to Zia's and Sattar's BNP governments. BNP's Khaleda Zia is, however, more opposed to Ershad himself than to the military regime, as she suspects that he had something to do with the killing of her husband. In short, the opposition is together only in its opposition to Ershad's rule.

On the other hand, electing the chairman of their new upo-zilla council, even if his power is still vague and uncertain, meant something to the people. The upo-zilla councils are a crucial creation of the military government, obviously to establish a power base which will compete with the political parties from the bottom—a policy similar to the late Ziaur Rahman's 'gram sarkars' (village governments) to destabilise the traditional union councils. The upo-zilla councils have been each promised one crore takas, and the upo-zilla nirbaho officer (chief civil servant at the upo-zilla level) already has discretionary power over eight per cent of the development budget in his area. The decentralisation process, from districts to subdistricts, has led to a huge expenditure which has benefited contractors as much as the local elite and a part of the bureaucracy.

Ershad's government had planned upo-zilla elections as early as May 1983, but had to cancel them under the pressure of the opposition. Two years later, with a much more severe martial law imposed on March 1, 1985, Bangladesh is back to square one.

This failure of the opposition is in contrast to its success in the last two years. The movement started with the students in the vanguard, as so often in Bangladesh politics. In February 1983 the students had to face brutal repression—50 of them were killed and thousands arrested and tortured. In 1982 the trade unions had formed a front with the participation of all the main federations except the pro-government and corrupt Sramik League (also funded by the Asian American Free Labour Institute, believed to be a channel for CIA funds) and, together with the student front, they have been the real force compelling the political parties to press the army for a return to democracy. On as many as seven occasions the government had to either cancel or postpone elections as the opposition refused to participate. The opposition stuck to its strict 'no elections under martial law' position, even after several concessions by the government which had hoped to hold parliamentary elections in April last year.

On October 14, 1984 the three opposition fronts—the 15-party alliance led by the Awami League, the seven-party group led by the BNP, and the Islamic parties—had organised massive rallies in Dhaka. In spite of desperate government efforts to sabotage the initiative—ferries and trains were suspended to prevent people from travelling to the capital—more than 500,000 people demonstrated against the junta's dictatorship. The government then imposed strict censorship on the press. Newspapers responded by not coming out at all the following day. In the last two years a number of hartals (general strikes) have been successfully organised, the most remarkable one being the 48-hour general strike on Decem-

**SUBSCRIPTION RATES**

**Inland**

| | | |
|---|---|---|
| Institutions | One year | Rs 250 |
| | Two years | Rs 475 |
| | Three years | Rs 700 |
| Individuals | One year | Rs 200 |
| | Two years | Rs 375 |
| | Three years | Rs 550 |

**Concessional Rates**

| | One year |
|---|---|
| Teachers/Researchers | Rs 150 |
| Students | Rs 100 |

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**Foreign**

| | One Year |
|---|---|
| Surface mail (all countries) | US $ 50 |
| **Air mail** | |
| Bangladesh, Pakistan and Sri Lanka | US $ 50 |
| Other Asian countries | $ 65 |
| Africa, Australia, Europe | $ 75 |
| South and North America and New Zealand | $ 90 |

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ber 22 and 23, 1984, which attracted massive support in spite of unprecedented police and army mobilisation.

The political parties have, however, failed to bring out a programme to take the struggle further. The government has been conscious that neither the Awami League nor the BNP, and probably many other parties as well, really wanted a confrontation. The main political forces have been leading the movement half-heartedly, basically because the trade unions and the student fronts plus minor political groups have been compelling them to do so. A massive non-cooperation movement had been announced to start in December 1984, but it never got off the ground. In May 1984 an agreement was reached between the government and the trade union front. The inducements offered to the latter were substantial: over 60 per cent pay rise from July 1984 (though this was mandatory only for government employees) and favourable changes in labour laws which were, however, formulated at long last only in March this year, days before the referendum (ironically at a time when all trade union activity was banned).

It is difficult to predict what will happen next. The government may well call for parliamentary elections in the next few weeks. Will Ershad then permit political and trade union activity again, or will he choose the Pakistani way? The universities cannot remain closed indefinitely, and we may be quite sure that the students will not forget the traditional and important role they have always played in Bangladesh politics. There is also a possibility of a coup: in early May Ershad narrowly escaped another attempt on his life which killed two people in his car (though nothing of this was reported in the local press). But this would only make for fights inside the junta with not much disruption of the regime itself.

The present political vacuum is a disaster for the development of poverty-stricken Bangladesh. During the last 25 years the country has been under martial law for more than two-thirds of the time. Foreign aid, coordinated by the World Bank and the large donors, is equal today to almost half the country's budget. It keeps the urban well-off happy and comfortable—among them many political leaders and the higher echelons of the army. Why should they want a real political change?

## BUSINESS

# Stock Market's Homage

THE stock market has continued to display remarkable strength. The upward trend in equity prices which commenced early in November is still in progress. The first week of June, in fact, witnessed one of the sharpest rises for any single week—the sharpest-ever perhaps. The current bull phase has no parallel. The *Financial Express* equity price index for Bombay has risen by 63 per cent since the beginning of November and the all-India index has moved up by 58.4 per cent. Between January 2 and June 7, the Bombay index has gone up by 51.5 per cent and the all-India index by 50 per cent. This far exceeds the total rise during the preceding three years. The rise from 1982 low to 1984 high works out to 39.6 per cent in the case of Bombay index and 33 per cent in respect of the all-India equity price index.

The phenomenal upsurge in equity prices has baffled not only economic experts and political pundits but even the shrewdest market observers fully conversant with the various aspects of the functioning of the stock market. The Union finance ministry is known to have expressed considerable concern over the goings on on the stock exchanges and instructed the chiefs of the four major exchanges to take effective steps to contain speculative activity within manageable limits. A series of measures have been taken over the past several weeks— mostly at the instance of the Finance Ministry—to enforce strict discipline on the market. These measures included suspension of trading, restricting trading to squaring-up of outstanding commitments, transfer of shares from the 'specified' to the 'unspecified' list and margins of all kinds—daily margins, special margins on volatile scrips, margins on carry-forward business, margins on the total volume of a member's business and automatic margins in the event of rise in the price of a share exceeding a specified percentage.

The imposition of various margins has resulted in a sharp decline in the volume of business and considerably increased the clerical work for maintaining detalied accounts. The stockbroking community in Bombay has of late been feeling greatly exercised over the harsh impact of the rigorous margins. Not many stockbrokers command the requisite financial resources to carry on normal business if they have to strictly comply with the margin rules. This underlines the need for strengthening the organisational framework of the stockbroking profession. There is no good reason why members of the exchange should be allowed to undertake risk which is beyond their resources. This is not to suggest that the margin system should not be suitably modified to encourage and ensure normal market operations. Smarting under the rigours of the complicated margin system introduced at the instance of the Union Finance Ministry, stockbrokers in Bombay have been thinking of boycott of trading to seek suitable modifications in the margin system. Worst affected are the stockbrokers who thrive mainly on speculative activity. Brokers who deal mainly in cash shares are strongly opposed to the idea of suspension of trading which has the effect of undermining investors' confidence.

The margin system has no doubt seriously affected the volume of business but it has had no effect on equity prices which have recorded a spectacular rise since about the middle of May. The runaway boom in equity prices as also the overwhelming public response to new issues reflect investors' growing confidence in the dawn of a new era for the private corporate sector. Investors have apparently been encouraged by the various measures taken by Rajiv Gandhi's government to create an environment in which the business community can fully exploit its initiative and entrepreneurship. The new textile policy for instance contains all that the organised mill sector could have hoped for. The pharmaceutical industry seems mighty pleased with the delicensing of a large number of essential and mass consumption bulk drugs and formulations. The stock market is greatly impressed by the rapid pace at which the economy is being liberalised. This indeed is the major factor behind the phenomenal boom in equity prices. The boom in eqity prices has, of course, been considerably aided by the shortage of floating stocks of good shares because of large institutional holding. Several shares are currently commanding scarcity value, unrelated to the prevailing yield structure as well as growth prospects in the near future. The stock market bulls seem to have taken too much for granted. They are not much bothered by the Planning Commission's concern over the poor performance of the four key infrastructural sectors—power, irrigation, railways and roads—during the Sixth Plan. Infrastructure facilities have an important bearing on the general economic tempo. The prevailing mood of the stock market is one of reckless optimism.

## *Engineering Industry*

### Export Hopes Belied

THE provisional estimates of the value of engineering exports during 1984-85 have once again belied the hopes of achieving a breakthrough in ending the prolonged stagnation. In the third quarter of 1984-85, it was hoped that the export target of Rs 1,500 crore fixed for the year would be achieved thanks to the increased purchases by the Soviet Union. However, according to the final estimates now available, export earnings of the industry during 1984-85 have amounted to no more than Rs 1,300 crore.

The target of Rs 1,500 crore, it may be noted here, had been earlier set for 1983-84. However, actual exports in 1983-84 registered a decline of 6.4 per cent to Rs 1,170 crore from the previous year's level of Rs 1,250 crore. Even the growth of 11 per cent registered in 1984-85 is deceptive as it was mainly brought about by the sharp appreciation of the US dollar *vis-a-vis* the rupee. Approximately 40 per cent of our export earnings are in terms of dollars.

The poor performance of the engineering industry on the export front has been attributed mainly to inadequate export effort of the large engineering units (the DGTD units) which have been the biggest beneficiaries of the government's liberalised import policy. With a few exceptions, the export performance of the top 100 engineering companies has been far from satisfactory.

It may be recalled that as recently as October 1983, the Engineering Export Promotion Council (EEPC) was talking about a target of over Rs 9,000 crore worth of engineering exports by 1990-91. Of this, 50 per cent was to consist of capital goods and turnkey projects. But by June 1984, the outgoing chairman of the EEPC had already scaled down this figure to Rs 6,000 crore without offering any explanation for this drastic deflation. More disappointingly, even the achievement of this lowered target now appears to be wishful thinking, looking at the trend of exports during the past few years.

Even now there is hardly any effort on the part of the industry to make a proper assessment of the situation and formulate proper strategies to reverse the trend. The Engineering Export Promotion Council (EEPC) and the Association of Indian Engineering Industries (AIEI) continue to vie with each other in making tall export projections for the future. While the EEPC has provisionally fixed an export target of Rs 1,725 crore for 1985-86, the AIEI has set a target of Rs 3,000 crore for 1987-88. However, they have not given any indication as to how these targets are likely to be achieved in the light of the dismal performance in the past three years. Industry sources have offered routine excuses for the poor performance on the export front, namely, global recession, shrinking of West Asian market, the payments problem in Africa, growing counter trade, protectionism in the West, etc.

The industry would do well to examine how many of these are genuine reasons and whether it anticipates a change for the better in these conditions to warrant its optimism for the near future. The more important reasons for the dismal performance appear to be the relatively lower growth in the domestic production of engineering goods during the last few years and the high cost of production. Moreover, in spite of a series of export promotion measures such as liberal imports of capital goods and raw materials, new technology, cash compensatory support, supply of inputs at international prices, etc, there is no sense of commitment on the part of even the larger engineering companies to increasing export sales.

According to estimates, the government's total foreign exchange spending on the engineering industry by way of import of technology, capital goods and spares has gone up to three times its export earnings. Also, the value of imports of engineering goods exceeded the value of exports by Rs 4,400 crore during 1983-84. While the export earnings of the industry have grown three-fold between 1974 and 1984, foreign exchange outgo on the imports of engineering goods increased by four fold over the same period to Rs 5,558 crore in 1983-84. In effect, we have been spending more and more foreign exchange to sustain the same level of export earnings.

## *Pharmaceutical Industry*

### Paper Policies

GOING by recent experience, the proposed new drug policy—which has been long delayed due to conflicting pressures exerted by lobbies of multinational and Indian firms—can hardly be expected to help attain its objectives. In this context the findings of an official analysis of the extent of implementation of the prevailing policy are significant. The study has reportedly found that many key provisions of the policy, announced over seven years ago, have not yet been put into practice.

Some of the ignored provisions of the 1978 policy concern the basic goal of pushing towards greater indigenisation of the industry. Specifically, one such measure stipulates that gross profits of a firm beyond 8 to 13 per cent are to be collected separately for such purposes, including research and development, as may be notified by the Union government. Then, multinational firms with a turnover of over Rs 5 crore, were to be obliged to set up R and D facilities in the country. Capital investment in these facilities was to be at least 20 per cent of a firm's net block, and four per cent of the total turnover was to be spent as recurring annual expenditure on R and D. Also, the policy had stated that a Bill would be introduced to levy a cess of upto one per cent of the value of goods produced which was to be pooled together for centralised R and D purposes. The bill seems to have been forgotten.

A further set of provisions, pertaining to the equally basic objective of cheap and easy availability of quality drugs, also seems to have been overlooked. These pertain to fixing the prices of intermediate drugs, controlling the prices of eight critical intermediates and appropriately expanding the list of such crucial chemicals. Similarly, a stipulation that 20 per cent of the turnover of a firm would have to be compulsorily accounted for by essential bulk drugs and another calling for enlarging, rationalising and decentralising the drug distribution system through the public sector have been ignored. The study also admits that nothing has materialised of the move to encourage foreign firms to offer quality control facilities to the small-scale sector on a no-proft, no-loss basis. So far even the laboratory for testing sera, vaccines and immunological products, as announced in the policy, has not been set up.

The study reportedly argues that non-implementation of the policy measures was because of the preoccupation with physical controls coupled with the failure to take account of some crucial laws. However, it is difficult to see how the desire for physical controls could have hindered implementation of the measures mentioned above, especially when some of them would also involve physical controls. Existing laws might be a barrier; for instance, the provision for collecting excess gross profits for R and D may contravene the Companies Act. But surely these laws could suitably be amended.

In such circumstances it would not be incorrect to conclude that the twin objectives of indigenisation and cheap, easy availability—which are claimed to be foundation of India's overall industrial development policy—are included more as platitudes than with any serious intent in the drug policy. It is very likely that the new drug policy would again prominently mention the ignored provisions while its operative part will largely be geared to sorting out the competing interests of the various manufacturers.

## STATISTICS

| Index Numbers of Wholesale Prices (1970-71 = 100) | Weights | Latest Week (18-5-85) | Variation (Per Cent) Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85$^{++}$ | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| All ommodities | 1000 | 350.6 | 0.7 | 6.7 | 1.7 | 7.0 | 9.5 | 2.6 | 9.3 |
| Primary Articles | 417 | 326.6 | 0.4 | 3.6 | 0.9 | 4.8 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 304.8 | 1.5 | 5.5 | 1.9 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 307.9 | −2.4 | 0.3 | −1.5 | 2.3 | 15.1 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 555.6 | — | 9.5 | 1.9 | 2.6 | 7.6 | 7.5 | 20.7 |
| Manufactured Products | 499 | 335.9 | 0.1 | 8.6 | 2.3 | 6.0 | 8.7 | 0.6 | 5.2 |

| Cost of Living Index | Base | Latest Month | Variation (Per Cent) Over Last Month | Over Last Year | Over March 1984 | In 84-85 | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| For Industrial Workers | 1960 = 100 | $586^{3}$ | 0.2 | 5.0 | 5.0 | 6.4 | 12.6 | 7.8 | 12.5 |
| For Urban Non-Manual Employees | 1960 = 100 | $540^{3}$ | 0.7 | 6.9 | 6.9 | 8.1 | 10.3 | 8.0 | 11.9 |
| For Agricultural Labourers | July 60 to June 61 = 100 | $517^{3}$ | −1.0 | 0.6 | 0.6 | 0.2 | 11.4 | 5.2 | 12.4 |

| Money and Banking | Unit | Latest Week (17-5-85) | Variation Rs Crore (Per Cent in Brackets) Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85$^{++}$ | In 83-84$^{++}$ | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| Money Supply ($M_3$) | Rs Crore | 1,03,326 | 1,198<br>(1.2) | 14,958<br>(16.9) | 2,846<br>(2.8) | 15,443<br>(18.0) | 13,031<br>(17.9) | 10,115<br>(16.1) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 51,935 | 1,237 | 8,759 | 4,918 | 8,460 | 5,757 | 4,748 | 4,965 |
| Bank Credit to Commercial Sector | Rs Crore | 70,332 | 682 | 9,877 | 1,285 | 9,447 | 8,830 | 8,247 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 3,326 | 335 | 2,027 | 327 | 1,419 | −104 | −977 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 72,528 | 528<br>(0.7) | 11,342<br>(18.5) | 1,342<br>(1.9) | 10,590<br>(17.5) | 8,550<br>(16.4) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets** | Rs Crore | 7,206 | 211 | 1,745 | 245 | 1,463<br>(26.6) | 943<br>(20.7) | 911<br>(27.2) | −1,468<br>(−30.4) |

| Index Numbers of Industrial Production (1970 = 100) | Weights | Latest Month | Average of Months* 1985 | 1984 | Variation (Per Cent) In 1985$^{++}$ | In 1984$^{++}$ | In 1983 | In 1982 | In 1981 |
|---|---|---|---|---|---|---|---|---|---|
| General Index | 100.00 | $213.1^{3}$ | 207.1 | 200.3 | 3.4 | 6.6 | 4.5 | 4.5 | 9.3 |
| Basic Industries | 32.28 | $267.5^{1}$ | 267.5 | 247.1 | 8.3 | 11.7 | 5.5 | 8.0 | 14.6 |
| Capital Goods Industries | 15.25 | $217.4^{1}$ | 217.4 | 223.7 | −2.8 | 9.2 | 4.3 | −0.9 | 7.6 |
| Intermediate Goods Industries | 20.95 | $172.1^{1}$ | 172.1 | 162.0 | 6.2 | 1.7 | 7.9 | 1.9 | 3.7 |
| Consumer Goods Industries | 31.52 | $174.5^{1}$ | 174.5 | 172.4 | 1.2 | 1.3 | 0.4 | 5.8 | 8.2 |
| Durable Goods | 3.41 | $209.2^{1}$ | 209.2 | 178.7 | 17.1 | 13.0 | 0.1 | 3.6 | −0.1 |
| Non-Durable Goods | 28.11 | $170.3^{1}$ | 170.3 | 171.6 | −0.8 | 0.5 | 0.5 | 6.5 | 9.3 |

| Foreign Trade | Unit | Latest Month (Feb 85) | Cumulative for* 1984-85$^{+}$ | 1983-84$^{+}$ | 1984-85 | 1983-84 | 1982-83 | 1981-82 | 1980-81 |
|---|---|---|---|---|---|---|---|---|---|
| Exports | Rs Crore | 928 | 10,288 | 8,633 | 10,288 | 9,868<br>(10.8) | 8,908<br>(14.2) | 7,803<br>(16.3) | 6,711<br>( 3.9) |
| Imports | Rs Crore | 1,477 | 14,915 | 13,930 | 14,915 | 15,763<br>( 9.8) | 14,356<br>(5.0) | 13,671<br>( 9.2) | 12,524<br>(40.6) |
| Balances of Trade | Rs Crore | −549 | −4,627 | −5,297 | −4,627 | −5,895 | −5,448 | −5,868 | −5,813 |

| Employment Exchange Statistics | Unit | Latest Month (Nov 84) | Cumulative for* 1984 | 1983 | 1983 | 1982 | 1981 | 1980 | 1979 |
|---|---|---|---|---|---|---|---|---|---|
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,649 | 23,649 | 21,707 | 21,953<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) | 14,334<br>(13.1) |
| Number of Registrations | Thousand | 447 | 5,991 | 6,019 | 6,555<br>(11.8) | 5,862<br>(−6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) | 6,132<br>(15.1) |
| Number of Vacancies Notified | Thousand | 51 | 686 | 784 | 828<br>(1.0) | 820<br>(−8.4) | 895<br>(6.6) | 840<br>(−4.1) | 876<br>(5.8) |
| Number of Placements | Thousand | 30 | 376 | 456 | 486<br>(2.5) | 474<br>(−6.1) | 505<br>(5.2) | 480<br>(2.6) | 468<br>(2.6) |

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* For current year upto latest month for which data are available and for corresponding period of last year.

** Excluding gold and SDRs.

+ Variation in current year upto latest month for which data are available over corresponding period of last year.

+ + Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript$^{1}$ indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

# Enough Is Enough

**Romesh Thapar**

AS Rajiv Gandhi returned to his tense land and pulled on his bullet-proof jacket, the security afforded by an authoritarian structuring as in the USSR must have felt attractive. It is all very depressing. We have made our very own future terribly dependent on personality cults—and, therefore, in the calculations of lumpen terrorism dressed in religious or ideological garb, easily assaulted by hit-lists and transistor-bombs.

However, the cult-pushers keep working overtime. The vulgarians of the CPWD, those aesthetic illiterates who have despoiled our landscape with the worst left-overs of colonial housing and such like, have just announced an international competition to select sculpted larger than life size figures of Jawaharlal Nehru and Indira Gandhi. Selected miniature models will win 25,000 dollars each! This is so typical of the irrelevances we indulge in these days.

I will not ask who sanctioned the funds. We are playing games of waste at every level, and particularly around the propagation of a dynasty. I am concerned about this sculpted thrust, violative of past decisions, and of the persons who will be called upon to give their verdict on the various idols-in-the-making—the Pupul Jayakars, the Narayana Menons, the Karl Khandalawalas, the Mohamed Yunuses and the Laxmi Sihares or Kapila Vatsyayanas who are now involved in what looks like a free-for-all over the Festival of India preparations with words like 'liar', 'trouble-maker', 'racketeer' thrown in to enrich expression.

I know the mechanics of the sculpture obsession. There's plenty of money on it. Expertise, talent, sponsoring, even aesthetic opinion, will be for sale. Clearly, we are on the edge of another 'artistic' controversy—you know, like the dancers who have hogged patronage for the past quarter century and see no reason at all why they should not continue to do so. Imagine the ballyhoo we are in for as our sculptors get cracking on their tiny interpretations, or shall I say imitations from past ages.

If the vulgarians of the CPWD had bothered to consult the records of the Jawarharlal Nehru Memorial Trust, they would have discovered that a very clear-cut decision was taken to avoid sculptured figures, and to immortalise the thoughts of those whom we are anxious to honour on rocks all over the country. The first rock was established in Teen Murti House. Active in these decisions was Indira Gandhi, admittedly before she became dynasty-conscious.

Who took the decision to change these enlightened guidelines designed to destroy the latent personality cult in all of us? Rajiv Gandhi operating *sotto voce*? Or Works Minister Abdul Gafoor, curying favour in the usual sort of durbari way? Or those creatures competing for cultural czarism even as they abuse each other and intrigue against each other? Or is there a shadowy ministerial figure masterminding this disarray?

At this moment of writing, another 'memorial' has opened in the Capital. Indira Gandhi, who was so upset about a colonial type Teen Murti House, a haven for British C-in-Cs, being converted as a national tribute to her father because the Sastri family refused to take up residence there on the plea that all the necessary religious rites had not been performed, must be wondering why her wretched Safdarjung Road house should symbolise her. Let us remember that she was only too ready to move back to Teen Murti House even after it had been dedicated to the nation!

This business of turning houses into memorials sets a terrible style. At this rate, it does become possible for all manner of political flatterers and fawners, the competing factionalists within opposition formations, to suggest wider take-overs in the interest of the only 'history' they are familiar with. But what holds back the protest of those who know better? Have we, as the articulating, influential elite, become totally conformist, without courage or conviction?

I shudder to think of what will become of that portion of Ring Road, fronting the Red Fort along the Yamuna, where all the 'ghats' are being located. Already, the unread and insensitive call it 'Death's Row'—and the power station belching its smoke is quite a landmark. Think of the possibilities for all the empty netas and the shallow dynasty-builders (for they, too, are quite numerous) plotting their 'ghats' amidst the tree-covered acres. They could belong to lower castes, other unclean faiths. Then what? Righteous rioting?

It is unfortunate that these ridiculous dimensions have to be underlined to drive home the point that we are failing to grow up as a modern nation (the twenty-first century, my foot!), that we are living at the level of the vulgarians pushing their way to political favour whatever the irreparable damage to our sensibilities. Enough is enough, and it is about time that pressure was mounted in Parliament and legislatures, and in Opposition conclaves, to persuade the ruling coterie to oppose this cultism. It is contrary to the democratic spirit. If we don't recognise this, we might start embalming bodies *a la* Lenin.

Frankly, I cannot help wondering what the public reaction is to all these obsessions in this troubled land. If this is political education in the style of those nations who are for ever titillating their peoples with patriotic inputs, I think we should think again about our rather stupid priorities. A great deal of money is going into these side-shows. Even the fellowship scheme of the Jawaharlal Nehru Fund keeps pumping money into academia's mundane 'research' from a fund that the ordinary people of India helped to gather. It was not intended to be dissipated in this fashion year after year. Academia has enough fellowships and funds to play with.

Everything we attempt is turned into some sort of ugly vested interest, without principles and without perspectives. Change is resisted even though it is a convenient election catchword. The leading factotems cannot do otherwise, for they too seek to perpetuate their positions and the patronage invariably built into these infrastructures. Bad habits and bad precedents are infectious. Not a single political formation is really anxious to return us to healthier norms.

I wonder if the ruling coterie even understands what is being said. The treatment meted out to the Chief Minister of Maharashtra by Rajiv Gandhi is indicative of the worst kind of feudalism. A Chief Minister has to be treated as a Chief Minister, not as someone to be punished by denying an interview. The repercussions of these intolerable behaviour patterns will become clear very soon. And, alas, there is no one around to remind Rajiv Gandhi that he is a democratic Prime Minister, not a hereditary Congress chieftain (whatever that might mean!).

*May 31.*

# Farce of Fund Surveillance

### ISG

THE Bonn Economic Summit of the industrialised countries of the West has, as we know, been conspicuous for its failure to agree on almost any major issue. It could not agree on the timing and agenda of the next round of negotiations on trade or on the participants in it. Nor could it agree on the discussion of the reform of the monetary system. As it turned out, differences were quite sharp on both the issues of trade as well as money, but they were clearly sharper on money.

What is so different about the agreement reached at the IMF's Interim Committee meeting towards the end of April this year that "effective Fund surveillance was necessary as a means of promoting sound economic policies and convergence of performance among member countries", that "steps be taken to strengthen surveillance over the policies of all Fund countries", and that in that context consideration be given "to means of increasing effectiveness of surveillance over the policies of those industrial and developing countries which have a significant impact on the functioning of the world economy"?

On the one hand was Ronald Reagan of the United States declaiming the virtues of the free market everywhere, including the international currency market, and refusing to see the need to rein in the latter to curb fluctuations in exchange rates. On the other hand was Francois Mitterand of France arguing for urgently convening a Bretton Woods type of conference that would consider restructuring the whole monetary system so that exchange rates did not fluctuate beyond certain limits. The French called for the establishment of 'target zones' for exchange rates. In the end, what the Summit could agree upon was to affirm the need "to improve the functioning of the international monetary system" and in that context note that the Group of Ten would soon be considering the report of a study on this subject and forwarding proposals for the consideration of the IMF Interim Committee in Seoul, South Korea, in October 1985.

Evidently, a distinction was sought to be made between 'improvement' in the monetary system as opposed to its 'reform'. The implication of this distinction becomes clear in the light of the reported conclusions of the G-10 study referred to in the Summit declaration. Although the report of the study will not be made public until the June meeting of G-10 finance ministers, the conclusion of the study that "no major reform of the monetary system is necessary", despite its various imperfections including its inability to control the volatility of exchange rate changes, has been known for some time, thanks to officials of the US Treasury. Much more recently, it has been disclosed through the US press that the major improvement the study calls for is that the IMF be given "a somewhat more visible role" in advising on economic policies. In this connection, the study suggests three steps: (1) the Fund Managing Director to urge all countries to adopt policies to promote monetary stability; (2) the Fund to devote a separate chapter in its annual World Economic Outlook to reviewing the policies of the major industrial countries and their impact on the world monetary system; and (3) the G-10 Finance Ministers to have a prior opportunity to review the conclusions of this chapter.

This brings us back to the question with which we started, namely, the difference that this agreement to have the Fund exercise effective surveillance on the economic policies of all countries, including the major industrial countries, and not just the developing countries and other countries who have to resort to the Fund for financial cover, would make to the existing world monetary situation. To put the record straight let us start by making it clear that surveillance of economic policies of members has all along been a function of the Fund. It was specially underscored at Jamaica in January 1976 when a sort of *ex post facto* stamp of approval was affixed on the system of floating exchange rates that had come to stay already. The Jamaica agreement in enjoying upon member countries to collaborate with the Fund and other members to ensure orderly exchange arrangements and to promote a stable system of exchange rates, asks the Fund not only to exercise "firm surveillance over the exchange rate policies of the members" but also to "adopt guidelines" with respect to these policies. Let it be noted that when the Jamaica agreement spoke of "firm surveillance" by the Fund, it had in mind all the member countries, including the industrial countries. That it was indeed so came out graphically in the testimony of the then US Treasury Secretary, Bill Simon, before a Congressional committee, while recommending acceptance of the Jamaica agreement that acceptance by the US of firm surveillance by the Fund of its exchange rate policies did not imply that should it be decided by an 85 per cent majority to return to a fixed exchange rate system, "the United States can be required to establish or maintain a par value for the dollar".

The problem has been that the Fund has exercised no surveillance worth the name in actual practice. If it had, it ought to have come out sharply against the enormous accumulation of dollar liabilities abroad, both official and through US commercial banks, because it is the existence of these enormous dollar holdings abroad which is the single largest factor behind the volatility of exchange rates now. But firmness or effectiveness of surveillance, by whatever name one now chooses to call it, depends on the enforceability of the findings of the surveillance. Although the then US Treasury Secretary drew the line at reversion to the fixed exchange rate system, in actual practice the Fund's surveillance of US exchange rate policy, or the absence of it, has had virtually no impact whatsoever on US policies.

Let us face it, the reason behind the virtual impotence of Fund surveillance so far has been that the surveillance has had no teeth, when it came to non-borrowing members, particularly a member as powerful as the United States.

Supposing the Tokyo meeting of G-10 finance ministers accepts the recommendations of its study and supposing furthermore that the Fund's Interim Committee adopts the proposed formula for effective surveillance, would it lead to any major change in the existing situation? What additional teeth does the new formula give to Fund surveillance to enable it to enforce its conclusions on member countries? The publication of a separate chapter in the World Economic Outlook? Could there have been a bigger joke?

When corresponding with the Circulation Department, subscribers are requested to mention their subscription numbers.

# Good Performance Likely to Continue

**Hansavivek**

*SOUTHERN PETROCHEMICAL INDUSTRIES CORPORATION (SPIC)* is expanding and widely diversifying its activities. It is seeking permission to set up plants for manufacture of 900 tonnes of ammonia and 1,500 tonnes of urea per day at Tuticorin at a cost of Rs 400 crore. A letter of intent for increasing the capacity of the DAP I plant has been received by the company and is being taken up for implementation this year. The capacity of the plant will increase from 500 to 850 tonnes per day. The erection of the gypsum board pilot plant is in the final stage of completion. This would enable the company to find alternate use for the by-product, gypsum, produced by the phosphoric acid plant. At present the company is importing about 1.2 lakh tonnes of phosphoric acid in addition to its own manufacture to meet the requirements of DAP production. With a view to regulating the delivery pattern from various overseas suppliers so that its production is not affected, the company is considering purchase of a ship for about Rs 15 crore for carrying phosphoric acid. Clearance from the Central government in this regard is awaited. The implementation of the fluorine recovery plant as a means of pollution control and as an intermediate for by-product manufacture is in an advanced stage and is expected to be commissioned this year. This will be followed by the implementation of the aluminium fluoride project for which clearance for import of components of machinery is awaited from the government. Work on the 18 MW captive power plant is in progress and the unit will be operational by end 1985. This will ensure 100 per cent availability of power for existing plants at Tuticorin. The Tamil Nadu Industrial Development Corporation has chosen the company as a joint promoter for a Rs 130-crore linear alkyl benzene (LAB) project to be located at Manali, Madras. The company will be investing 25 per cent of the equity capital of the new joint sector company 'Tamil Nadu Petroproducts' which will implement the project. The company also proposes to increase its equity share to 25 per cent in Alkali Chemicals and Fertilisers. A new company under the name 'SPIC Electronics and Systems' has been registered to implement a Rs 10-crore project for the manufacture of magnetic tapes. SPIC has taken over, subject to clearances by statutory bodies, on lease the ailing furfural unit of Southern Agrifurance Industries. Various schemes are being considered to put the unit back on the rails.

**The Week's Companies** *(Rs Lakh)*

| | | SPIC | | Sandoz | | Ennore Foundries | |
|---|---|---|---|---|---|---|---|
| | | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 |
| Paid-up Capital | | 1899 | 1899 | 450 | 350 | 452 | 452 |
| Reserves | | 4914 | 2811 | 1307 | 1108 | 578 | 523 |
| Borrowings | | 7295 | 6802 | 954 | 1243 | 745 | 711 |
| *of which* Term borrowings | | 4296 | 5820 | 20 | 27 | 473 | 563 |
| Gross fixed assets | | 15285 | 14814 | 1701 | 1596 | 2232 | 2145 |
| Net fixed assets | | 6401 | 6792 | 717 | 628 | 1236 | 1361 |
| Investments | | 255 | 225 | 18 | 25 | — | 1 |
| Current liabilities | | 11190 | 7321 | 1656 | 1484 | 426 | 486 |
| Current assets | | 20548 | 13415 | 3632 | 3532 | 965 | 805 |
| Stocks | | 11745 | 7318 | 1983 | 1693 | 368 | 285 |
| Book debts | | 4109 | 2739 | 906 | 1168 | 321 | 293 |
| Net sales | | 50251 | 28511 | 6303 | 5677 | 2698 | 2003 |
| Other income | | 332 | 240 | 138 | 149 | 27 | 8 |
| Raw material costs | | 6354 | 4184 | 3715 | 3255 | 1109 | 801 |
| Wages | | 806 | 567 | 822 | 673 | 543 | 427 |
| Interest | | 989 | 1310 | 175 | 179 | 117 | 104 |
| Gross profit (+)/loss (−) | | 4865 | 2832 | 427 | 563 | 334 | 260 |
| Depreciation provision | | 1254 | 1325 | 125 | 139 | 207 | 181 |
| Tax provision | | 1150 | 132 | 108 | 296 | — | — |
| Net profit (+)/loss (−) | | 2461 | 1375 | 194 | 128 | 127 | 79 |
| Investment allowance reserve | | 100 | 510 | 11 | 20 | — | — |
| Transfer to reserves | | 2003 | 482 | 120 | 66 | 55 | 11 |
| Dividend | | | | | | | |
| Amount | P | 19 | 193 | — | — | — | — |
| | E | 339 | 190 | 63 | 42 | 72 | 68 |
| Rate (per cent) | P | 9.5 | 9.5 | — | — | — | — |
| | E | 20 | 10 | 14 | 12 | 16 | 15 |
| Cover (times) | | 7.20 | 7.02 | 3.08 | 3.05 | 1.76 | 1.16 |
| *Ratios* (per cent) | | | | | | | |
| Gross profit/sales | | 9.68 | 9.93 | 6.77 | 9.91 | 12.38 | 12.98 |
| Net profit/capital employed | | 36.12 | 29.19 | 11.04 | 8.77 | 12.33 | 8.10 |
| Inventories/sales | | 23.37 | 25.66 | 31.46 | 29.82 | 13.64 | 14.22 |
| Wages/sales | | 1.64 | 1.98 | 13.04 | 11.85 | 20.12 | 21.31 |

SPIC has turned in impressive working results for 1984 with gross profit increasing from previous year's Rs 28.32 crore to Rs 48.65 crore following a rise in sales from Rs 285.11 crore to Rs 502.51 crore. Although tax liability has taken away much more, net profit is substantially higher at Rs 24.61 crore compared to Rs 13.75 crore. Dividend has been stepped up from 10 per cent to 20 per cent and is covered 7.20 times by earnings as against 7.02 times previously. Production in urea, DAP I and DAP II plants exceeded 100 per cent capacity utilisation while the ammonia plant achieved 90 per cent of capacity use during the year. The company had to encounter shortages of raw materials like sulphur and rock phosphate. Shortage of own phosphoric acid was offset by increased imports. The company continued to market imported fertilisers. It handled a record quantity of 1.17 million tonnes of imported fertilisers against 0.32 million tonnes in 1983. The efficient handling of fertilisers at major and minor ports with equal ease won acclaim for the company from the Ministry of Agriculture and also from other agencies and institutions. The company exported 15,555 tonnes of phosphate-gypsum, a by-product, to Sri Lanka.

The R and D activities of the company continued in the areas of better granulation techniques as applicable to fertilisers (NK grades), various recovery experiments to reduce level of ammonia, chromate, urea in effluents and incorporation of micro nutrients and utilisation of by-products. It is also proposed to set up an R and D Centre near Madras with the specific object of developing basic drugs and pharmaceuticals. The other areas of activities planned at the Centre are in the renewable sources of energy, molecular bio-sciences and bio-technology and electronics. The total amount spent on R and D was Rs 93 lakh. Frederic J Heredia was co-opted as a director by the board with effect from March 26, 1984. G Dwarakanathan was re-appointed as Vice-President (Finance) for five years from May 28, 1984. The technical expertise gained by engineers and technicians has been pooled to form a new group to render services in the field of maintenance, installation and commissioning. It has already attended to jobs at the fertiliser units of IEL, RCF, FACT, NFL, etc. In addition, construction and commissioning jobs have also been performed successfully. Commenting on the current year's outlook, the directors say that it depends upon the improvement in the power situation in Tamil Nadu, which is already suffering a severe cut since February last. Given an early monsoon and improvement in power availability, the company should do equally well this year too.

*SANDOZ* has experienced a marked contraction of margins during 1984. It earned a lower gross profit of Rs 4.27 crore against Rs 5.63 crore in the previous year despite increase in sales from Rs 56.77 crore to Rs 63.03 crore. With a sizeable saving in tax liability, however, net profit has turned out to be higher at Rs 1.94 crore (Rs 1.28 crore), Dividend has been raised by 2 points to 14 per cent which is covered 3.08 times by earnings as against 3.05 times previously. The directors attribute decline in gross margins to the cumulative effect of competition in the market, all round increase in costs of inputs, sluggishness in certain sectors of industry and labour unrest. With the increase in cashflow, the company was able to meet the entire capital expenditure and incremental working capital requirements from internal sources. The company established a 100 per cent export-oriented agrochemicals manufacturing unit within a record time in the Kandla Free Trade Zone. Despite stiff competition, it achieved exports of Rs 7.73 crore against Rs 1.89 crore in 1983. The major exports were of pharmaceuticals and agrochemicals. Sales of leather chemicals registered satisfactory increases. Continued price control, and in certain product groups price reduction, slowed the pace of growth of the pharmaceuticals industry.

The company revived the marketing of Hydergine ampoules, a product used in emergency situation for brain function revitalisation. An industrial licence for the manufacture of clopamide, a diuretic drug, was received during the year. The agrochemicals division had to contend with stiff competition from both large-scale and small-scale units in certain segments. Moreover, non-availability of certain raw materials and relatively sharp price increases in packing materials and petroleum based chemicals eroded profitability considerably. A section of workmen resorted to go-slow which affected production and sales of all the three divisions. In December last, the two unions conducted a secret ballot to resolve the impasse created by their rival claims. Since neither union achieved the required majority in terms of the agreement reached between them earlier, representatives of both the unions have commenced joint negotiations with the management for long-term settlement of workmen's demands. J N Banerjee, Chairman, has welcomed the Central government's programme emphasising its commitment to faster growth through higher productivity and of seeking to place a premium on better management and performance. This has aroused an expectation that there would be a gradual dismantling in the plethora of controls and a speeding up in the granting of approvals. Meanwhile, the company is pursuing its plans for backward integration in pesticides and for the manufacture of chemicals for the leather processing industry.

*ENNORE FOUNDRIES* has fared well during 1984. It was able to achieve record sales of 20,635 tonnes against 15,054 tonnes in the previous year due to improvement in market conditions, a favourable power situation and progressive utilisation of high pressure moulding line. Turnover increased from Rs 20.03 crore to Rs 26.98 crore and gross profit from Rs 2.60 crore to Rs 3.34 crore. With no tax liability in both the years, net profit amounted to Rs 127 lakh (Rs 79 lakh). The directors have maintained dividend at 15 per cent and recommended payment of one per cent extra as a special silver jubilee dividend. The distribution is covered 1.76 times by earnings as against 1.16 times previously. The directors state that the year's results include benefits from the modernisation and replacement scheme which was completed in 1983, and its impact would be much greater in the coming years. Areas for inducting improved technology are being identified for progressive implementation in the coming years. The company incurred an expenditure of Rs 12 lakh during the year on R and D activities. The main thrust in R and D continues to be in achieving basic objectives of improvement in quality, lowering of costs and introduction of alternate materials and processes. R J Hancock, director, resigned on April 30, 1984 and D R G Andrews was co-opted in the casual vacancy thus caused. P D Plant, another director, resigned on February 1985 and C J S Woodwork was appointed as an additional director.

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# Muslim Personal Law

## Questions of Reform and Uniformity Be Delinked

**Balraj Puri**

IN an otherwise well reasoned ruling on the right of maintenance of a divorced Muslim woman, the Chief Justice of the Supreme Court raised issues which are not directly related to it and might have the effect of dampening the enthusiasm of Muslim women and provoking the resistance of the Muslim male.

He has linked the issue of the right of women, including Muslim women, with the cause of national integration. Emphasising the need for removing disparate loyalties to laws which have conflicting ideologies, the Chief Justice, in his ruling on behalf of the five-judge constitutional bench, expressed regret that Article 44 of the Constitution, which said the State shall endeavour to secure for the citizens a uniform civil code throughout the territory of India, has remained a dead letter.

Do rights of women need to be justified on the touchstone of their contribution to national integration instead of on their own merit? Must justice to Muslim women wait till a uniform civil law is adopted? And does uniformity always promote unity?

The cause of Muslim women and of national integration has already suffered due to their linkage with a common civil law, which is far from axiomatic.

The issue of personal law is, in fact, closely linked with the Muslim urge for identity. The near unanimity among the Muslims of the country against a uniform personal law is more a reflection of this urge than of their obscurantism. Similarly most of the clamour for a common law by the Hindus is motivated by a desire for cultural and political uniformity rather than for reform of the so-called retrograde features of the Muslim law. In fact these features are usually cited merely to buttress the case for a common law.

### URGE FOR MUSLIM IDENTITY

The urge of identity of Muslims has survived their traumatic experience of the partition of India. Though the Muslim community, nationally and internationally, has its own peculiarities, its urge for identity is no different for the universal phenomenon of sharpening of ethnic and religious identities under the impact of modernisation.

Every identity has its symbols which are not acquired through a rational and conscious choice of its members but emerge imperceptibly though a complex interplay of factors.

The sudden fall of Urdu from the high cultural and political pedestal—though for known reasons—, changes in the Muslim character of Aligarh Muslim University and campaign for a uniform personal law threw up three rallying points for the Muslim community of India.

It does not mean that Muslims today are in greater need for Urdu than English and the regional languages or that despite the mushroom growth of universities they still depend on Aligarh for their academic needs or that they are over-eager to marry four wives. The Muslim attitude on these issues is determined by entirely different reasons, which need to be understood rather than merely condemned.

Nobody explicitly insists that sub-national identities, including that of Muslims, should just cease to exist altogether. In a democratic and secular country, there is hardly any way of getting rid of them. What is in effect subject to debate is the legitimate limits and fields of the autonomy of these identities. It is argued, on the one side, that appeasement widens the limits of autonomy till it threatens national unity. But does not imposed uniformity provoke revolts of diversities and the resultant tension pose a greater threat to unity? On the other hand, a legitimate degree of autonomy, by providing means of gratification of sub-national urges, is likely to improve their emotional attachment with the nation and hence their sense of Indian patriotism and pride as Indian nationals. Of course, autonomous rights must not transgress similar rights of other communities and override claims of national interest and commonly accepted national values.

### TEST CASE

Muslim personal law has, in this context, in a way, become the test case. Whether it comes within the legitimate range and region of autonomy of Muslims is a question on which opinion is sharply divided on communal lines. One vital question that arises in this connection is whether this autonomy is compatible with the principle of equality before law?

There is no doubt that in a secular democratic country all people likely to be involved in any action should be governed by the same law. If a Muslim robs or assaults a Hindu, or *vice versa*, the criminal must be dealt with under the same law, irrespective of his community. Similarly disputes over contracts, business deals, wages, employment, etc, must be subject to a uniform law, whatever be the caste, community and creed of the persons involved. For these logical reasons, codification of common criminal and civil laws by the British government was held by the Ulemas of India to be in accordance with the spirit of the shariat.

While communal diversity is not taken into account in criminal and civil legislation of the country, customary practices of various cultural groups are not completely disregarded. Variations of laws within other federations of the world are indeed wider. In USA, for instance, not only criminal and civil laws vary from state to state, but even personal law, except that relating to monogamy, varies. The basic principle, however, is that people similarly situated, geographically, culturally, etc, should be treated equally before law.

Variations in law to make allowance for variations in situations and categories of people are nothing unusual. What is usually resented is not the difference but the discrimination in treatment; unless it be in the nature of compensatory discrimination, i e, confering more than equal rights on the weaker sections.

Is the right of a Muslim male to marry four wives a discrimination against males of other communities? If at all it is a privilege, it is at the cost of Muslim women. And if the so-called male privilege and female disprivilege are added up, can we surely say that the Muslim community is a privileged community on this account.

A graver apprehension, widely whispered and occasionally publicly expressed by many Hindus is that Muslims insist on their legal right to polygamy—the only known provision of the Muslim personal law—with a view to outnumbering Hindus.

The first premise of the apprehension, that legal provision for polygamy automatically leads to its practice, is not substantiated by statistical studies. For the percentage of polygamous Muslim families is no larger than that of such families in any other community.

The second premise that polygamy would increase the total number of Muslim wives is logically fallacious. For if some men marry more than one woman, less women would be available for the remaining men, some of whom might have to remain unmarried. While the total stock of child-bearing women would remain constant, the number of men engaged in the task of procreation would be reduced. Thus if at all polygamy makes a difference as compared to monogamy on the rate of population growth, it is likely to be in the direction of depressing it. For four men with four wives have chances of producing more children than one man with four wives.

Incidentally, the number of wives a Muslim may have under the present law is not limited to four. The law states: "If he marries a fifth wife, when he has already four, the marriage is not void (Batil), but merely irregular (Fasid)" (vide Mulla's "Mahommedan Law", section 255).

### LIBERAL ARGUMENT

A sizeable liberal Hindu opinion is, in fact, outraged by such provisions of the Muslim law. While general opposition of Hindus to a separate personal law for Muslims is based on ignorance, prejudice or fear, liberals object to it on two grounds. First, the individual and not the community should be the basic unit of a democracy. Second, Muslims too must benefit by a progressive law to the extent Hindus are doing.

The first is a question of should and reality. Shouldn't a liberal take cognisance of reality instead of imposing on it his view of it. Moreover, a community is also a means of self-expression of an individual.

The second argument confuses the issues of uniformity with reform. The solid resistance of the Muslim community to the question of reform of its personal law has been built up because it was linked with uniformity. No progress in the field of reform seems possible unless the two issues are delinked. Further, it is patronising to suggest that Muslim law should be as progressive as Hindu law. Why should not it be more or less than the latter in some of its provisions, depending on what one means by the adjective progressive?

Already in one crucial sense Muslim law is closer to the modern spirit. It is basically a contract between the man and the woman and not a sacrament as is the case in most other religions. It also implies that consent of the girl for marriage is necessary which nobody else—parent or guardian—can give on her behalf.

And what would one say of the Muta (temporary) marriage, which the Shia law recognises and in which the period of cohabitation is fixed and may be a term of years. In theory it could be as temporary as a year, a month, a day or a night.

A debate on what personal laws are progressive or desirable for the Muslim community is likely to be less inhibited if a uniform code is not insisted on. The proposed reforms should keep in view the religious prescriptions as well as the values of the modern age like equality of man and woman. Let us see how far are the two compatible.

### ISLAMIC LAWS NOT RIGID

Neither Muslim history nor any theological doctrine suggests that Islamic laws have been immutable and rigid. As M Hidayatullah observes in his introduction to "Principles of Mohamedan Law" (Bombay, 1969), "the invocation of the right of the Ruler (or the State) to take public good into account, to change an established rule, is not new. It was practised by the Khulafai-Rashidin. Changes in Hadd (limit of punishment) were made from time to time as a part of public policy, during the Prophet's own time and that of all the Caliphs". Citing an instance, Hidayatullah says that while the Prophet did not order compensation against a bailee who had lost the bailed article by theft, without any neglect on his part, Caliph Ummar ordered such compensation because the bailees began to take advantage of the rule.

Again the governor designate of Yemen, according to a Hadith, told the Prophet that he would use his own reason in making decisions on issues on which he failed to get guidance from the holy book or the usage of the Prophet. The Prophet approved of it which is an eloquent testimony to the fact that Islam is not unresponsive to new situations not contemplated in the Quran and the Hadith.

During the 1400-year long odyssey of Islam through a large part of the world, Islamic laws are known to have widely changed, from time to time and country to country. Even within India, all Muslim communities in different parts do not follow a uniform personal law and the courts respect diversities of customs and practices. The acceptance of modern common criminal and civil laws without any reservations by the Muslim intelligentsia and masses in India—as also in many other countries of the world, including Muslim countries—in place of what was strictly ordained in the Quran again bears out the fact that Islam has been responding to the needs of the times. However, Islamic scholars have insisted that all reforms must be subject to the fundamental moral and spiritual principles of Islam.

Real controversy is, however, not about the possibility and need of change in laws but its manner; who has the authority to decide that fundamental principles have not been violated?

There are four known sources of Islamic law and hence of reform: Quran, Hadith, Qiyas and Ijmaa. While divine revelation through the Quran and the practices and precedents of the Prophet recorded in the Hadith are the final authority, Qiyas or interpretation of their intention must guide in situations uncovered by them.

It is, however, the concept of Ijmaa, the congregation of scholars, which has the power of independent judgment or innovation called Ijtehad that is a distinctive feature of the rationality of Islam.

### SPIRIT OF IJTEHAD

Many Muslim scholars have urged the revival of the spirit of Ijtehad to restore a dynamic role to Islamic jurisprudence. Ameer Ali (1848-1928) who made a pioneering contribution to reviving Muslim consciousness in the subcontinent as an original thinker bewailed that "a follower of Muhammad should abandon his judgment completely to the interpretations of men who lived in the 9th century and could have no conception of the necessities of the 20th".

Similarly, Mohammad Iqbal (1876-1938) attached special importance to Ijtehad as a source of Muslim law. In his famous "Lectures on Reconstruction of Religious Thought in Islam", he held that Ijtehad "within the limits of the revealed text, is absolutely free" and "was permitted even in the life-time of Holy Prophet" (Delhi edition, p 147).

With the expansion of the sphere of Islam, territorially and numerically, it became increasingly difficult to hold an Ijmaa. For Islam is not a cadre-based, hierarchised church with registered Ulemas. Who is then authorised to convene an Ijmaa? What should be the qualifications of the participants? Should they merely be scholars of Arabic and theology or also of modern knowledge? But who is to determine religious and secular qualifications?

As Iqbal gives serious thought to the questions of Ijtehad and Ijmaa, his learned views deserve to be quoted at length and to form the starting point of a discussion on the subject.

He believes that principle of change applies even to eternal principles. For "change is, according to the Quran, one of the greatest signs of God". He therefore regrets the immobility of Islam for the last 500 years" largely due to the decline in the spirit of Ijtehad (p 147).

Iqbal does not regard the Quran as a legal code (p 165). Treating it as a source of moral and spiritual guidance, he relies on Sura 26-69: "Those who exert themselves in our paths, we will surely guide."

He rejects the claim of the Ulemas of Islam about the finality of the Mahomedan law and pleads for Ijtehad to reinterpret it in "the light of modern experience and the altered conditions of the modern life" (p 168).

Faced with the problems of convening an Ijmaa, Iqbal observes: "Legislative assembly is the only possible form Ijmaa could take in modern times", to which the power of Ijtehad may be transferred. In other words, laws passed by Parliament would be as valid as those adopted by Ijmaa of earlier times. If the Muslim personal law was passed by a majority of Muslim MPs while others abstained, the decision, according to Iqbal's logic, should have perfect religious sanctity.

While there may be no unanimity about the modus operandi, scholarly opinion overwhelmingly favours the view that Muslims have a right to change their laws (i e, those which exclusively concern them). In any case, who but Muslims can decide that they have this right.

The remaining question is the criteria for change; indicated by modern human values and spirit of Islam. Could equality of man and woman be one of the criteria for judging the provisions of the Muslim personal law?

## RIGHTS OF WOMEN

It seems unlikely that the Muslim community can be led to believe that equality of sexes is in conflict with the spirit of Islam. But who is the final authority on the basic principle, the Constitution or the community? If the community, can its male members arrogate the right to decide that they have superior rights over females? Or shouldn't it be the right of Muslim women to decide whether they continue to prefer an inferior status? If the right of non-Muslims to impose their views on the legal status of the families of Muslims is challenged, the right of the Muslim men to impose their views on the status of women would similarly be challenged.

If the principle of equality is conceded, present legal provisions regarding polygamy, divorce, guardianship, inheritance, Iddat and maintenance would have to be drastically modified.

While Mahomedan law permits a male Muslim to have as many as four wives (fifth marriage being irregular though not void), "it is not lawful for Mahomedan woman to have more than one husband at the same time" (Mulla, sections 255 and 256). The provisions for men and women in this respect are grossly different and inequitable.

As far as divorce is concerned, "any Mahomedan of sound mind, who has attained puberty, may divorce his wife whenever he desires without assigning any cause" (Mulla, section 308). The divorce may be oral or written (section 310).

The power to give divorce belongs primarily to the husband. But he has a right to delegate the power to his wife who by virtue of power acquired from her husband can divorce him (Mulla, section 314) It, again, is a patently unequal position.

However, the Dissolution of Muslim Marriages Act VIII of 1939 gives substantial relief to Muslim women on this issue and lays down the following grounds of divorce: (1) the whereabouts of the husband are unknown for a period of four years; (2) failure of the husband to provide for the maintenance of the wife for a period of two years; (3) sentence of imprisonment on husband for a period of seven years; (4) failure without reasonable cause to perform marital obligations; (5) impotence of husband; (6) insanity of husband; (7) repudiation of marriage by wife (a minor girl married by a father or grandfather has a right to repudiate marriage after attaining age of 18 years provided it was not consummated); (8) cruelty of husband, and (9) apostasy from Islam of the husband.

The enactment definitely improved the status of Muslim women. But all the grounds for divorce in the case of a woman are subject to proof and judicial scrutiny whereas a man need not assign any reason for divorcing his wife. This is far from the requirements of equality of sexes.

Inequality is equally glaring in the law relating to guardianship. For it recognises the father as the primary and natural guardian of his minor children. The mother is only entitled to the custody of her male child until the age of seven and of her female child until she attains puberty. But the right of custody is subject to the supervision of the father and this right, too, lapses after her remarriage.

The law of inheritance is no less inequitable. For whatever be the line of succession, the share of male heirs at every level shall be twice that of female heirs at that level.

Provision of Iddat, period of seclusion, applies only to a woman after divorce or death of her husband and is clearly discriminatory.

Another issue that concerns the rights of women, though not directly linked with the question of equality, is that of maintenance. Under the Mahomedan law there is no provision for maintenance for a widow or a divorcee; except that in the case of the latter, it is limited to the period of Iddat (seclusion) which lasts from three months to the period of pregnancy, whichever is longer.

The right to maintenance of a married woman, according to the Mahomedan law, is valid only so long "she is faithful to him and obeys his reasonable orders' and she is "not too young for matrimonia intercourse". Inferiority of woman implie in this provision, is unmistakable.

However, Sections 125 and 127 of th Code of Criminal Procedure 1973 recognise the right to maintenance as a distinc statutory right irrespective of the nationalities or creed of parties and makes i independent of personal law or any custom governing the parties. Section 127(3), in fact, grants additional rights to a divorced Muslim woman for receiving maintenance beyond the period of Iddat, till such time as she has not married after her divorce (1979, *Allahabad Law Journal*, 210).

The right of a Muslim divorcee to maintenance, independent of mehr, was categorically upheld by the Supreme Court in 1980. In his judgment on Fuzlunbi *versus* K Khadar Vali, V R Krishna Iyer observed, "Section 126-127 is a secular code deliberately designed to protect women, who are victims of neglect during marriage and divorce. It is rested in the State's responsibility to the weaker sections of women and children and is not confined to members of one religion and region" (AIR 1980, S C, 1730).

The latest judgment of the five-member constitutional bench of the Supreme Court (April 1985 confirmed the legality of the right of a Muslim divorcee to maintenance earlier upheld by Allahabad High Court (1979) and Supreme Court (1980). The Chief Justice ruled that section 125 of the Cr PC was not only consistent with the Muslim personal law but also with Quranic injunctions.

The amended criminal code and the Supreme Court judgment raise a number of vital issues. The right of a Muslim woman to maintenance is now guaranteed by a common secular law overriding the personal law. Would other provisions of the personal law be similarly void if they clash with the basic law of the land? What would then happen to the autonomy of the Muslim community in this respect?

While this is not the place for a fine constitutional debate on the subject, it seems obvious that religious groups do come in the category of reasonable classification entitled to be governed by their respective personal laws. However, the constitutional obligation to the rights of women—who also constitute a distinct category—, in particular their right to equality with man, cannot perhaps be dismissed. But does the constitutional position clash with the moral and natural rights of Muslim women? Or with the spirit of Islam?

Some eminent Muslims do maintain that Mahomedan law does not represent the spirit of Islam, Justice Krishna Iyer, in the above cited case, referred to an elaborate judgment of Justice Beharul Islam "replete with quotes from the Holy Quran" in which he expressed the error of regarding "Talaq in Muslim law as good even if pronounced at whim or in tantrum".

Further, it is pointed out that the practice of Talaq, by thrice pronouncing the word, is merely permitted. It is not commended, and is, in fact, condemned by the Prophet. That woman had as much right of Talaq as man is borne out by a Hadith in which the Prophet granted a woman's request for divorce.

Again, polygamy is permitted but not commended. If the conditions prescribed by the Quran for permitting a second wife were to be enforced, polygamy would simply become impossible.

But the only way to judge the spirit of Islam is by the direction it gave to pre-Islamic laws and customs. The attempt to humanise an unjust patriarchal system was indeed revolutionary. It is unfair to measure the reforms introduced by Islam, torn out of its historical context, in terms of the values of today. Equality of sexes is a very recent concept which is a product of opportunities of independent careers for women and universal education and franchise.

The traditional rights of a man were based on the presumption that he was the head of the family, its bread-winner and protector. Asghar Ali Engineer quotes the Quran (4:34) to show that this precisely is the reason cited therein for conceding male superiority over the female. What would the spirit of the Quran indicate if this situation changes and woman is no more exclusively dependent on man? The situation may call for a revolutionary change in the status of women in society, as the Prophet had introduced in the Arabian society 1,400 yeas ago. Isn't it a situation like this for which Islam had made a provision of Ijtehad?

### UNIFORMITY *VS* INTEGRATION

The purport of this note is not to settle all legal and theological issues on the subject. It merely examines the scope for reform in Islamic laws, on human, constitutional and religious grounds and the capacity of the reformed laws to meet the needs of modern society. It is a plea for a debate on a subject of vital importance to Muslim community as it concerns the happiness of its families, the urge of its women for an equitable status and its socio-economic life. Such a debate should not only be possible but should also become necessary if it is insulated against the threats and provocations of a uniform personal code. In fact the debate itself would help in ensuring this insulation. Needless to add, the health and growth of a community also depend on its ability to debate its problems. And no tradition has survived long without continuously changing.

Some sort of debate is, in fact, going on in the Muslim community. It has for instance been vigorously pleaded that a permissive and not a compulsory law may be enacted for those who may opt for it. Again, the All-India Women Conference, under the presidentship of Begum Hamid Ali, had suggested way back in the early thirties the inclusion of the rights of women in the Nikahnama. As Muslim marriage is based on the principle of contract, it can be made as equitable as one likes without violating the present law and a rigid fundamentalist position. Kamila Tyabji who has been campaigning for this course and whose family has been following it, refers, in this context, to an agreement drafted by a Muslim firm of solici-

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tors, included as an appendix in Fyzee's "Outlines of the Mohamadan Law" as also to a "shorter and much dramatic version of the contract" drafted by Daniel Latifi which bears the stamp of the Chief Qazi of Aligarh. The latter had three provisions: first, equal position of husband and wife as regards divorce; second, mehr, half of which to be paid immediately and the rest deferred to death or divorce; and, third, no right of polygamy to the husband.

It is a liberal trend like this that is likely to be threatened by the *obiter dicta* of the Chief Justice who has, transgressing his judicial role, sanctified the general Hindu obsession for uniformity of the civil law. If at all there is a correlation between uniformity and integration it is more a negative than a positive one.

**MAHARASHTRA**

# Change of Patil

## JVD

THE last time when Vasantdada Patil resigned from a ministerial office in the mid-seventies, he was irrigation minister in S B Chavan's cabinet. At that time, he not only resigned from the cabinet but had also announced his retirement from active politics. Within a few months he was back in office, in fact as the chief minister. "He could not stay retired when the ship of the Congress party was afire", he explained then. His return effectively ended the political career at the state level of S B Chavan.

Almost a decade has passed since then, the Congress party has undergone several editions more, Vasantdada himself has been in and out of the Indira/Rajiv version of the party a couple of times; indeed so have been S B Chavan, Gadgil, Shivraj Patil and most other frontline leaders of the Indira Congress in Maharashtra. Once again Vasantdada Patil has now found it necessary to resign from office, this time from the chief ministership of Maharashtra. Significantly though, no retirement from active politics is perhaps planned this time, at least it has not been announced.

One may take with a grain of salt the ostensible reasons behind the latest resignation (Vasantdada himself has not publicly given any). In the Congress culture as it has evolved in the past decade or two, chief ministers of states have, at best, been no better than errand boys and justifiably enough, have been treated no differently by the central leadership of the party. As a general secretary of the party for a few years, Vasantdada himself has been a willing collaborator in the systematic downgrading of state-level leaders, through a succession of Anjiahs and Pahadias and Antulays and Bhosales. Evidently, after becoming a chief minister, one changes one's perspective.

Starting out as a freedom fighter over forty years back, and later as a leader in the co-operative movement, and as a loyal organisation man in the state Congress, Vasantdada established widespread contacts at the grassroots level, throughout western Maharashtra and today has a good following there. When, after the debacle under Antulay and Bhosale, the party leadership had no option but to turn to Vasantdada, he proceeded to build upon this following by a shrewd use of state patronage. It is believed that in the current legislative assembly, a majority of the party members are allied with him.

Such a situation could not be expected to last, given the preference of the party bosses for weak chief ministers beholden to the central leadership. Till such time as there was no alternative, Vasantdada had to be kept on. It was always clear that if and when Sharad Pawar decided to switch sides and join with Rajiv Gandhi, Vasantdada would get short shrift. By not waiting till the Rajiv Gandhi-Sharad Pawar axis crystallised, Vasantdada once again has exhibited his political acumen.

By resigning just when Sharad Pawar had started talking sympathetically of 'Congress culture', Vasantdada has not only put both Rajiv Gandhi and Sharad Pawar on the defensive but has probably postponed the party-switch of the latter by at least a few months. Also by subtly presenting himself as a victim of the overbearing ways of New Delhi, he has ensured that he can carry the banner of the self-respect of Maharashtra *a la* NTR, should the need arise, depriving Sharad Pawar of the same role in the process.

By neither leaving the selection of the new leader to New Delhi nor waiting for the clearance by New Delhi of the cabinet list of new chief minister, the Congress party in Maharashtra legislature has shown how influential Vasantdada Patil continues to be, even as an ex-chief minister. However, not much should be read into this seeming show of independence. The picture may change substantially when the chips are really down. It may be recalled that the Congress members in the legislature had expressed full confidence in Antulay just before he was asked to resign.

Moreover, on the wider state level, there are clear limitations to Vasantdada's influence. The co-operative political machine which has brought prosperity and power to the rich and the middle peasantry in western Maharashtra (which is popularly called the 'Maratha lobby' or the 'sugar lobby') and of which he is one of the major representatives today has not been able to go beyond and encompass the scheduled castes, the rural landless or the urban masses. Indira Gandhi showed in the past that even with a rag-tag of Antulays and Tirupudes behind her, it was possible to bypass this Maratha machine to a significant extent. (It was only after that a somewhat chastened Vasantdada joined her again.) Today there seems to be no political movement in Maharashtra capable of harnessing this potential force.

With Rajiv Gandhi's preference for a new style of politics—depending more on mass media and less on local resources—the influence of the old-style politicians like Vasantdada Patil is bound to wane in the party. Nevertheless, there are evident limitations to the new politics in the Indian context, as the central leadership is now discovering. Just as it cannot wish away Jagannath Mishra in Bihar, similarly it will have to learn to cope with leaders like Vasantdada Patil and the forces he represents in Maharashtra for quite some time to come. It is in this context that an alliance between Sharad Pawar and Rajiv Gandhi may prove fruitful to both.

Of course, no one is under any illusion that any such realignment of these groups and the sections of the society will lead to any betterment of the lot of the common man. It is notable that in all the hullaballoo over the resignation of the chief minister and the change in the ministry, no one has a word to say about its likely impact on the common man. There is not going to be any. So far as the most urgent problems facing Maharashtra today are concerned—whether it is the matter of drinking water to about 40 per cent of the state's population, or whether it is the growing nexus between the criminals and the rulers, whether it is the rising cost of living or the crumbling state of administration, no observer of the state's political scene expects any improvement. Understandably so, because, quite realistically whether Patil goes or Nilangekar-Patil comes, whether Pawar changes sides or not, it may be confidently expected that the common man will continue to be where he has always been—at the bottom of the priorities of the politicians.

# Women's Movement in India: An Assessment

A R Desai

## I

THE UN declared in July 1975 the subsequent ten years as the International Women's Decade. This decade will be over in July 1985 when special conferences, one by the official representatives deputed by various countries and another comprising representatives selected by non-governmental women's organisations, will be held in Nairobi to assess the achievements and limitations of the women's movement during the decade and chalk out guidelines for the subsequent period.

During this decade a conscious endeavour to understand the specific problems of women and systematic efforts to create awareness of these problems by women among women in particular and citizens in general was made all over the world. A new sensitivity about the overt and subtle oppression of women has been generated. As rightly pointed out, the International Women's Decade brought to the centre of human awareness and highlighted in a focused manner some crucial facets of the women's movement which had been developing in an unconnected, parallel manner for a long time.

These facets manifested themselves in certain crucial quests: (i) for analysis of women's problems and discovering the real sources of their oppression and exploitation; (ii) for evolving democratic forms; (iii) for approaches to male participation; (iv) for evolving appropriate forms and techniques of campaigns launched round various issues, from the most intensely personal to larger economic, political, social and cultural ones; (v) for organisational forms and structures which do not become an ossified, bureaucratic aggregate of a small group of organisations and individuals but which would transform small groups, grassroots level collectives and organisations into well-knit networks which would mirror and coordinate the diverse experiences of different groups into a collective experience accumulated over decades.

In fact the International Decade, by focusing on women's issues and movements, worked as a catalyst to highlight and stimulate all aspects of women's growing awakening, organisational experiments and theoretical and practical struggles which were evolving during the late sixties and seventies. It helped the women's movement to become a "powerful source of political energy, a developing body of theory, a battle-ground and a sisterhood".[1]

In fact the simultaneous focus on various quests indicated above made the women's movement into a powerful feminist movement, aptly characterised by Adrienne Rich in her passionate style: "If we conceive of feminism as more than a frivolous label, if we conceive of it as an ethics, a methodology, a more complex way of thinking about the condition of human life, we need a self-knowledge which can only develop through a steady, passionate attention to all female experience. I cannot imagine a feminist evolution leading to a radical change in the private/political realm of gender that is not rooted in the conviction that all women's lives are important, that the lives of men cannot be understood by burying the lives of women; and that to make visibie the full meaning of women's experience, to reinterpret knowledge in terms of that experience, is now the most important task of thinking".[2]

## II

Indian women have also been a part of the world-wide awakening. The International Women's Decade helped them to simultaneously focus on diverse issues which different sections of Indian womanhood were trying to clarify, fight for and organise themselves round at various levels. The struggle for women's rights in India has a long history going to at least the mid-nineteenth century and, more purposively, the class and mass struggles against British rule in the twenties, thirties and forties of the present century.[3] It acquired, however, a new edge, objective and sensitivity from mid-sixties, when it was realised that the formal rights granted in the constitution and subsequent policies formulated presumably to implement them were being vitiated, distorted or not permitted to be exercised by the rulers themselves pursuing a particular path of development. The inherent anti-poor and masculine-patriarchal bias inherent in that path of development was becoming clear from the mid-sixties. The plans which were supposed to usher in growth with justice exposed their true pro-property and masculine-patriarchal character and started to reveal their inability to expand the limited opportunities available to the vast bulk of the poor and the various disadvantaged classes, castes, minorities and the overwhelming majority of women. Along with the upsurge of other disadvantaged strata, the women half of the Indian population also started stirring. By the mid-seventies individuals, groups, grassroots activists, researchers and sensitive sections of urban and rural women started a conscious search for preventing the opresssion and exploitation, sexual harassment and domestic violence and which were being intensely felt both by educated middle class women as well as by women of the agrarian poor, ruined artisans, the tribal population, as well as scheduled and other despised castes and craft groups.

The document "Towards Equality"[4] effectively highlighted the overall situation of Indian women. The International Women's Decade provided a stimulus to the need for a focused approach to the women's movement in the country. During the decade, the women's movement acquired a new sensitivity. It started off with a new approach wherein women's issues were not seen as problems needing merely relief, rescue and rehabilitation. They were looked at from a totally different perspective. The problems of women were seen as problems of active, participating, dignified human beings and not as those of objects of pity and piety. During the decade a sensitive section among women developed a qualitatively different and higher type of awakening and developed a new perspective and thrust with regard to various categories of humiliation, atrocities, tortures and individual and mass assault to which they were subjected. They started questioning the postulates of official, dominant social-cultural and economic norms which provided the basic *gestalt* of the social-economic and politico-cultural order which was being ushered in after independence. They started exposing the fallacy underlying what was overwhelmingly assumed to be the private affair of the family; they pointed out how these issues were public and social. They struggled to break the barrier of many a widespread myth which even large sections of women believed and which forced them to hesitate to acknowledge or openly convey their true experiences. They wanted to emphasise that it was erroneous to accept the traditional image of a good woman as an accommodating, self-sacrificing and efficient member of the family which was soaked through and through with masculine patriarchal values and norms.

During this decade seminars, publications, projects, documentation of literature and researches proliferated. Conferences and seminars focusing on different aspects of women's life were held. Various campaigns were launched to highlight significant issues. Several struggles were carried out in different parts of the country round different issues. Numerous women's groups, collectives and organisations emerged, sometimes focusing on certain issues and sometimes undertaking the task of overall conscientisation of women. Participation of women in the struggles of exploited and oppressed classes and strata developed in various parts of the country. Women participated in struggles in coal mines, quarries and in various industries, organised or informal. They also participated in the growing struggles of adivasis in tribal areas in different parts of the country and of dalits against caste oppression. Women belonging to various religious denominations started raising their voice against the adverse impact of patriarchal, demeaning and discriminatory personal laws. Women took a leading part in the struggles against price rise. They also participated in struggles against oppression and harassment in academic and administrative/office set-ups. They started crusading against the degrading use of women's bodies in advertising for augmenting sales and profits by government and private enterprises. Women extended their struggles on the legal front and conducted many battles to change laws or force the administration to effectively implement the laws. In short, during the decade women's struggles proliferated and acquired a new focus.

A systematic history of the women's movement which can give a proper picture of the development of the women's movement that grew during International Women's Decade has become an urgent need.

## III

The International Women's Decade will end in July 1985 with a set of conferences to be held at Nairobi. From the last quarter of 1984 a series of meetings and seminars are being organised in India to appraise the achievements and limitations of the women's movement during the decade. Some meetings were also held to suggest ways and means of future action and to help formulate appropriate resolutions for the forthcoming Nairobi meetings.

One of the most significant national seminars was organised in Bombay in January this year. It was held under the auspices of the Research Unit on Women Studies, a centre for study, research, documentation and publication, which has been operating for more than a decade as a distinct unit of the SNDT Women's University in Bombay.[5] This organisation is not just a formal research centre, but endeavours to provide a platform for bringing together activists, researchers as well as researcher-cum-activists. It also acts as a catalyst assisting in many ways various women's organisations and activists to advance the cause of women and the women's movement.

The theme of the seminar was "A Decade of Women's Movement in India: A Review of Achievements". This seminar was notably different from many other seminars for a number of reasons:

(i) Nearly eighty deletages participated in the seminar. Along with the delegates, there was a large contingent of observers from many places who also contributed to the discussions.

(ii) Among the participants and observers were activists of the older age-group and organisers connected with older women's organisations which traced their history to even before independence. There were also young activists, even some teenagers, who have been connected with organisations and collectives carrying on different types of struggles in rural and urban areas in different parts of the country. Some of them bore the scars of battles fought by them as representatives of dalits, adivasis and women of tribal and rural poor, not excluding women working in the urban ghettos.

(iii) The participants in the seminar came from all over India, from Assam, West Bengal, Andhra Pradesh, Delhi, Bihar, Rajasthan, UP, Chandigarh, Gujarat, Maharashtra, Karnataka, Tamil Nadu and other regions and states.

(iv) Some of the participants and observers were actively involved in politics, associated with various political parties. Some were non-party persons but actively involved in political activities. Some delegates were associated with medical, legal and other professions and white-collar services. Some were working in educational and research institutions, also heading women's associations or unions in their respective fields. Some delegates and observers were associated with the press and other mass media, not merely as professionals but also as individuals actively involved in consciousness-raising among women through such media.

## IV

The seminar was so arranged that it could systematically examine the older women's organisations as well as review the functioning of newly emerging organisations and groups. It was also arranged in a manner that would help to systematically unfold the patterns, issues and underlying assumptions which guided the organisations. Thirty papers were prepared for the seminar.

The first session was devoted to the older organisations, focusing particularly on the All-India Women's Conference (AIWC) which was founded before independence and which played a fairly significant role highlighting the problems faced by women in the colonial setting and was actively involved in the nationalist movement. This involvement was basically in the spirit and as per the norms of that movement as contoured by the Indian National Congress. A few papers analysing the achievements and limitations of the AIWC during the pre-independence period and its mode of functioning after independence were read and discussed. They provided interesting insights into the reasons why organisations of this type are not able to lead the different types of struggles emerging after independence. Papers critically examining the present functioning of the AIWC through case studies of their branches in certain areas provided very fruitful, though sometimes stormy, discussion.

The second session centred on papers which examined the programmes, activities and functioning of organisations and associations which have emerged to protect the interests of educated women—doctors, lawyers, scientists, academics and researchers as well as white-collar employees in various categories of public and private sector enterprises. The emergence of new associations of women professionals and white-collar women employees has been mostly a post-independence phenomenon.

The papers, though few, clearly revealed how the problems faced by associations of the highly skilled, relatively affluent professional women were of a different nature from those faced by unions and associations connected with white-collar employees. The papers and discussions brought out some of the basic limitations of such organisations, particularly professional associations of the affluent professions. White-collar women and employees faced many subtle and overt forms of discrimination which were in addition to the common problems faced by all employees. This was due to the deep-rooted masculine prejudices and practices consciously and unconsciously upheld by both employers and even male fellow-employees. The discussion revealed the types of harassments, obstacles and sub tle and overt forms of discrimination, insecurities and threats which women employees face. The papers also brought out how a slow but steadily growing resistance is being worked out by the women employees in their respective places of work.

The third and the fourth sessions were devoted to the nature, problems and functioning of new grassroots organisations in the form of collectives and associations which have proliferated during the last couple of decades all over the country. A large number of papers provided valuable information about such associations. These grassroots organisations have been coming into being and are functioning in tribal, rural and urban areas. They are carrying on agitations, campaigns, rescue and rehabilitation work, legal and pressure movements to expose the atrocities and tortures which women of various strata are subjected to. They are also involved in the activities which attempt to assist, console and prepare the victims to build up courage and organise themselves to fight back. Some of these organisations take up the issues of battered women, of women who are raped, tortured or are led to the stage of even attempting to end their lives. They crusade against the menace of dowry which has resulted in thousands of murders of married women mis-described as suicides or dowry deaths. Some of the organisations have started a systematic campaign for conscientisation of women through the use of various media like posters, pamphlets, exhibitions, slide shows, films, street corner plays and group songs as well as 'padayatras' in certain areas.

Some of the organisations are concentrating on work among slum women or women living as squatters. Some of them are rooted among women working in the unprotected informal or small scale industries, in plantations, coal mines, construction works and various vocations in rural areas. Some of them have been combining constructive relief and income generation experiments along with consciousness-raising campaigns for family reform programmes to humanise the relationship between men and women. Some of the organisations are evolving devices to fight injustice and insults by establishing women's courts and providing on-the-spot punishment to those who insult or abet in inflicting insults and humiliations on women.

The range of activities and the variety of organisations which have been emerging at the grassroots level focusing on different issues and under different regional situations defy simplistic classification.

Nearly thirty papers and additional oral presentations made during the two sessions provided a panoramic glimpse of the working of the grassroots organisations that have been emerging and have been functioning during the last two decades, more particularly during the last decade. These papers also exposed the canard that is being spread by some parties that these grassroots level organisations are planted by CIA and other agencies to disrupt the movements of the exploited and the poor. The papers also revealed the day-to-day tortures and brought out the insecurity and fear which haunt women in their daily life. They exposed the wide-ranging exploitation and oppression and the atmosphere of political-social and economic terror under which women carry on their day-to-day life and their heroic battles to retain 'Ijjat'. The papers also threw light on the varied nature of struggles, in terms of issues, strategies, methods and skills, as well as the difficulties experienced by the grassroots women workers, endeavouring to build up organisations from below.

The papers were prepared mostly by representatives of the various grassroots organisations and were presented in the seminar not to display the scholarship of the authors. They were written with the objective of familiarising the participants with the details of specific experiences and evoking responses from others to some of the acute problems and limitations the authors experienced in conducting their activities. Along with the informal get-togethers outside the seminar, this specific purpose underlying the writing of the papers transformed these sessions into a deeply moving, rich, free and frank conscientising experience. While there were occasional traces of pettie-bourgeois individualistic assertions based on some spectacular achievement or sacrifice made by some, this was a very minor feature. On the whole, the atmosphere in which the discussions were carried on were full of concern and overall modesty based on the realisation of the tremendous tasks which lay before all those who were espousing the cause of women. There was also an awareness of the numerous hardships and limitations which the groups were facing in carrying on their struggles single-handedly and many a times in isolation and against enormous odds.

The last session was devoted to discussion of some crucial theoretical and practical issues which emerged from the earlier discussions. The participants discussed problems of isolation, paucity of funds, dangers of foreign funding and limitations of cadres. They examined the relative merits and weaknesses of the groups in dealing with obstacles and combating the efforts of powerful vested interests and agencies of state, including the growing violence of the police, to weaken, divide and repress their struggles. They took note of the impact of the emerging threat of a nuclear holocaust which is reflected in the growing militarisation of entire societies. The threats to women's existence and deterioration in the conditions of women's earning power as a consequence of the global economic recession, massive retrenchment leading to growing unemployment and underemployment among those who have to live by selling their labour power and skills and its more drastic impact on earning opportunities for women in particular were taken note of.

The discussion was marked by awareness of the overall deteriorating economic conditions of the vast mass of the Indian people, galloping inflation, mounting foreign debt, growing unemployment and underemployment, affecting more acutely women, the dangerous trend almost consciously engendered by employers, in both public and private sectors, to utilise women's labour in informal, unorganised and unprotected sectors, bypassing all laws and norms and using women for piece-rate or putting out forms of work. The impact of the rising tide of casteist, communalist and other forces reflected in growing caste, communal and linguistic and other riots and disturbances and their anti-women implications were also noted and it was agreed that these forces will have to be understood to be effectively combatted in the forthcoming decades. There was, however, not sufficient realisation of the deeper implications of this emerging larger socio-political and economic-cultural scenario. The long-term effect on the problems of women in the next stage of the women's movement was also not appreciated as it should have been. However, the very awareness of the problems made the participants desist from passing recommendatory resolutions for the Nairobi conference. This fact itself revealed the tensions and apprehensions over the shape of the women's movement in the newly-emerging social-economic and political context.

## V

It is difficult to capture here the many-sided and throbbing atmosphere generated in the seminar or to record in detail the problems which the sensitive activists and researchers raised through the 30 papers and the intense and free discussions during seminar. The organisers should publish the material generated during the seminar, including the papers and the discussions.

The seminar, however, left certain overall impressions which can be summarised without hesitation.

(1) In India the problems of women have not remained peripheral, non-essential or secondary. Nor are the women's movements and struggles insignificant, erratic or momentary outbursts of upper or middle class educated women. The feminist movement has brought into focus the problems of women who constitute nearly half of the Indian people. If the struggles against the inequities and day-to-day injustices and indignities and economic exploitation and social torture to which women are subjected to in the family-kin-community setting and in public life are not sharpened and expanded, there will be no humane-equalitarian base for Indian citizens so vociferously proclaimed as a goal in the preamble of the constitution. The problems of women are no longer merely problems concerned with women but human problems affecting the entire human kind. They are problems concerning the unshackling of human creativity as a whole. The struggle for women's emancipation is not a problem imported from the 'materialist' West which has no relevance to the 'spiritual' East where, it is claimed, women are highly respected. In fact the papers and discussions revealed clearly how the struggle for emancipation in India is a part of the global struggle.

(2) The papers and discussions clearly highlighted the fact that Indian women are developing a new sensitivity and consciousness which will no longer tolerate the suffocating familial, institutional, political and cultural norms which place them in a humiliating, subject status. This sensitivity may not be able to express itself in a clearly articulated, intellectual, logical form, but it is manifesting itself as a deep undercurrent of ferment which is slowly acquiring a higher voltage and is acting as a powerful force in the nethermost depths of society. The description of the struggles and agitations portrayed in the papers, if properly collated and made public, will clearly point out how these movements are spreading in all parts of the country, in the hills and forests of Himalayas and Vindhyas, in the coal mines, factories and fields of Bihar, West Bengal and other states as well as in the ghettos, factories and offices of the urban metropolitan centres of the country.

The exhibition of books and material published recently and the papers which were presented clearly revealed the range of the movements that have been launched in the country.

(3) The participants and observers who attended the seminar revealed another facet of the growing women's movement—the slowly but steadily emerging clusters of dedicated and intelligent activists/researchers. The majority of the participants themselves symbolised these newly emerging bands of intelligent, sensitive, militant women from different strata carrying on the tasks of conscientisation and institutionalisation, and conducting agitations and struggles in their respective areas. The delegates and observers representing various associations, collectives and mass organisations demonstrated that a dedicated leadership rooted in the masses is maturing and spreading which gives confidence that it will shoulder determinedly the tasks confronting the feminist movement in the future.

### Notes

1 Anna Coote and Beatrix Campbell (1982): "Sweet Struggle", Picador, p 46.

2 Rich Adrienne (1979): "On Lies, Secrets and Silence—Selected Prose 1966-78", W. W Norton, New York, p 213.

3 Desai Neera: "Woman in Modern India", Vora and Co, Bombay.

4 Committee on Status of Women: 'Towards Equality', Ministry of Social Welfare, New Delhi, 1974.

5 Brochure of Research Unit on Women Studies (1985), SNDT University, Bombay.

# Bonn Summit and 'Star Wars'

**Michael Jacobs**

LAST month's summit of Western heads of government was more notable for the subjects not discussed than for those which were. The silence speaks volumes about the disagreements between the industrialised nations: the field of nuclear defence stands out.

The final communiqué of the summit was a predictably bland statement on the world economy. Despite unemployment of over 20 mn in Europe and another 8 mn in the US—let alone the recession in the rest of the world—keeping inflation and public spending down remained the government's top priorities. No mention was made of Third World hunger or debt, save a general desire to "improve the stability of the world monetary system" and to encourage greater trade by removing protectionism. But even here agreement on a new round of GATT trade talks could not be reached, with President Mitterrand holding out against any negotiations which could upset French farmers before his midsummer National Assembly elections. With Britain's Margaret Thatcher and Chancellor Kohl of West Germany firmly opposed, the US desire for a co-ordinated European reflation to take the pressure off its own $ 220 bn budget deficit was quickly smothered. The communiqué merely hoped for "lower interest rates and more productive investment", while providing for no measures to bring either about.

Outside the economic field, the government leaders scrupulously avoided talking about President Reagan's controversial visit to the Bitburg war cemetery, where Nazi stormtroopers are buried: this was supposed to be an act of reconciliation with Germany on the 40th anniversary of the end of the Second World War, but had become, after Jewish outrage, an embarrassment for the President in which no one was keen to get involved. Neither did they discuss the recently-announced US economic sanctions against Nicaragua, which all the European countries, and Canada, strongly oppose. Perhaps most crucially, President Reagan's Strategic Defence Initiative (SDI) was also ignored. This was entirely for the sake of demonstrating unity, for the US' proposals are in fact the cause of more dissension amongst the Western nations than any of the other issues. Their importance cannot be understated, for the militarisation of space threatens the security of the whole world, South as well as North.

The Strategic Defence Initiative is at this stage no more than a plan for the 21st century, that laser weapons should be installed in space to knock out intercontinental nuclear missiles and thereby prevent nuclear war. President Reagan's enthusiasm for the idea, now universally known as 'Star Wars', has led him to declare that the SDI will ultimately "render nuclear weapons obsolete" and to offer the technology to the Soviet Union once it is complete.

The reaction of the American scientific community to such suggestions was at first hilarity: an 'infallible defence' in space belonged only to the realm of fantasy. To destroy a hardened missile on launch or in flight would require a laser beam intensity approximately one million times greater than currently achievable. The number of orbiting lasers and auxiliary satellites required would simply not fit in the "space" available; only a few would need to be eliminated to make the system inoperable. A missile could release any number of decoys to confuse the defensive system, which, given the short time involved, would have to be run by a computer implausibly complex and immune to mishap. Moreover the SDI takes into account only ballistic (intercontinental) missiles. It would be no defence against low-flying Cruise missiles, aircraft or small nuclear weapons smuggled in surreptitiously. The possibility of an 'impermeable shield" was conclusively debunked by the disclosure that the US is already funding research into an Advanced Strategic Missile System for penetration of 'Star Wars' defences.

But Reagan and his advisors were not joking, and research into Star Wars is already under way. The programme is huge: it has been described by a senior European diplomat as "the greatest American national scientific, technological and industrial effort of this century". That such resources should be devoted to a military absurdity is not, however, evidence of the President's foolishness. On the contrary, the SDI offers major benefits to the United States.

First, its powerful defence industry has been lobbying assiduously for the research programme, anxious to get funds not merely for advanced military developments in computer, electronics, laser and communications technology but for the many civilian and consumer spin-offs that are expected. Already the top 10 defence contractors have received 87 per cent of the research allocated. Secondly, the US military itself is keen to exploit the SDI research programme for the 'intermediate stages' which will accrue before the purely hypothetical final stage is reached. For example, it is reckoned that already by the 1990s the Pentagon will be able to deploy a dangerously threshold-lowering 'point defence' system for missile silos and military bases, while *offensive* laser weapons will certainly be developed before the supposed *defensive* 'shield' can be installed.

Thirdly, there is without doubt a faction in the US Administration, led by Richard Perle, the Assistant Secretary of State for Defence, which sees Star Wars as a means of abandoning all attempts at arms control and forcing the USSR into an accelerated arms race which would bankrupt the Soviet economy and give the Americans an unchallengeable weapons superiority. It is not clear yet whether this is the President's goal, but neither is it clear if that matters, given the influence of his advisors over US policy. Already the refusal of the Americans to negotiate on the SDI has effectively halted the nuclear arms talks at Geneva, before any progress has been made. Mikhail Gorbachev, the new Soviet leader, has warned that the SDI "destabilises the whole system of international relations" and has "increased the level of political and military confrontation". He has denounced the programme as a violation of the 1972 Anti-Ballistic Missile Treaty—though the US argues that the Soviets' own major radar installation at Krasnoyarsk in Central Siberia is no less illegal, Gorbachev's recent offer of a moratorium on the testing of all nuclear weapons from August was rejected point blank by Reagan.

The obstructive role of the SDI at Geneva has thrown into relief the importance the Americans attach to it. They have made support for Star Wars a touchstone of NATO unity, forcing their European allies to accept it or be seen to be weakening the West's stand in the negotiations. But the Europeans do not accept it, at least not unequivocally, and certainly not collectively: thus the silence in Bonn last week.

European concern at the SDI was voiced most effectively by British Foreign Secretary Geoffrey Howe in a long and thoughtful speech in March. Warning that no defensive system could be infallible, he argued that the "radical alteration" in NATO strategy implied by SDI—a shift from the nuclear deterrence of Mutually Assured Destruction (MAD) to a wholly defensive posture—could generate "dangerous uncertainty" in the relations between the superpowers. Noting that "research may acquire an unstoppable momentum of its own", he advised that political decisions should not be "pre-empted by the march of technology . . . prevention may be better than later attempts at a cure".

Interestingly, while German Foreign Minister Hans-Dietrich Genscher echoed Howe's doubts, both Prime Ministers Margaret Thatcher and Chancellor Kohl have appeared to support SDI. But this is not a sign of internal disagreement, rather a rhetorical division of labour. For what Thatcher and Kohl have taken care to welcome is the SDI research programme only. They have insisted that production and deployment, even testing, must be matters for superpower negotiation, a concession to which President Reagan has seemingly agreed. German and British enthusiasm is therefore strictly commercial, not military. In a calculated attempt to win support, the Americans have offered the chance to participate in the SDI research programme to all their major allies. With $ 26 bn of contracts up for the taking, and national defence sectors lobbying powerfully in the background, Britain, West Germany, Japan and Israel have all accepted (the first two, no doubt, hoping also to win current US defence orders while the going is good). But Australia, Canada and Denmark have expressed reservations about joining a "process where we don't call the shots and over whose parameters we have no control", as Canadian Prime Minister Brian Mulroney put it. More crucially, France has rejected the US offer outright. President Mitterrand is particularly concerned that Europe should not "waste" its best talents on American research, and has set up his own independent European Research Co-ordinating Agency to develop the same high technology. But he has so far not succeeded in winning the Germans and British (or anyone else) to his plan. The lack of a unified European response to Star Wars was awkwardly exposed at a meeting of the West European foreign and defence ministers in April; as Genscher unhappily put it: "It will be each man for himself, but in a co-ordinated sort of way".

The disagreements over the SDI within the Western Alliance come at a time when the worldwide peace movement is at its strongest. In Britain, for example, the Thatcher government has been forced into even harsher police and judicial harassment of the growing civil disobedience campaign against nuclear weapons. In February a small peace camp at the Molesworth Cruise Missile base (second after Greenham Common) was brutally destroyed in a night-time raid by no less than 1,500 policemen and soldiers, personally overseen by the Defence Minister, Michael Heseltine. In April throughout Europe, the US, Australia and New Zealand, hundreds of thousands of protestors marched and demonstrated for peace. The revival of anti-nuclear protest was sparked in 1979-81 by the NATO decision to deploy US medium range Cruise and Pershing missiles in Europe, and European leaders are anxious not to give it a further boost by too openly welcoming the SDI. But nor are they willing to divide the Alliance even more by rejecting the US proposals.

The consequences of their failure to do so will reverberate long after the present heads of government have passed into history. As 'Star Wars' turns from fantasy into fact, research into testing and production, the USSR's military space programme will inevitably not be far behind. An arms race in space can only further imperil the Earth.

# Reporting to Each Other

**Sumanta Banerji**

**In Search of Answers: Indian Women's Voices from 'Manushi'** ed by Madhu Kishwar and Ruth Vanita; Zed Books, London, 1984; pp 312, price not mentioned.

THERE is an old Bengali saying which banters at the typical male attitude towards women: '*poodbe naari, oodbe chhai, tabey naarir goon gai*', which translated literally means: "we praise a woman's virtues only after her body is cremated and the ashes scattered". The hypocrisy of Indian society is nowhere better demonstrated than in its attitude towards women. While our Constitution and laws grant women equal rights and opportunities and our religions turn women into goddesses, the tradition of 'suttee' (which is being revived in some parts of the country) is being revamped in a modern macabre shape by husbands and in-laws who are turning their homes into funeral pyres for brides whose parents are unable to provide the required dowry. Besides this extreme lethal form of aggression against women, there are various other degrees of persecution and exploitation at different levels of society, some of which are surreptitious, some openly sanctioned by social norms, some introduced curiously enough by the so-called drive for modernisation.

The present book brings together accounts of these various types of violence—narrated mostly by women themselves—as well as reports of their efforts to resist through struggles, from diverse situations in different parts of India. Collected from the journal *Manushi*, one of the few women's magazines in India which by combining both investigative journalism and theoretical analysis has played an important role in publicising and supporting the fledgling struggles of Indian women, these articles throw light on the cobwebbed corners of a highly complex socio-economic situation. One of the virtues of the collection is that there is no attempt at a simplistic answer, often resorted to by dogmatists in both Leftist and feminist circles. The title is therefore quite appropriately chosen.

Although they may never have a chance in real life to meet and exchange information about their woes, within the covers of this book porter women from Pune rub shoulders with women agricultural labourers of a Punjab village and victims of landlord and police violence from rural Andhra Pradesh. Educated daughters of middle class homes of Delhi find comrades among Harijan women of Bihar.

### COMMON DILEMMAS

While some problems are peculiar to certain segments only, almost all women about whom the book speaks share common dilemmas and anxieties. These are threats from within the family often born out of surrounding social compulsions, like child marriage, the dowry system, or traditional norms like lack of care for girls who are usually considered unwanted resulting in malnutrition and increasing mortality among women. Then there are threats from outside like discrimination against women employees—both in industries and in the tertiary and professional sectors—and the constant fear of violence from the anti-social elements and the police. Women, particularly from the poorer classes, are the first to bear the brunt of retaliation by landlords, hired goons and the police whenever these classes dare to protest against exploitation or social injustice. A common pattern is discernible from the reading of the reports of struggles. Thus in Pongri village of Nanded district, in Maharahstra, when the Dalit Mahars asserted their rights, a woman was raped by caste-Hindu landlord while "the other Dalits were fleeeing to the jungle in terror". In Beldiha, a village in the Santhal Parganas district of Bihar, Margaret Kishko, a 25-year old woman, who was one of those raped by the police said that the "policemen were armed with revolvers, rifles and lathis and as soon as they started their indiscriminate attack, the men fled for their lives to the fields". The macho instinct, which flaunts itself against the woman within the safety of the four walls of the man's own house, apparently deserts the man when more powerful men assault his womenfolk. This sort of cowardice is common among men of the educated upper class also. Some years ago when during the Holi festival, hooligans raided St Stephens College in Delhi and teased the girl students, the male students of the college slunk away—an incident which unfortunately does not find a place in the present book.

Another trend which is developing—according to the accounts narrated in the book—is family imposed restriction on the movement of women in certain societies where earlier they used to enjoy more freedom. The newly introduced curbs have been brought about paradoxically enough by so-called modernisation. Thus Berny Horowitz and Madhu Kishwar, on the basis of data collected from a Punjab village comment: "... with increasing prosperity in the village in recent years, the men, especially the Jats, are drinking liquor more heavily, and there is more violence in the village as a result, especially at night ... The result of all this is that an informal sort of curfew has come to be imposed upon women. Most women said that they cannot step out of the house because of drunkards in the village." Again, in Patiala in Punjab, another report included in the book states, "Dalit women have so far enjoyed somewhat greater equality and autonomy *vis-a-vis* the men, because right from childhood they begin to contribute to the family income. But vicious middle-class norms are obviously fast percolating downwards to these communities. In fact, there is a growing feeling among Harijan men of all communities against letting women work. They want to stop their women from working outside because they feel this exposes them to such attacks." The book could have included reports of similar tendency among the tribal men in the Santhal Parganas, where mining and development projects have brought in some contractors and middlemen from outside who consider tribal women easy prey, and their menfolk as a result tend to keep them away from public gaze. Thus, modernisation is introducing a 'purdah' system in societies where women traditionally used to enjoy equal rights.

### CONNIVANCE OF WOMEN

The other disquieting feature of community behaviour which reveals itself from the accounts narrated in the book is the connivance of the majority of women themselves in the patriarchal system of exploitation of women. There is a chapter on Family Violence which highlights the dowry problem leading to bride-burning. While one can lay the blame for such connivance on rural mothers who may try to take it out of their daughters-in-law from a perverted sense of retaliation (because of what they themselves suffered as brides), what excuse can one provide for the behaviour of the mothers-in-law in the middle- and upper-middle class families of Delhi where bride-burning is becoming almost a daily occurrence? Further, what about the brides themselves, some among whom are educated and working women at that, who not only accept the dowry system when getting married, but choose to kill themselves rather than leave their homes and seek an independent way of living? Is it the fear of social opprobrium, or the lack of moral support from their parents and friends that leads them to such a desperate course of action? Some of the reports included in the collection give an inkling of the mood of the victims. Thus, Manini Das while writing about an anti-dowry campaign in Delhi speaks of a girl, Premlata, whose marriage was called off because of ever-increasing demands made by the would-be in-laws. While Premlata's parents—for a change—took a firm stand against dowry, "the only dispiriting part of the affair was the passivity of the girl herself". Manini Das, further in her narrative, focuses on a more disturbing reality. Some members of a women's organisation went to Patel Nagar in Delhi for a demonstration against a family where a bride was burnt. The women of the locality swarmed around the demonstrators shouting: "What is the use of such education when parents don't teach their daughters how to behave in their husband's house? ... Nowadays, girls can't put up with the smallest thing—they get into a temper ... Girls must learn to bear everything patiently ... The one who had to die has died. What's the use of making a noise about it?"

At the end of her account, Manini Das raises a pertinent question. "The woman who has been degraded, beaten, insulted through a whole lifetime takes her revenge on her helpless daughter-in-law—perhaps the first person who is in her power, whom she can beat and insult. How can her bitterness be transformed into a constructive protest, a collective rather than a personal anger?"

Two chapters—one on Women's Struggles and another on Women's Politics—seek to answer the question. The first is a compilation of reports, the most fascinating of which is one on the struggle conducted by the Chhatra Yuva Sangharsh Vahini against the Mohunts of Bodh Gaya in Bihar for the rights of the landless poor. Manimala, who herself was a participant, narrates the achievements as well as the failures of the movement with particular reference to the role of women. But the narrative, while emphasising the specific problems of women (e g, contradictions within the families of the participants, decision-making by women, women's rights on land, etc) goes beyond the woman's question and raises some fundamental points about the entire Bodh Gaya movement and the socio-economic environment. Like the CPI(ML) cadres, the Vahini activists lived among the landless people of Bodh Gaya, adopted their ways of life, shared their food and decided not to contest elections. But unlike the CPI(ML), the Vahini worked for 'total revolution' (on JP's model) by peaceful methods and took up social problems like drunkenness and wife-beating among the peasants. The height of the struggle was during 1979-80 when the Janata Party was in power at the Centre and in Bihar. Manimala says: "Even though the Janata government did not directly help in the struggle, they saw to it that the police did not directly attack us. That is how the struggle could stay non-violent ... direct intimidation such as raids, firings and beatings by police began only in 1980. After the setback caused by police repression, the movement could not pick up full strength again, even though the resistance and struggle continued."

## MODES OF STRUGGLE

This brings us to the larger problem of mode of conducting struggles, whether those of the Harijan landless labourers or women or other deprived sections of society. Both the introduction and an editorial from *Manushi* at the end ('Why Can't We Report to Each Other?') seek to formulate a tentative programme of action for women. I generally agree with the basic approach of linking women's struggle with the broader struggle for socio-economic changes like alleviation of poverty, guarantee of employment, end to discrimination in wages. In this broader framework, the need to acknowledge the woman's right to decision-making in the various stages of the movements and to strengthen her position within her family assume importance. Along with this the obligation of the male members of the family to share domestic chores needs to be emphasised. I also agree with the view that instead of demanding protection and justice from the state, there is need to discover alternative ways of securing justice, since the state and the police are committed to protecting and maintaining the *status quo* and this commitment invariably operates against the interests of the deprived sections of society. The reports included in the present collection show how at every stage, women's struggles for a better social or economic deal have been suppressed by the state and frustrated by the judiciary.

While agreeing with the suggestion made by the editors of the compilation that autonomous women's organisations like mohalla committees to protect women from assaults could be one alternative institution, and while supporting the new movements that are developing outside the framework of the existing political parties (e g, the Chipko movement, women's role in the Jharkhand movement, the women's consumer movement in Maharashtra), I have misgivings however regarding the editors' stress on the non-violent mode of passive resistance that they seem to uphold as the model. Some of the reports quoted in the book suggest that non-violence does not work against police repression, or landlord atrocities. On the contrary, it was violent retaliation which stopped the rape and sexual harassment of women by rich peasants in the tribal villages of Maharashtra (cf 'An Assertion of Womanpower' by Mira Savara, Sujatha Gothoskar). It was violence again, in the shape of Harijan raids on local merchants' shops for equal distribution of grains among the poor, which brought about relief (cf 'Drought—God-Sent or Man-Made Disaster?', *Manushi* editorial, July-August, 1980). History—whether during the national movement or in post-Independence India—has repeatedly taught us that organised armed resistance backed by popular support can pose the only serious challenge to the state. Gandhian passive resistance which might have had a marginal impact on some responsive policy-makers in Whitehall, has outlived its relevance in today's Indian society where a hardened and coarsened ruling class is determined to use extreme brutal force to suppress even the feeblest voice of protest. In a society where violence is the only language which the ruling class understands, it is futile to respond in terms of non-violence.

## MYTH OF GANDHI

I agree with Madhu Kishwar when she says: "Our cultural traditions have tremendous potential within them to combat reactionary and anti-women ideas, if we can identify their points of strength and use them creatively." But surely Gandhi (who is described by Madhu Kishwar as "one of the few people able to make a creative use of our powerful cultural traditions") cannot be taken as the model. In spite of his utterances against child marriage, the dowry system, and other acts of exploitation of women, he remained an orthodox Hindu male patriarch to the core in social matters. How can Madhu Kishwar discover empathy with a man who could say: "Woman is the incarnation of ahimsa. Ahimsa means infinite love which again means infinite capacity for sufferings. Who but woman, the mother of man, shows this capacity in the largest measure?" (*Harijan*, February 24, 1940). Is it not this myth about woman's "infinite capacity for sufferings" that the woman's movement is fighting against? Or take Gandhi's attitude towards 'modern' women: "I have a fear that modern girl loves to be Juliet for half a dozen Romeos. She loves adventure. The modern girl dresses not to protect herself from wind, rain and sun, but to attract attention" (*Harijan*, December 31, 1938). What could be more insulting to women?

Madhu Kishwar and her colleagues in *Manushi* stand out from other feminist groups in their ability to honestly face the reality and combine rigorous intellectual analysis with committed activism. The present book is a brilliant testimony to their struggles. But may I request them not to reinforce the myth of Gandhi in their search for alternative avenues of protest?

# Mortality Toll of Cities

## Emerging Patterns of Disease in Bombay

**Radhika Ramasubban**

**Nigel Crook**

*Concern with the environmental conditions of disease control has until recently focused on water and food-borne diseases, for the diarrhoeal diseases have been major killers, especially of young children, both in rural and urban areas. Without disputing this approach, this article seeks to redress the balance of concern, and to caution against a too generalised interpretation of emerging trends. For in some of the large and growing cities at least, the mortality pendulum seems to be swinging away from intestinal towards respiratory diseases; however, the causes of this change are not as clear-cut as the current interest in air pollution might suggest.*

### I

### Trends over Time (Bombay in Comparison with Poona)

CONCERN with the environmental conditions of disease control has, until recently, rightly focused on water and food-borne diseases, for the diarrhoeal diseases have been major killers, especially of young children, both in rural and urban areas. The intention of this article is not to dispute this approach, but rather both to redress the balance of concern, and to caution against a too generalised interpretation of emerging trends. For in some of the large and growing cities at least, the mortality pendulum seems to be swinging away from the intestinal towards the respiratory diseases; however, the causes of this change are not as clear-cut as the current interest in air pollution might suggest.

Both in Bombay and Poona, cities with relatively good quality data on cause of mortality, respiratory cases have increased far faster than diarrhoeal cases in the recorded mortality, and in some specific categories of these diseases mortality has increased faster than the overall growth of the population (Table 1).[1] This is not an unusual phenomenon in the course of urban growth. The cleansing of the atmosphere, a factor of clear importance to respiratory disease, usually occurs only at the last stage of environmental improvement. For example, as recently as 1952 in London, four thousand deaths (three times the average) followed a four-day smog, the proximate causes of death being chronic bronchitis, broncho-pneumonia, and heart disease. It is with this grim picture in mind that one might view the data in Table 1 (despite all the caveats one has to make regarding changes in diagnostic and registration practice). To take a further example, in 1980 in parts of Shanghai, infant mortality had fallen to levels comparable to those in western Europe today, and the relative roles of intestinal and chest diseases as the major killers had been reversed; cancer of the lung was said to be on a dramatic increase. In the case of London, the response to the crisis (a response encouraged no doubt by fear of a surge in the national health bill) was to outlaw the burning of unprocessed coal; the response in Shanghai has been to start enforcing the installation of anti-pollution devices in the factories.[2]

The control of the atmosphere is politically complex. Major industrial concerns add to pollution both through the production and distribution process and through the use of the products they create (e g, the automobile); and hence they wield their power against pollution control. In Bombay there has been much talk of industrial pollution especially in the Chembur-Trombay area: in actual fact the data show that central areas of Bombay city were more highly polluted, at least as recently as 1980, partly, it is argued, because the offshore air current at night pushes the polluted air from Chembur towards the west.[3] Nevertheless, there have been recent reports of gas leakages in Chembur that indicate the particular environmental hazards of that locality. Furthermore, they underline a fact regularly forgotten. It takes a crisis to make headlines. The mortality toll from industrial leakage takes its course inexorably day by day. The same mortality is only noticed, it seems, when, as at Bhopal, it is concentrated into the space of a single night. The industrial new-towns are no exceptions to the experience of air pollution. In Durgapur in West Bengal the evening air has become difficult to breathe, and on a February morning the whole massive complex of the steel works has, from the summit of the township, disappeared blissfully, but ominously, from view.[4] Cities are still being created anew (if not afresh) in India: in Vashi in the New Bombay the new residents observed an improvement in sewerage and drainage over their old environment, but complained that the air quality was actually worse.[5] Is this the auspicious beginning of a new urbanising era?

We have upto this point blamed the environment for these secular trends in disease, and apportioned some of the blame to the activities of industrialists. In Bombay at least, the question of air pollution has become a focus of attention recently, with reports commissioned by the Bombay Municipal Corporation and conferences on the subject hosted within the city. But we have also to point out the role of poverty in the incidence of the respiratory (as in the diarrhoeal) afflictions on the people in the cities. It is true that no social class escapes from air pollution, and if the degree of pollution is severe enough, morbidity of the respiratory tract will afflict all social groups. But exacerbating features, that more easily translate morbidity into mortality, are suffered more especially by the poor. Even in Britain today the social class differential in this disease is one of the sharpest of all.[6] First let it be noted that good shelter is a protection against a whole group of respiratory ailments. Adequate shelter is necessary to prevent loss of body heat in the cool and wet seasons of the year. One of the current authors (NC) in collaboration with Meera Bapat recently conducted a morbidity survey in shanty settlements in Poona: they found that the clearest determinant of respiratory sickness was the dampness of the individual shack.[7] In both Poona and Bombay the incidence of pneumonia in mortality, especially among infants, is relatively slow to decline.

A second socially related factor lies in the population density within the dwelling place, an index that has failed to improve significantly over the last two decades from an average of over five persons per dwellings[8] (which means, in the slum population at least, five persons per room).[9] Cramped space encourages the spread of air-borne virus or bacteria.

Thirdly, there is a prominent school of thought believing that adequate nutritional status can significantly arrest the development of tuberculosis and other diseases in an individual from a mild affliction (which may affect a majority of the population) into a serious illness against which he or she has formed insufficient immunity.[10]

Finally, the 'Catch-22' delivers its blow, in that to keep warm and to prepare safe and nourishing food (and hence retain defences against the worsening of respiratory sickness) the poor have to use the cheapest fuel they can. In some parts of the country this is low-grade coal (particularly in the eastern states), whose sulphurous waste becomes a major domestic irritant.[11]

None of these factors is peculiar to urban areas. But in urban areas they combine with industrial and commercial air pollution to exacerbate an environment that is rapidly overloading with dust, soot, and other more specific air-borne poisons.

Average life expectancy is higher in urban than in rural areas in contemporary India. This is largely due to the social composition of the towns reflecting a proportionally larger middle class which has created for itself an adequate curative medicine in the shape of large well-equipped hospitals. But this comparison (Table 3 gives comparative death rates) masks the variance in those life chances *within* urban areas, that depends on socio-economic class and, relatedly, on the micro-environment. It would indeed be wrong to interpret the figures so far offered (in Tables 1 and 2) as indicative of relative changes in disease categories affecting all classes of urban dwellers simultaneously. Furthermore, we estimate that approximately 85-90 per cent of deaths are registered in these two cities of Bombay and Poona, but it is likely that the 10-15 per cent or so missing registrations are predominantly of the poorer classes, particularly in the outer suburbs.[12] The slum survey in Poona we referred to above suggested that mortality rates, especially of children and infants, differed rather little from those in the rural areas (albeit an estimate derived from a small sample).[13] And in the spatial context commented on below, we note that some of the poorer inner city wards of Bombay experience very high rates of infant mortality (again comparable with those of rural Maharashtra). It would be unlikely if diarrhoeal diseases had diminished significantly in those shanty settlements that still are forced to rely upon unprotected water sources for drinking and the roadside for defecation purposes.[14] For the lowest income group the quality of water, sewerage and drainage may not have improved. At the same time the quality of the air has clearly deteriorated. The fight against discrimination in the basic rights of life needs now to be fought on two fronts.

Respiratory mortality is not the only broad category on record where incidence is slow or failing to decrease. There are for example major increases in the cardio-vascular disease group (Table 1). To some extent this may reflect, especially in Bombay, the westernising qualities of the middle-class diet and life-style. The incidence is at its peak above age 60 (Figure 1): the middle-class is increasingly represented in these higher age groups (as their fertility falls and life expectancy rises, reducing the numbers of the young *vis-a-vis* the numbers of the elderly). However, a further consideration is that the inter-related nature of heart and chest disease has been documented in the medical literature: cardio-vascular disease reaches a high level after air pollution crises.[15] From this the poor do not escape.

Among the significant causes of mortality that stand out is respiratory tuberculosis (Table 1 and 2). This is a disease associated, as a killer, with poverty, and exacerbated by a deleterious atmospheric environment. In some far-eastern city

TABLE 1: CRUDE DEATH RATES BY CAUSE FOR BOMBAY AND POONA IN 1980-81 AND CHANGE IN DEATHS BY CAUSE OVER TIME: 1970-71 TO 1980-81

| | Pneumonia | Tuberculosis | Total Respiratory | Diarrhoea and Dysentery | Accidents | All Causes | Population Growth Rate |
|---|---|---|---|---|---|---|---|
| BOMBAY | | | | | | | |
| Death rates per 100,000 Census population | | | | | | | |
| Males | 81 | 129 | 245 | 39 | 90 | 905 | |
| Females | 101 | 64 | 196 | 51 | 51 | 763 | |
| Annual average per cent increase in deaths | | | | | | | |
| Males | 0.5 | 4.1 | 2.2 | −1.6 | 5.8 | 2.3 | 2.9 |
| Females | −1.0 | 3.6 | 1.2 | −1.0 | 5.2 | 1.7 | 3.6 |

| | Pneumonia | | Tuberculosis | | Total Respiratory | | Diarrh and Dys | | Accidents | | All Causes | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| POONA | Resident | Total | Res | Total | Res | Total | Res | Total | Res | Total | Res | Total | |
| Death rates per 100,000 Census population | | | | | | | | | | | | | |
| Males | 56 | 72 | 57 | 81 | 145 | 188 | 30 | 39 | 39 | 77 | 771 | 1097 | |
| Females | 53 | 66 | 29 | 42 | 101 | 128 | 35 | 42 | 43 | 76 | 670 | 887 | |
| Annual average per cent increase in deaths | | | | | | | | | | | | | |
| Males | 2.6 | 4.1 | 3.0 | 4.9 | 2.5 | 4.0 | −4.0 | −2.7 | 2.8 | 6.4 | 0.1 | 2.0 | 3.3 |
| Females | 1.6 | 2.4 | 0.2 | 2.5 | 1.3 | 2.5 | −2.2 | −1.6 | 2.1 | 4.5 | −0.3 | 1.3 | 3.5 |

*Source*: Calculations based on "Annual Vital Statistics of Maharashtra", Bombay (relevant years), and Government of India, Census of India 1971, 1981, Maharashtra State, Census Abstract, New Delhi.

states (Hong Kong for example) it has been held responsible for exceptionally high male mortality from age 40 onwards in comparison with historical experience in western European cities (with the possible exception of some of the Scandinavian countries).[16] In Maharashtra at least this demographic phenomenon is neither particularly urban nor exceptionally male in character (Figure 2).[17] We have shown from the medically certified cause of death data for urban areas of Maharashtra state (Figure 1) that there is a rise in female mortality that becomes exceptional at rather older ages than for men and is attributable to bronchitis and heart disease. We can show with considerable confidence from the Model Registration Scheme data that the heavy male and female rural mortality that sets in from around age 40 (Figure 2) is also due to tuberculosis, followed by the other respiratory diseases,[18] but we cannot tell from these data whether the rural TB rates are actually increasing over time (since the MRS records do not cover a sufficient time span at present). Turning specifically to the cities, the annual rates of increase due to TB are disturbing to say the least (Tables 1 and 2), for in Bombay at least they appear to outstrip the rate of population growth. It is not much comfort to calculate whether the levels are above those maintaining in the over-crowded and smog-ridden European cities at the turn of the century, or merely the same. The process of infection is believed to be such that a large proportion of the population is affected at young ages, but that diagnosis is difficult and severe morbidity and mortality tends to await the adult ages. If that is the case, this disease could 'age out' of the population with its current carriers. There are areas in Shanghai where the age pattern of mortality has changed since 1949 in a way consistent with this having occurred (Figure 3) and the recorded mortality due to tuberculosis has also fallen substantially.[19] Will areas of Bombay follow suit? Clearly not if the opportunity remains for the older population cohorts to infect the young, as it will so long as living conditions remain crowded, or curative medicine remains ill-distributed among adult sufferers (which is one of the major contrasts with Shanghai).[20]

One clearly noticeable feature of tuberculosis is the predominance in Bombay of male mortality from this cause (the phenomenon is less evident in Poona). It is therefore difficult to attribute its increasing incidence to air pollution in the macro-environment alone. Men are more likely to smoke and to drink than are women, and both can precipitate active TB (alcoholism tends to coincide with poor nutritional intake). Men are also more likely to share crowded sleeping quarters in parts of Bombay. Much more needs to be learnt about this disease in Bombay before its cause can be readily attributed to specific ecological or social factors.

The high recorded mortality due to TB in Bombay also raises an issue in data interpretation. Is migration to the city for TB treatment a factor that inflates the Bombay mortality rates? There are conflicting views on this among medical experts in the city—some estiamte 25-30 per cent of TB deaths as being due to such migration;[21] others opine that the city, being basically unhealthy, takes a heavy toll anyway of new migrants who are trying to find shelter and employment. In the absence of clear demarcation of residents from non-residents in the mortality statis-

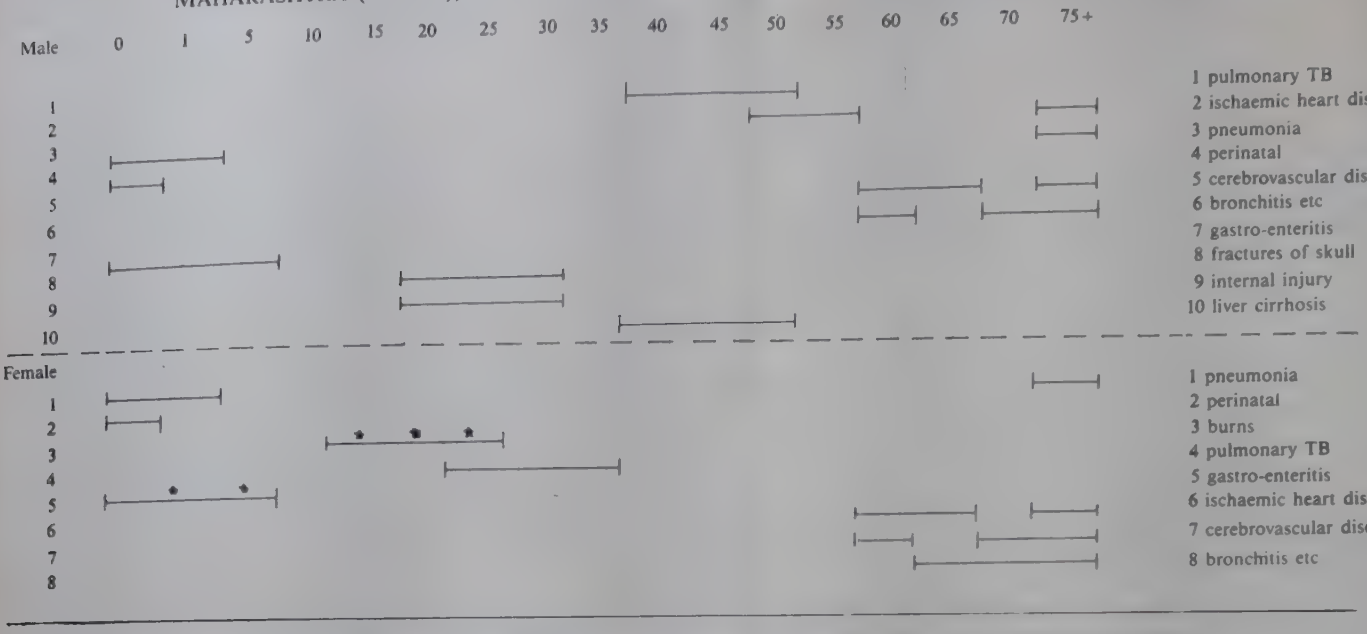
TABLE 2: CHANGE IN DEATHS BY CAUSE OVER TIME, IN SPECIFIED AGE GROUPS FOR BOMBAY AND POONA

| Bombay 1970-80 | Asthma, Bronchitis and Emphysema | Respiratory Tuberculosis | Ischaemic and Other Heart Disease | Diarrhoea and Dysentery | All Causes |
|---|---|---|---|---|---|
| Annual average rate of change (per cent) in deaths to persons aged 5 and over: | | | | | |
| Males | 1.7 | 3.5 | 6.0 | −3.7 | 2.9 |
| Females | 2.5 | 2.1 | 7.4 | −2.2 | 2.9 |
| | Pneumonia Bronchitis, etc | | | | |
| Annual average rate of change (per cent) in deaths to children aged 1-4: | | | | | |
| Both sexes | −3.5 −2.2 | * | * | −1.8 | −1.6 |
| Annual average rate of change (per cent) in infant deaths: | | | | | |
| Both sexes | 1.0 −3.4 | * | * | −0.0 | 0.0 |
| Poona 1965-78 | Asthma, Bronchitis and Emphysema | | | | |
| Annual average rate of change (per cent) in deaths to persons aged 5 and over: | | | | | |
| Males | −0.6* | 6.7 | 6.5 | 7.9 | 4.6 |
| Females | 2.4 | 1.9 | 8.2 | 8.3 | 3.2 |
| | Pneumonia | | | | |
| Annual average rate of change (per cent) in deaths to children aged 1-4: | | | | | |
| Both sexes | −3.5 | * | * | −0.1 | −1.1 |
| Annual average rate of change (per cent) in infant deaths: | | | | | |
| Both sexes | 2.2 | * | * | −0.1 | −0.5 |

*Note:* * Rates based on small numbers not entered; for adult bronchitis in Poona rates calculated for 1970 to 1978; in all cases where possible an average of two years has been taken at either end of the period.

*Source:* Calculations based on Greater Bombay Municipal Corporation, Annual Report of Executive Health Officer, relevant years, Bombay; Poona Municipal Corporation, Annual Administrative Report, relevant years, and provisional data, Poona.

FIGURE 1: AGE-SPECIFIC INCIDENCE OF CAUSES OF DEATH RECORDED FOR MAJOR CITIES OF MAHARASHTRA (1978-80); MAJOR CATEGORIES OF DISEASE IN ORDER OF MORTALITY TOLL



*Notes*: Each disease contributes at least 1000 deaths per annum; the top ten male categories contribute 46% of the male total (28,000 out of 61,000).
* indicates more female than male deaths in that female age group from that cause.

*source*: Government of Maharashtra, *Annual Vital Statistics of Maharashtra*, relevant years, Bombay.

tics, it is difficult to estimate the proportion of deaths contributed by people coming to the city either because of inadequate facilities in the mofussil areas or drawn to the city's sophisticated medical centres. In the case of Poona, where the records are published so as to distinguish residents from non-residents, it is clear that about 30 per cent of TB deaths occur to non-residents of the city. But even if we take this possibility into account, TB remains higher in Bombay than in Poona by a clear margin (Table 1).

TABLE 3: CRUDE DEATH RATES FOR INDIA, MAHARASHTRA, BOMBAY, AND POONA, 1977-79 (Per thousand estimated population)

| | India | Maharashtra |
|---|---|---|
| Rural | 15.1 | 12.7 |
| Urban | 9.0 | 8.4 |
| | Bombay | Poona |
| Males | 9.8 | 8.6 |
| Females | 8.6 | 8.2 |
| Both sexes | 9.3 | 8.5 |

*Source*: India and Maharashtra, Office of the Registrar General, *Sample Registration System Bulletin*, New Delhi, 1982; Bombay and Poona, estimates from sources given for Table 1 above.

Further class differentials may be revealed indirectly in the sex differentials in urban mortality. Tim Dyson, in an earlier number of *EPW*, has illustrated how the much discussed excess female mortality (compared to that of males) in India only exists in the younger age groups.[22] The sex differential continues to persist, however, in particular cause of death categories in the data for major cities of Maharashtra. This is predominantly the case in mortality related *directly* (in the medically certified records) to nutritional deficiencies among the very young (i e, from avitaminoses or anaemia).[23] Excess female gastro-enteritis in the age group 1-9 is also indicative of inappropriate or inadequate feeding of young female children (Figure 1). It is clear that among the urban population in the lowest income group the presence of poverty enhances sexual discrimination exactly as in rural areas. Note also (Figure 1) the excess adult female deaths due to fires. These too are likely to be the result of single room slum dwelling where cooking stove accidents are prone to occur, especially where kerosene is the fuel used as in Bombay.[24]

TABLE 4: SPATIAL DISTINCTIONS IN MAJOR CAUSES OF DEATH IN BOMBAY, 1980-81

| | Respiratory Tuberculosis | Bronchitis, Asthma, Emphysema | Ishaemic Heart Disease | Gastro-Enteritis | Nutritional Deficiencies | Infant Mortality Rate Per 1000 Live Births |
|---|---|---|---|---|---|---|
| **Crude death rates per 100,000 Census population** | | | | | | |
| **Island city** | 130 | 38 | 108 | 37 | 23 | 68.5 |
| **Suburbs** | 73 | 30 | 60 | 39 | 26 | 64.5 |
| **Extended subs** | 54 | 27 | 53 | 32 | 12 | 52.7 |
| **Greater Bombay** | 91 | 32 | 77 | 37 | 22 | 63.3 |

*Source*: Greater Bombay Municipal Corporation, Annual Report of Executive Health Officer, 1980, 1981, Bombay, 1984, 1985.

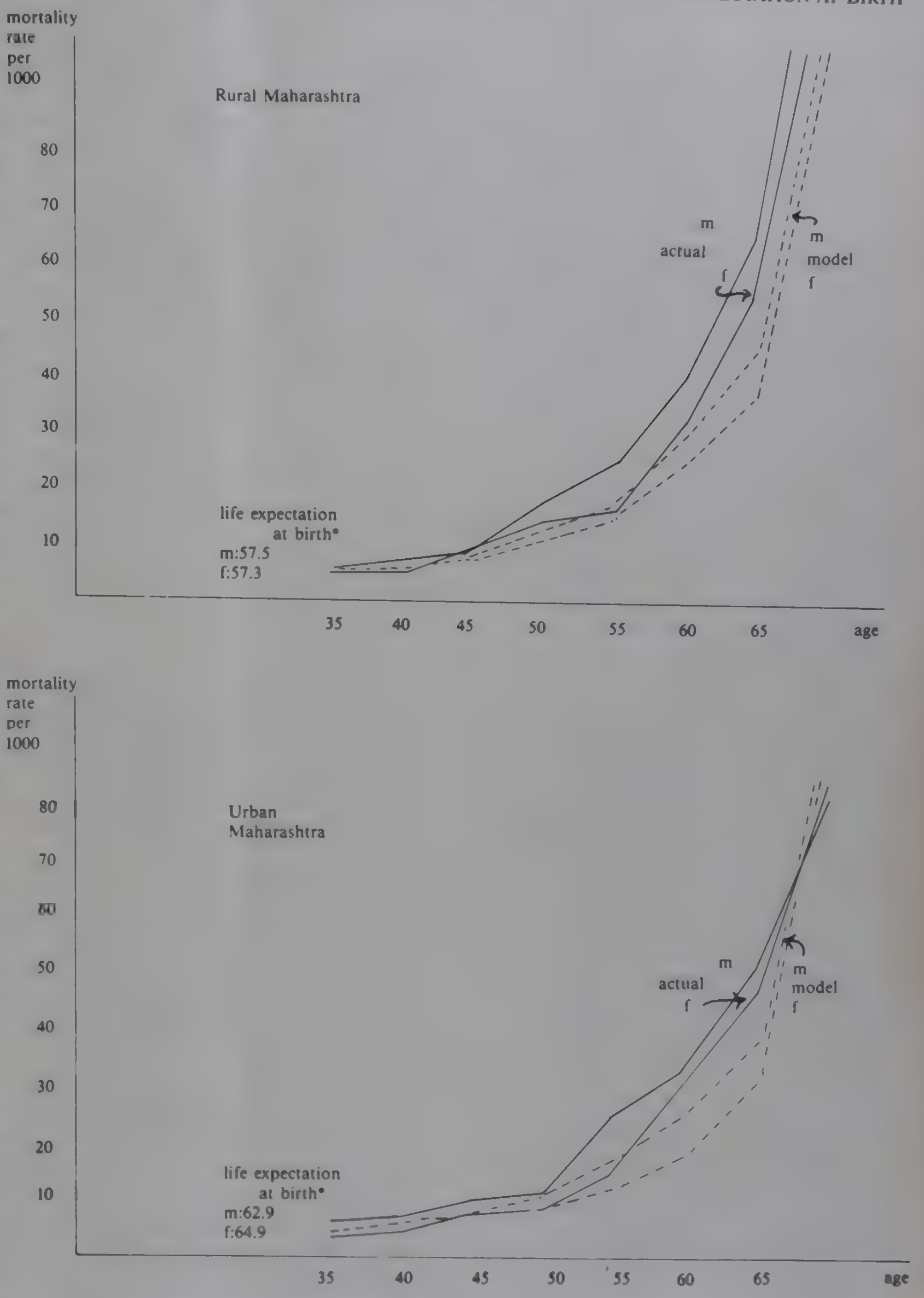
## II

## Spatial Dimension in Bombay

The wards which make up the island city may be broadly described thus: A ward—predominantly trading activity, the central business district, and docks along the east end; B ward—docks, warehouses, traders and goods yards; C ward—traders, and a highly dense population; D ward—affluent and primarily residential population, and the less polluted western seaboard; E ward—docks, the inner city rundown areas, with dilapidated buildings, and footpath dwellers; F-South ward—mills and docks, chawls housing the mill workers; F-North—partly docks and partly slum colonies (consisting of 30 per cent of ward population in 1976), some middle-class housing; G-South and G-North—mills, slum colonies (consisting of 34 per cent of ward population in 1976), middle-class housing.

As we noted above, dominating the deaths due to respiratory diseases is tuberculosis as the single most important and growing cause of death. Since some of the ward boundaries have changed between 1971 and 1981 it would be difficult to specify with accuracy the proportional change in the cause-specific death rates by ward; but looking at those wards where boundaries have remained the same, it would seem that TB deaths have only grown and not declined during the 1970-80 decade—and in some cases the rates themselves have increased also.[25] TB deaths in Greater Bombay exhibit some striking spatial characteristics. The island city's mortality is twice as high as that of the suburbs and almost three times that of the extended suburbs: crude rates of 130, 73 and 54 per 100,000 respectively in 1980-81 (Table 4). Mortality is highest in five wards: A, B, C, E and F-South. If these rates were standardised by age and sex our profile by ward would need some modification. But neither age nor sex composition differentials between wards are sufficient to account for such large differentials in TB mortality rates, nor for a ratio of nearly 3:1 between the city and the extended suburbs.

Figur 2: Comparison between Age-Specific Adult Mortality in Maharashtra and a Western European Model at same Level of Life Expectation at Birth›



* estimated from mortality in age group 5-34

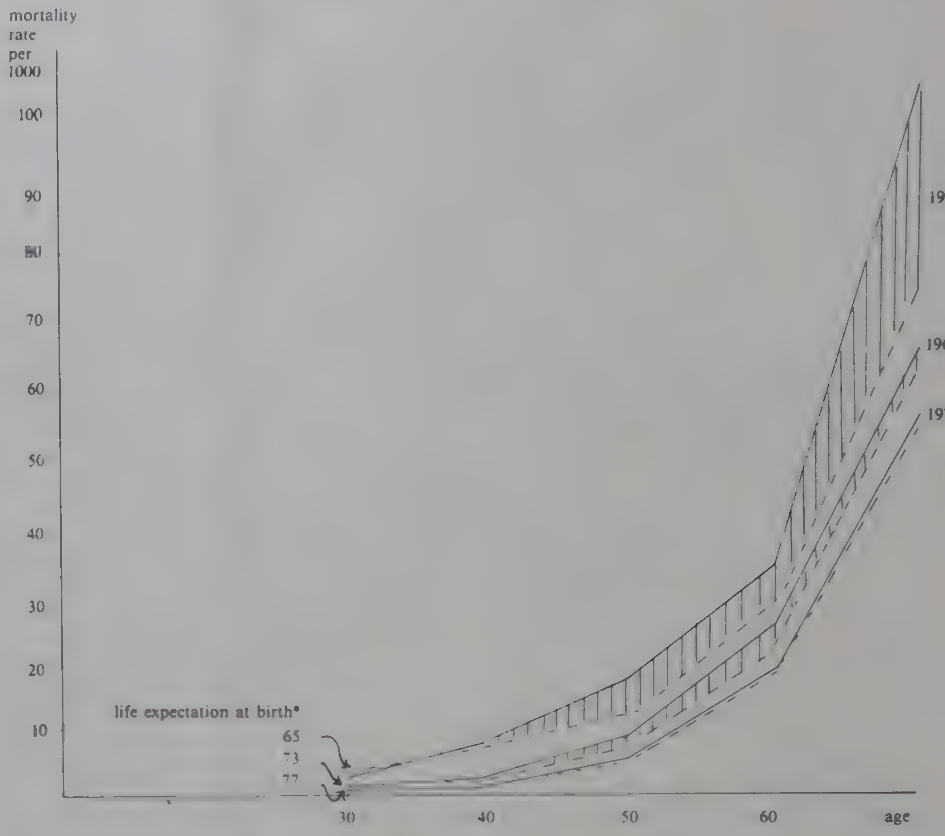
*Source:* Office of the Registrar General, *Sample Registration System 1970-75*, New Delhi, 1982, calculations based on average for years 1973-75. A Coale and P Demeny, *Regional Model Life Tables and Stable Populations*, Princeton, 1966, calculations based on "West" model.

Since respiratory tuberculosis is closely associated with poverty, i e, low levels of nutrition and over-crowding, the concentration of population around the concentration of industries, mainly mills, in the island city, and around the docks (on the eastern seaboard), would seem to suggest some of the principal reasons for this spatial pattern of mortality. The male-dominated occupational structure and the tradition of male dormitories particularly of textile workers in the island city chawls explains some of the male preponderance in the number of TB deaths in the city. There is evidence that the sex ratio (females to males) is by and large lower in all the island city wards; for instance E ward is lowest with 682 females per 1,000 males (1981 Census) and C ward next with 693 females per thousand males (D ward has the highest ratio—811). Contributing to higher male death *rates* may be alcohol consumption, which makes for progressive malnutrition through lowered food intake. The over-crowding in chawls is an acute manifestation of the high population density in the island city, three to four times higher than in the suburbs and extended suburbs, facilitating the transmission of the disease and hence increasing its incidence rate.

The high TB mortality recorded in the island city raises a question of data interpretation. Does the concentration of the large municipal hospitals and the TB group of hospitals in the island city make for an unduly high concentration of TB deaths? We suggest this is unlikely, though some bias may be introduced in this way. The current TB registration system is comprehensively organised and place of residence is recorded. In fact the ward that contains the main TB hospital (in Sewri) does not exhibit the highest rate of TB. And further, other respiratory diseases do not show any concentration in the hospital areas.

Another important categoty of respiratory diseases contributing to mortality is the group bronchitis, asthma and emphysema.[26] Closely associated with both the macro-environment (air pollution) and the micro-environment (nature of shelter and exposure to infection), it exhibits higher mortality in the island city than in the suburbs and extended suburbs, although the order of magnitude and the spatial differential are not nearly so great as for TB (Table 4). Surprisingly, in the mortality

FIGURE 3: COMPARISON BETWEEN AGE-SPECIFIC ADULT MORTALITY IN A DISTRICT OF SHANGHAI FROM 1953 TO 1979 AND A WESTERN EUROPEAN MODEL AT SAME LEVELS OF LIFE EXPECTATION AT BIRTH*



* estimated from mortality in age group 5-29

—actual
- - - model
(both sexes, 10-year age groups from 30 to 79)

*Source*: from registration data recorded by Zhengua Jiang and Malini Karkal in K Srinivasan and S Mukherji eds. (op cit), and "West" models (sexes averaged) in A J Coale and P Demeny (op cit).

from these chest diseases, ward M in the suburbs which has received notorious publicity as the most polluted area in Greater Bombay due to the concentration of industry in Chembur-Trombay does not figure prominently. This is probably due to the relatively healthier air condition at nights, when the easterly winds carry the polluted air into the city thus making parts of the island city more polluted overall.[27]

We have discussed earlier the possible inter-relationships between chest and cardio-vascular diseases particularly due to the exacerbating influence of acute air pollution. For the poor there are additional factors which may contribute to this inter-relationship: strain on the chest and lungs due to manual labour, consumption of poor quality alcohol and unprocessed tobacco, malnutrition and attendant anaemia. It is interesting to note that ischaemic heart disease mortality is high in the island city, in fact next only to TB, with suburban and extended suburban mortality due to this cause reflecting a differential similar to that in TB (Table 4). The four city wards exhibiting the highest mortality are A, B, C, D and only the relatively affluent western suburb of H-West has a comparable rate.

The mortality statistics for avitaminoses, other nutritional deficiencies and anaemias also figure highly in three island city wards: E, F-South and G-North, although M ward in the suburbs appears to be worst off in this regard, followed by K-East. These diseases, if correctly diagnosed, are a clear indication of poverty.

We have intimated that poor environmental conditions and poverty are concentrated in large pockets of the island city, just as much as in the suburbs: this is despite the fact that only 17 per cent of the island city's population lives in 'slums' (1976 data),[28] i e, hutment colonies, compared with 53 per cent and 68 per cent in the suburbs and extended suburbs respectively. The infant mortality rates for Bombay bring this out vividly. Despite an overall decline since 1970-71 the infant mortality rate was still high in 1980-81: 69, 64, 53 deaths per 1,000 live-births in the island city, the suburbs and the extended suburbs respectively (Table 4). The highest figure is to be found in the island city's C, E, F-North and G-South wards and in M ward in the suburbs. The rates for the suburbs and extended suburbs (excluding M ward) are uniformly lower than the island city rates.

The commonly observed causes of infant mortality are the nutritional status of the mother and the complications of childbirth, with micro-environmental conditions—sanitation, availability of water, quality of shelter and overcrowding—exacerbating unfavourable health-status conditions. Looking at the *intra*-ward differences might illustrate this even further. In the case of C ward within which we are able to observe such differences, subdivision C-i, marked by its preponderance of trading activity and by its dilapidated buildings with inadequate sanitary facilities, has an infant mortality rate of 112.6 as against subdivision C-iii with an IMR of 65.1. This difference can be seen across all those diseases where the micro-environment particularly is a determining factor: 184 per 100,000 TB deaths in C-i as against 95 per 100,000 TB deaths in C-iii; and 174 per 100,000 deaths due to ischaemic heart disease in C-i as against 129 in C-iii. For bronchitis, however, there is virtually no difference: 33 and 34 per 100,000 respectively, suggesting that the macro-environment, for example air pollution, may be a more important determinant of the level of this disease.

It is the diarrhoeal diseases that have registered a definite decline, although not uniformly throughout Bombay. There remains here (in 1981) a suburban concentration with wards K-West, L, M, N and T still showing the highest mortality rates. These were also the wards with high concentrations of slum colonies (1976 survey) many of which are still poorly serviced with water or sewerage.

The following broad hypothesis might be advanced. Air pollution in the island city contributes towards the higher incidence of respiratory mortality therein. In the case of TB in particular other factors such as malnutrition and overcrowding severely exacerbate these conditions. In the suburbs poor sanitary conditions contribute toward the higher levels of the diarrhoeal diseases, with malnutrition playing an attendant role. Finally we note that the preponderance of particular causes of mortality in specific areas of Bombay will be partly due to differential age and sex structure, but we hypothesise that this factor is only one among those contributing to the patterns we observe.

In summary, it is time for those who

have it in their power to improve the health of the poor, be they activists from among the poor themselves or their allies from elsewhere in urban society, to focus their attention equally on those diseases that afflict the lungs and chest; to turn their minds towards the aggravating factors that are believed to be rapidly deteriorating in urban areas, and especially in industrialising areas; not to abandon the fight to combat water pollution, but not to neglect the fight to combat air pollution that has taken the lives of countless city dwellers in all industrial nations, sometimes in epidemic proportions, in quite recent times. In crises such as these the rich might take note that they too do not escape so easily, for air is the most public of all assets, and once it is contaminated no one is excluded from its potentially devastating effects. At the same time it would be wrong to suppose that if the environment were cleansed, respiratory sickness, and particularly TB, would disappear. So long as overcrowding, poor shelter, and malnutrition remain, these disease will flourish and take lives from among the city's deprived.

It is time also to investigate more carefully the range of morbidity conditions that co-exist in such a wealthy city as Bombay, to get beyond the averages and to learn the worst, so that eradication can start where the need is most. This fairly large research task is currently being attempted by the authors of this article: herein we have reported on only the first tentative steps.[29]

## Notes

[This paper has benefited enormously from many discussions with colleagues and friends: but the authors are especially grateful to those who commented on an earlier draft: Bhanwar Singh, Lado Ruzicka, Penny Kane, Tim Dyson, Elizabeth Breeze, and Christine Callum. They are all exonerated from the shortcomings and especially from the subjective opinions expressed herein.]

1 The authors note in particular two earlier research papers that have attempted an overview of Bombay's mortality: G Kothari, et al, "Appraisal of Current Conditions of Health in Greater Bombay", International Institute of Population Studies, Bombay, 1983 (mimeographed) and, C A K Yesudian, "Primary Health Care Planning in Big Cities", Tata Institute of Social Sciences, Bombay, n d (?1984), (mimeo). The current authors have undertaken various methods as quality checks on the official data. They are particularly grateful to A M Ravetkar for allowing access to provisional data for Poona and to H N Ranganathan for advice on data quality, which is also analysed by a number of contributors to the *Maharashtra Health Bulletin* (Government of Maharashtra), April-May 1983. However good the data, it is clear that diagnostic and recording practices change over time, and this caveat needs always to be borne in mind.

2 On London see for example, Brian Meredith Davies, "Community Health, Preventive Medicine and Social Services", London, 1979. On Shanghai see, Zhengua Jiang and M Karkal, 'Mortality Decline in China' in K Srinivasan and S Mukherji eds "Dynamics of Population and Family Welfare 1981", Bombay, 1981; and, Shanghai Subcentre of Education and Publicity on Family Planning, "For a Sure Future" n d (?1982), (leaflet); and, R and V Sidel, "Health Care of China", Boston, 1982, NC also benefited from discussion with senior medical staff at the International Peace, Maternity and Child Health Hospital, Shanghai, on a visit in 1982.

3 Personal communication from S R Kamat, KEM Hosptial, Bombay.

4 NC's observation, February 1984.

5 S Lahiri, "Environmental Variation in Relation to the Place of Residence: A Study of a Satellite Town under the New Bombay Scheme", in K Srinivasan and S Mukherji, eds, op cit.

6 P Townsend and N Davidson, "Inequalities in Health" (The Black Report), Middlesex, 1982.

7 M Bapat and N Crook, "The Economics of Health and Health-Care in the Industrialising City of Poona", School of Oriental and African Studies, London, 1981 (mimeo); M Bapat, "Determinants of Health in Low-Income Communities—a Case Study of Poona", Centre for Development Studies and Activities, Poona, 1982.

8 The average has fallen marginally from 5.4 persons per dwelling to 5.2 (from 1961 to 1981) in Greater Bombay; in Poona (Municipal Corporation) it has risen from 5.2 to 5.5 (Census, 1961 and 1981).

9 In Bombay the population residing in slum colonies (hutments) was estimated at 2,850,000 (38 per cent of the total population) in a Census held in 1976, but by 1981 was estimated to have reached 3,800,000 (45 per cent of the total), as reported in, Municipal Corporation of Greater Bombay, "Redevelopment of Slums through Participation of Slum Dwellers", Bombay, n d (?1984).

10 See, *inter alia*, D Morley, "Paediatric Priorities in the Developing World", London, 1973.

11 For analysis of damage done by bituminous coals see, A C Stern, "Air Pollution", Vol II, Chapter 7, New York, 1977.

12 Uniquely in the case of Poona the records are available separately for residents and non-residents: it can be seen that a substantial proportion of non-residents have their deaths registered in the city (Table 1). In the data presented here we have been able to maintain the distinction for the 1970-1980 decadal trends but not for the age-specific estimates. For Bombay, where distinguishing records are not available it is always possible there is some excess mortality due to hospitalisation of rural cases in the city.

13 N R Crook, "The Changing Character of Mortality in the City of Poona", School of Oriental and African Studies, London, 1982.

14 On Poona see note 7 above. On Bombay see A R Desai and S D Pillai, "Slums and Urban Development", Bombay, University of Bombay, 1970, (mimeo), and A R Desai and S D Pillai, "A Profile of an Indian Slum", Bombay, University of Bombay, 1972.

15 See A C Stern, op cit.

16 N Goldman, 'Far Eastern Patterns of Mortality', *Population Studies*, March 1980.

17 Even the All-India data presented by Tim Dyson in his article 'Excess Male Mortality in India', *Economic and Political Weekly*, March 10, 1984, do not show as striking a differential between the sexes as is apparent in the far-eastern cases he illustrates. There is a clear suggestion from his diagram that there is a deterioration in female mortality also at adult ages in comparison with the models he is using.

18 It is interesting to note that the Model Registration Scheme, whose coverage appears to be good in Maharashtra, indicates less of a sex differential in deaths from tuberculosis in rural compared with urban areas. There is a slight risk of some bias here due to the possibility of male cases being more likely to be hospitalised in special TB hospitals which will be situated in urban areas. However, a survey conducted by the Indian Council of Medical Research in 1959 also found that rural rates of TB were as high as urban (ICMR Report No. 34, New Delhi); for later studies see the excellent summary in M P S Menon, "Pulmonary Tuberculosis", New Delhi, 1983. Our own estimate from the MRS data suggests that rural TB mortality rates in Maharashtra lie between those recorded for Poona and for Bombay.

19 Zhengua Jiang and M Karkal, op cit.

20 On the differential access to curative services among different sectors of Indian society see, Radhika Ramasubban, 'The Development of Health Policy in India' in T Dyson and N Crook, eds, "India's Demography: Essays on the Contemporary Population", New Delhi, 1984.

21 Pesonal communication from A P Rao, TB Group of Hospitals, Sewri, Bombay.

22 T Dyson, op cit, note 17 above.

23 Even more striking differentials here were found in the morbidity conditions in the Poona slum survey, op cit, note 7 above.

24 In Bombay itself, however, deaths due to fires have become more frequent among *men* during the 1970s.

25 These have not been standardised by age or sex; this cannot be done from published data at the level of the ward. See Municipal Corporation of Greater Bombay, Annual Report of the Executive Health Officer, relevant years down to 1981. We are grateful to S S Sabnis for his help.

26 We withhold a detailed discussion of pneumonia since this is often a complicating factor in the development of other diseases and hence more difficult to relate directly to social or physical environments.

27 Municipal Corporation of Greater Bombay, "Bombay Air Pollution—Health Study", KEM Hospital Bombay, 1984.

28 Data from 1976 Slum Survey, quoted in Municipal Corporation of Greater Bombay, "Report on the Draft Development Plan (Revised) 1981-2001 for Greater Bombay", Bombay 1984.

29 This project is being undertaken by the authors jointly at the Centre for Social and Technological Change, Bombay. NC also wishes to acknowledge support he has received from the School of Oriental and African Studies, London, and RR is grateful to D Narain of the Department of Sociology, Bombay University, for facilitating her work.

# Superpowers in Collusion

**Narindar Singh**

*Mankind has acquired the dubious ability to destroy itself over and over again only recently and cannot possibl live with it for long. For even if we altogether ignore what are commonly described as 'conventional' weapons and even if we forget all about the biological and chemical arsenals being expanded at present, the explosive power already congealed in the nuclear 'warheads' alone is sufficient to blow up the biosphere of the Earth many times over. What we need to, can and must try to comprehend is the essential logic of this situation.*

*The intensification of the process of weaponisation means that each superpower establishment, using the other's programmes and pursuits as an excuse, extracts ever larger resources out of its own people. But at the same time, the two powers will be, and in fact will have no option but to be, seeking new modes of accommodation with each other. By the very nature of the weapons they have managed to acquire the two have been forced to enter into a state of a fateful and a potentially fatal collusion. Each is concerned with its own build-up as determined by the perceived domestic requirements of its own Establishment. In the circumstances, the contradiction must get crystallised. and also find expression, not between the blocs but within each bloc.*

## I

## Introduction

ALBERT EINSTEIN's secretary during the last twenty-seven years of his life, Helen Dukas, and his close collaborator, Banesh Hoffman, had, not very long ago, a delightful little Einstein tale to tell. According to them, a prominent American publisher, whom they chose not to identify, had just broken ground for a new library wing for his country home and wanted to place in the cornerstone an airtight metal box containing items that would be of considerable archaeological interest to the coming generations. Thus, one of the items intended to be interred in this Time Capsule was to be an issue of *The New York Times* printed especially for this purpose on long-lasting rag paper.

The publisher wanted Einstein also to contribute a message for posterity and to this end sent him a sheet of this very special paper which he said was expected to last for a thousand years.

Einstein responded immediately with the following message:

Dear Posterity,

If you have not become more just, more peaceful, and generally more rational than we are (or were)—why then, the Devil take you.

Having, with all respect, given utterance to this pious wish,

I am (or was)
Your
Albert Einstein[1]

This was written way back in 1936: and over the years, the world has become not 'more just' as Einstein had wished it would, but less and therefore also not more peaceful but less. And, finally, far from being generally more rational, it has become so morbidly irrational as to have brought its own annihilation very much within the range of what Bertrand Russell once called 'feasible lunacy'.

Already in 1936, the situation was bad enough to have provoked Einstein into articulating what he called his 'pious wish'. And yet, the Nazi Holocaust of the Jews was still in the future, and so were the Second World War, the 'First Cold War' and the 'New Cold War'; and each one of these would take its own heavy toll of rationality. In consequence, and in less than fifty years of Einstein having composed the above warning to posterity, our race has moved so far away from rationality and therefore from its much-flaunted sapience that it would do well to redesignate itself as *homo insipiens*. For 'sapience' certainly cannot have 'the potential for self-destruction' as one of its connotations.

Mankind has acquired this dubious ability to destroy itself over and over again only recently and cannot possibly live with it for long; in any case not for long enough in terms of historical time. For even if we altogether ignore what are commonly described as 'conventional' weapons and even if we forget all about the biological and chemical arsenals being expanded at present, the explosive power already congealed in the nuclear 'warheads' or rather mega-death-heads alone is known to be sufficient to blow up the biosphere of the Earth many times over.

Life as such may perhaps manage to continue in the form of some micro-organisms; and a variety of insect species might actually begin to thrive after the Holocaust. But from the point of view of human habitation in any case, the biosphere will have been destroyed absolutely thoroughly. No other conclusion seems possible. For, generally said to be around 20,000 million tons of TNT equivalent, the nuclear component of the explosive power now 'available' to the world is roughly one million and seven hundred thousand times the 'yield' of the Hiroshima bomb.

Such figures can do little but strike the mind with total incomprehensibility. For the human brain is simply not designed to comprehend the kind of disaster which would be caused even by a fraction of this explosive power actually getting used in a future war.

However, what we need to, can and must try to comprehend is something entirely different: the essential logic of the existing situation. But in order to comprehend this logic, we must, in the first place take care to specify the defining features of the prevailing situation: defining in the sense, that they make it altogether unique in the historical experience of our race: both unprecedented in the past and unsustainable in the future. To my mind, these features, mutually reinforcing and interlocking that they are, may still, for the sake of convenience, be identified as follows:

(1) The emergence and consolidation in the world today of two pyramids of power, each so colossal that all other pyramids of power of the past and present fade into insignificance. One of these pyramids professes or pretends allegiance to Liberalism and the other to Marxism. But both of them continue to obey, inexorably and relentlessly nothing but the dictates of Opportunism.

(2) Both of these pyramids of power have available to them vehicles of mass destruction so indiscriminate that each can destroy the other, the rest of the world and itself too, many times over.

It is easy to see that in this macabre situation each of the two superpyramids can expect to endure if and only if it can count at least on the tacit approval of the other, even if it may not expect to be given active co-operation and protective patronage by it. I have proposed elsewhere that each of the two superpowers be taken to be both a gigantic fish and a wily scorpion. Thus understood, each is a fish with respect to its satellite sub-states and at the same time a scorpion with respect to its sister superpower. It is in this way that the two seek and can also hope to be able to manage the rest of the world. It follows that each must in effect condone as a scorpion what the other has to do as a fish.[2]

In a recently completed State of the Art Report, Bjorn Hettne has designated the above formulation as possibly the 'main explanation' of the New Cold War.[3] Indeed, if the superpowers did not take it to be a mere game, they wouldn't dare undertake the kind of intensified weaponisation which is associated with what is called the New Cold War. That the game is extremely expensive and as dangerous only adds to the unmitigable madness of the present situation. Even so, as I will be arguing later, it cannot be described as MAD-ness.

Be that as it may, the intensification of the process of weaponisation only means that each superpower Establishment, using the other's programmes and pursuits as an excuse, will now be extracting ever larger quanta of resources out of its own people. But at the same time, the two will be, and in fact will have no option but to be, seeking new modes of accommodation with each other. This means in turn that in the situation now evolving, we would do well not to speak of a historic contradiction between the Camp of Imperialism and the Camp of Socialism led respectively by the corporate kings of the United States and the Bolshevik Vanguard of the Soviet Union. For the two have been forced by the very nature of the weapons they have managed to acquire to enter into a state of a fateful and a potentially fatal *collusion*. And by no means should collusion be designated as contradiction. It follows that the two blocs may *not* be taken to be even in a state of Cold War with each other. For each is concerned with its own buildup as determined by the perceived domestic requirements of its own Establishment.

Instead, the contradiction must get crystallised and also find expression within each bloc: between the ruling circles on the one hand and the ordinary people on the other. Evidently, it is the ordinary people who have already to suffer many of the consequences of a hot war. Indeed, as far as the ruling circles of either bloc are concerned, they can only afford, and therefore must try, to have as their targets none other than their own people at whom are their missiles aimed. For the directions in which they are pointed do not really matter.

To be sure, the two superpowers rarely must miss an opportunity to condemn each other. But that usually amounts to no more than an exchange of compliments. So, if Ronald Reagan tries to denigrate the Soviet Union as an empire which is 'the focus of all evil in the modern world', the Russians on their part do not find it inordinately difficult to describe him as an imperialist warmonger. The more important thing is that it is in order to improve his image at home and thus to improve his electoral chances that Reagan also finds it useful if not absolutely necessary to invite Andrei Gromyko for dinner. Only, the Russians, not having to worry about an irrelevancy like the image at home, have no need to return such hospitality.

In any case, what matters here is to note that the two superpowers find themselves to be perpetually locked in a relationship so curious that each must perforce seek to appear to be unrelentingly obdurate towards the other and at the same time to be genuinely appreciative of its basic problems and positions. I should like to designate this relationship between the two as their MAO: Mutually Appreciated Obduracy. Occasionally, the Obduracy may in fact be Mutually Assisted, Adjusted, or once in a while even Antagonistic. But always, and necessarily, it is duly and deeply Appreciated, and at least in private, probably Admired and Applauded.

As far as a proper perception of the prevailing reality is concerned, therefore, I should prefer MAO to the currently used concepts of MAD (Mutually Assured Destruction) and NUTS (Nuclear Utilisation Threats). For to me, while MAO is the essential strategy of power in the world of today, both MAD and NUTS are mere stratagems meant to mislead the unwary and to legitimise the gargantuan quanta of power being stockpiled on either side.

## II

### MAO as Strategy

A strategy is but a way of realising a long-term goal. But given the very ultimacy of the destructive power of the weapons now in existence and given also the entirely myopic concerns of the two Establishments: conceivably the only way that the superpowers can try to avoid their own annihilation is for them to secure a lasting accommodation with each other. That is not peace proper, to be sure. But that is not immediate extinction either. And in any case, who ever said that the superpowers could ever be interested in anything more substantive than a purely working arrangement between themselves? An arrangement, moreover, which in effect is meant for the control and manipulation of the rest of the world through the creation and consolidation of the respective spheres of influence?

There does not have to be a formal treaty to this end. A tacit understanding is *all* that is needed and is all that they may have. But such an understanding can stem from interests perceived as common, and it is achieved, Paul Keal has written, "through unilateral acts or the conspicuous absence of certain acts". Further, a tacit understanding requires each party to understand "that the other understands that what each does depends on what each perceives the other as being likely to do". Accordingly, each makes choices which are consciously contingent. That is, choices which are deliberately opportunistic but still conditioned by the overriding need for mutal accommodation. As a result, when "the choices of each, in particular circumstances, fulfil the expectations of the other it appears that there is tacit understanding about how to behave in order to achieve a common end". Evidently, a tacit understanding in the present context may be characterised as one which causes or allows particular actions or inactions of the superpowers "which cannot or will not communicate directly about what is understood".[4]

Moreover, it is in order precisely to secure a more effective working alliance with each other and thus to remain entrenched, that the superpowers or rather their Establishments must also try to overwhelm their respective sets of people. It is to this end that each must try tendentiously to generate fears of the Other Side trying frantically to achieve a pre-emptive nuclear victory. For where else could the resources come from for the perfection and the production of the diabolical weapons—'weapons systems' in current jargon—and therefore for the continuation of the prevailing pyramids of power? For example, the way the arms control negotiations are initiated, suspended, resumed and dragged fits perfectly well into this pattern of the growling conjugality of the superpowers.

It is nothing but the logic of the existing situation which generates what C Wright Mills would have called the Higher Immorality of the Nuclear Age. And it is the inherent immorality of the behaviour of the superpowers which I must take care to emphasise. For else, I would have spoken of their mutually articulated and affirmed obstinacy, not obduracy. Besides, what we need to comprehend are the domestic dimensions and consequences of this unrelenting international obduracy. For as Michael Kidron and Dan Smith have argued:

> The international military order is not just a dangerous and unstable equilibrium between states. It is based on conditions *within* states, where power devolves on those who translate its spirit of universal siege into domestic policies. It reinforces the most

> regressive aspects of each national society. Waste on a colossal scale, centralised power, inaccessible hierarchies and overblown bureaucracies are complemented by mutual fear and hostility, the glorification of violence, the disabling of dissent and the curtailing of freedom and dignity. None of these is new, but all owe their contemporary severity to the international military order.[5]

One may add here that the expression 'mutual fear and hostility' in this statement ought to be taken to mean the panic which the ruling circles of either bloc try deliberately and artificially to create among their own people by harping relentlessly on the growing military might of the other. Deliberate threat-inflation through repeated reminders of the other's bids for military superiority is used by each side to create a kind of psychosis so that its own quest for resources at home remains unchallenged. And yet given the essential nature of the weapons involved: those already stockpiled and those being perfected: the very concept of military might loses all possible meaning. This being so, neither the 'growing military might' of any of the sides nor its bid for military superiority over the other than possibly mean anything. For a nation or a bloc can be taken to be militarily superior if and only if it has managed to acquire the power to inflict crippling losses on the enemy and at the same time has acquired the power to protect itself against similar losses. But this precisely is a kind of power which modern weapons do not allow any side to acquire. Indeed, the very excess of success, particularly in terms of blast power and radioactive fallout, which has attended their development renders them totally useless as weapons of war. Trying to sell their 'cost-effectiveness' perhaps, John Foster Dulles once spoke of 'more bang per buck' that nuclear bombs could produce. But he failed to see, or at least to admit, that the bangs taking place during a nuclear exchange, no matter how inexpensive to cause, could still turn out to be extremely costly in terms of their consequences. For they could bring about little less than the very extinction of the race. The cosmic dimensions of the bangs and the extreme toxicity of the radioactive fallout which would before long cover very large parts of the globe if not the whole of it could promise little else.

Little wonder that the one thing that the hawk(er)s of Socialism and of Freedom have not been able to do is to prepare some credible plans of military action leading to something which could be described as 'victory' in a nuclear war. All that we get are occasional and only too familiar bursts of brave but hollow rhetoric. Thus, Lieutenant Çolonel E Rybkin, a Soviet military theoretician of yesteryear, had this to say some time ago: "To assert that victory is not at all possible in a nuclear war would not only be wrong on theoretical grounds but dangerous as well from the political point of view."[6] We cannot figure out what the theoretical grounds could possibly be; and it seems that the word 'theoretical' was intended merely as a gloss of academic respectability for a statement which could not otherwise be made to make any sense whatsoever. However, the political dangers which the Colonel had in mind are more easy to discern: an affirmation of the impossibility of victory in a nuclear war would but be an affirmation of the illegitimacy of the political system which, its socialist pretensions notwithstanding, could not help create an ever-growing and all-devouring nuclear war machine. It is this which the Colonel must have been keen to prevent. For he went on with the further claim that "Any *a priori* rejection of the possibility of victory is harmful because it leads to a disbelief in victory". Now, what could one make out of this rather profound circularity even if one wished to emphathise with him over what he called 'moral disarmament' and 'fatalism and passivity'?

The votaries of freedom do not turn out to be a lot more convincing when they come to talk of the distinct possibility of their victory. One may refer here to an article by Colin Gray and Keith Payne. Indeed the very title they have given to their article—'Victory Is Possible'—is strongly reminiscent of what the Mad Hatter once told Alice: one can say what one means without meaning what one says. For the only meaning which one can assign to their article is that anything that could be legitimately described as victory would not be the outcome of a nuclear exchange: yet they affirm its possibility in the title itself. And this is what they say:

> Strategists cannot offer painless conflicts or guarantee that their preferred posture and doctrine promise a greatly superior deterrence posture to [the] current American schemes. But they can claim that an intelligent US offensive strategy, wedded to homeland defences, should reduce US casualties to 20 million, which should render US strategic threats more credible. If the United States developed the targeting plans and procured the weapons necessary to hold the Soviet political, bureaucratic, and military leadership at risk, that should serve as the functional equivalent in [the] Soviet prespective of the assured-destruction effect of the late 1960s.[7]

It is worth noting here that the necessary condition for this 'victory plan' to be executed at all is the American willingness to accept a minimum of 20 million deaths. The number of survivors who would inevitably be exposed to radiation and suffer its effects is not indicated. All that we are told is that the American willingness to accept 20 million casualties would render the US strategic threats more credible. How does that get translated into victory is not at all clear and is not made clear. But the really serious difficulty with this victory plan is that the liquidation of as many as 20 million people in a sudden flash as it were and the paralysing and corresponding destruction of the American economy will not leave behind a functioning society. With such a society itself having vanished into thin air, the very idea of victory will cease to mean anything whatsoever. Besides, the only practical steps which the authors suggest towards the end of the passage quoted would be directed towards holding the various components of the Soviet leadership 'at risk'. Which will bring the world back to the MAD-ness of 'the late 1960s'.

And surprising though it may seem to Gray and Payne, that does not sound like anything that we or even they could designate as victory. Little wonder. For, as C Wright Mills saw it even as early as the mid-fifties, the Nuclear Age could not conceivably have any literature of victory. For given the means of violence that existed even then and have now been further developed, it would be impossible to prepare either a war plan or an image of victory. The 'massive retaliation' which Dulles for instance threatened the Russians with could only be a violent diplomatic and political convulsion which was but a recognition of the fact that an all-out war between the two blocs would bring about their mutual destruction.[8] And of the rest of the world, too.

The unwary might imagine that this in itself should lead to a war-less world. It should but it does not; and at least has not. The powers that be on either side do seem to perceive the fell hazards of having a nuclear go at each other. But instead of trying to de-escalate the process of militarisation by pruning their military budgets and buildups, they seem hell-bent on re-escalating it. It follows that the unprecedented proliferation of the vehicles of ultimate violence is intended not to ensure any kind of military victory for either side over the other. It is meant instead to ensure that the two pyramids of power are able to remain entrenched in their respective domains.

This way of looking at reality is no longer confined to those who reject the very legitimacy of the prevailing pyramids of military and political power. In fact, it seems to have infected even some Establishment scholars who write for such journals as the *Foreign Affairs*. One such is Authur Schlesinger who, while speaking of the 'recurrent Pentagon panics', declares that Pentagon officials seem to take masochistic pleasure at regular intervals in declaring that the Soviet Union is now stronger than the United States. Therefore, he doubts if defence officials really believe their own lamentations. For none of them is known to have offered even for the sake of an argument to trade in the American for the Soviet defence Establishment. This point may not be dismissed as one which is overly wild. For not long ago, when asked in Congress if he could change places with his Soviet counterpart, the Chairman of the American Joint Chiefs of Staff said, 'Not on your life'. Schlesinger goes on to add:

> The irony is that the Pentagon and the Soviet Defence Ministry prosper symbiotically. There is no greater racket in the world today than the generals claiming the other side is ahead in order to get bigger budgets for themselves. This tacit collusion, based on a common vested interest in crisis, remains a major obstacle in the search for peace.[9]

In the Establishment perspective, 'the search for peace' requires not general and complete disarmament but some sort of a control over the production and deployment of arms. So far, this has only meant some regulation of the pace at and the direction in which nuclear weapons can be stockpiled by the two sides. Indeed, such is the crooked logic of the prevailing situation that there has not been a single arms control agreement which has not allowed higher ceilings than the levels of stockpiles which existed at the time the negotiations leading to it were initiated. Therefore, as William Epstein has argued, there have never been any arms control agreements at all but actual blueprints for the continuation of the accumulation of nuclear weapons by the two sides 'under agreed terms and conditions'.[10] In other words, what is made to pass for arms control is nothing but a somewhat planned decontrol of the development and deployment of modern weapons. Which is also to say that the institution of arms control is intended essentially to formalise the already tacit and abiding collusion between the apparently rival Establishments. Each takes care that the other's legitimacy which on occasion may have to be jolted a bit is not actually destroyed. It is this situation which arms control formalities do not disturb. In fact, as William Arkin and his colleagues have only recently argued, "If arms control didn't exist, it is hard to imagine how the existing weapons acquisition process would have been different".[11]

Particular reference may be made here to SALT Agreements which never stipulated *any* reductions in the stockpiles nor any limitations on the technological 'improvements' of weapons. Rather, they provided for higher ceiling figures than those that existed already. It follows that each superpower is primarily addicted to *its own* arms buildup; and the arms competition between the two, if any, must be purely secondary. In this connection, one may refer to the stipulations of the SALT II:

> It set limits on numbers of launchers and sub-limits on the numbers of MIRVED launchers, which would oblige each side to dismantle a token number of operational systems (33 US, 254 USSR). For this, obsolete systems that were due to be retired could be chosen. It imposed a limit below the maximum technically possible on the numbers of warheads permitted for existing MIRV launchers and of cruise missiles per heavy bomber (fixed at the maximum load of a B-52). In addition, each side would be permitted one new ICBM system. Ceilings would be imposed on the 'throw-weight' of the missiles and on certain other offensive weapons not yet developed (the Outer Space syndrome). So congenial are these terms to the respective military establishments that even without Senate ratification they appear to be observed any way.[12]

It follows that the problem is not one of controlling the arms but one of controlling the 'armers'. And it is the armers who, given to preserving their respective constituencies, would not let the world slide towards genuine disarmament and peace. The most they can afford to allow is a somewhat regulated proliferation of arms. It to this end that they resort to MAO as the very best conceivable strategy.

## III

### MAD and NUTS as Stratagems

It is ironical in the extreme that while the two superpowers are virtually *bonded* together through MAO, and have no option but to be so bonded, they pretend vehemently to be opposed to each other and this to the point that they can manage even to assign formal designations to their incompatibilities. These designations are MAD and NUTS. However, nothing but the very logic of the prevailing situation demands that MAD and NUTS be understood as mere stratagems more or less tendentiously articulated by the ideologues of the powers that be to confuse and to mislead the underlying populations.

The point I wish to make here is this: The unending proliferation of ever-diversifying weapons systems ought not to be taken as a response to the dictates of MAD or NUTS. Rather, MAD and NUTS ought to be seen as pseudo rationalisations of the inexorable process of weaponisation. But pseudo though they are, they have nevertheless been bought wholesale even by the literati. Little wonder that the powers that be do not find it inordinately difficult to promote their misperceived and earth-eating interests. What needs to be noted here is the fact that sufficient destructive power had already been stockpiled by the early sixties when MAD began to be offered as an explanation. Also, when weapons accumulation continued to proceed far beyond what could possibly be needed for MAD purposes, NUTS came in as an alternative justification. This is not to say that MAD has been completely replaced by NUTS. Rather, it continues to get full-blooded academic support even now.[13]

But to my mind, both MAD and NUTS are products of intellectual miscarriage and we have no option but to dismiss them as entirely untenable. Let us therefore take them one by one.

MAD can be sustained in terms neither of logic nor of plain commonsense. It presumes that each side is basically rational and would therefore do everything in its power to avoid a situation which could not but spell common and more or less simultaneous suicide of the two. In other words, neither side will like to be the first to mount nuclear aggression. For it could not but expect to suffer its own annihilation through the retaliatory strikes of the other side.

This only means that the moment MAD becomes a perfect arrangement, it destroys itself as an international regulatory mechanism: To each side, the other side, being perfectly rational, ceases to pose any nuclear threat whatsoever. Which, since it can result only in the common and complete destruction of the two, ceases to be credible.

Let us for a moment ignore this difficulty and focus instead on a basic presumption of MAD. Which is that each side is deterred from mounting the first nuclear strike merely because the second strike which the other side will make in retaliation will cause a kind of damage to its population and industrial centres which it finds to be entirely unacceptable. This means that there must be an absolute upper limit to the kind of damage which each side must find to be *acceptable*. But given this limit, there must also be a limit on the amount of weaponry which each side may accumulate. For else, MAD would mean nothing.

Indeed, the conclusion is inescapable that no matter whether the two sides are rational or not, MAD cannot explain the relationship between the two. On the one hand, it is destroyed, as we have seen, by the perfect rationality of each side at the level of logic. And on the other, it is destroyed by the irredeemable and 'perfect' irrationality of the two sides at the level of empirical reality as manifested in an unending and reckless development and deployment of a large variety of unusable weapons systems. And this irrationality is paralysing in its own way. It causes an irrevocable diversion and destruction of resources and at the same time engenders varieties of societal chaos and dysfunction.

Nevertheless, entirely undeterred by considerations such as these, the military machines of the two blocs have continued to churn out an infinite variety of nuclear death-heads and the associated vehicles for their delivery. The result can be and has been dramatised in many ways. The commonest of these, as we have seen, is to say that all the nuclear blast power now available totals upto 20 billion or 20 thousand million tons of TNT equivalent. What could possibly be done with this kind of blast power no one does or can know. But an attempt at visualising the kind of overoveroverkill it represents may still be made. Philip Morrison reminds us that in order to be transported from one place to another, just one million tons of ordinary TNT would require a 250-mile long train of boxcars.[14] This only means that if the blast power now congealed in nuclear warheads could be converted into ordinary TNT, the world would then be straddled with as many as 20,000 of such trains.

The affront involved here is that we are expected to acquiesce in this pointless proliferation of destructive potential to the extent that we may actually begin to accept it as something essential for our own survival. For each side claims to be acquiring more and more of these weapons only to prevent or rather 'deter' the other side from using them and thus sparing us the resulting annihilation.

But how many weapons would be enough for purposes of deterrence? This question is generally not raised—by those in power in any case. And since, not having raised it, they don't seek to answer it either, deterrence becomes an excuse for literally limitless buildups. Nikita Khrushchev was the one major politician who, while in power, dared to question the wisdom of such reckless proliferation; and he did not have his way. Indeed, he did not last long after having declared in May 1960 that "missiles are not cucumbers, one cannot eat them and one does not require more than a certain number in order to ward off an attack".[15] He faced determined opposition from the civil and military hawks of his country. And it is possible that it was only in order to retrieve his position thus lost at home that he launched his notorious misadventure in Cuba. Which brought his downfall all the same. Riding a tiger cannot possibly be the most pleasant of experiences. Incidentally, President Kennedy chose his Inaugural Address itself to make the point that "we should always remember that, in the past, those who foolishly sought power by riding the back of the tiger ended up inside". But if what had been done in the past was intended to be a lesson for the future, he hardly even tried to learn it. On the contrary and with the solitary exception of Ronald Reagan, he brought about a much greater expansion of the arsenals of the United States than any of his predecessors or successors. But the basic novelty of the present situation lies in the fact that the tiger itself has become monstrous enough to be able to swallow the entirety of our race and not just those who might be riding its back.

Be that as it may, it seems impossible to explain or justify such an exploding accumulation of explosive power as is now taking place for purposes of mere deterrence. There were just three nuclear bombs available in 1945; and there are as many as 50,000 'warheads' in existence now. One may also note here, though in passing, that even the literati are often heard saying that the bomb which razed Nagasaki to the ground has been the last nuclear weapon ever to be used so far. But to accept such a claim, we would perforce have to ignore all the nuclear and thermonuclear bombs exploded for 'experimental' purposes over the Marshall Islands for example and the extreme damage suffered by the Marshallese and their habitat, and ignore also the 'collateral' damage caused by tests elsewhere. However, the essential point is not that these weapons have not been used after 1945 in some narrow sense of the term. The point rather is that they have continued to proliferate and according to Ruth Sivard, some $ 900 billion may have been spent over the years on perfecting and producing them.[16]

It is as a result of such generous misallocation of resources to this task that the USA, for example, has been able to add the equivalent of one Hiroshima bomb to its arsenal about every 30 minutes since the end of the Second War: that is 12.5 kt of explosive power every 30 minutes for 38 years, day and night, seven days a week.[17] And the USSR, having started late, may have fared even 'better'. Projections for the future are still more daunting in so far as the US nuclear arsenal is going to be expanded by as many as 21,000 warheads during 1983-1993.[18] In other words, this would only be the net addition to the stock of warheads already available. The total number of warheads to be fabricated during this period is over 37,000.[19] As far as one can surmise, and one can do little but surmise, the Soviet plans may not be inordinately modest in comparison. Indeed, Yuri Andropov did manage to declare, before he went out of circulation, that they were going to have their own MX-system. Given the imagination, Siberia, it seems, can have an unending variety of 'uses'.

The point of it all is that by no stretch of the imagination can all this obsessive weaponisation be squared up with the requirements of MAD, no matter how wildly exaggerated. Much less can it be squared up with the needs of NUTS. For what the very idea of NUTS is intended to suggest is the winnability of only a very limited nuclear war. Granting that such a war can in fact be fought: it must be a war which will result only in a limited though unspecified number of deaths: a war which will be confined to a specific and limited geographical area, though it could not but cause a complete and unlimited devastation of it: and a war, moreover, which will not consume more than only a small fraction of the nuclear blast power in existence. But if an accelerated accumulation of this blast power continues unabated, the small fraction of it intended to be used in a limited war will itself have grown to a large absolute quantity: so large, indeed, that the war will be limited no more. But if the two sides do not just envisage using a given fraction of the stockpile available, but agree instead to using a fixed absolute amount of megatonnage, and then wait for victory, there is no sense in producing vast amounts of the blast power which are not even meant to be used. Therefore, the concept of a limited nuclear war cannot be reconciled even on paper with the fact of unlimited accumulation of nuclear weapons. In fact those who consider it feasible to use only some of the nuclear weapons available cannot even define the 'someness' of the 'some'. In other words, nuclear weapons must get used either in bulk or not at all. As T C Schelling once put it, "There is a simplicity, a kind of virginity, about all-

or-none distinctions that differences of degree do not have".[20] It follows that NUTS is as untenable a concept as MAD.

Both are no more than mere excuses or stratagems invented by the powers that be in order simply to continue to proliferate an unending variety of weapons systems for reasons far from honourable.

Also worth noting here is the fact that NUTS is not even a lame excuse for proliferation: it breaks down at the conceptual level itself even when we allow the feasibility of a limited nuclear war. But such a war is *not* feasible: Either it must never be fought at all or it cannot but escalate into an all-out nuclear holocaust. This even those who are ostensibly sold on fighting and winning a nuclear war seem to recognise. Thus, while speaking at the Naval War College in August 1980, Harold Brown, the US Defence Secretary at the time, called for such a buildup of nuclear war-fighting capability as would provide greater deterrence by demonstrating the ability of the United States to respond in a credible fashion without having to escalate 'immediately' to an all-out nuclear war. Nevertheless, he took care to add also that he thought it was 'very likely' that the use of nuclear weapons by the superpowers at any level would escalate into a general nuclear war.[21] It seems that having already proliferated entirely unusable weapons far beyond the limits of absurdity, and unwilling still to face the crazy consequences of their reckless policies, literally the only thing that the well-installed security managers can do is to make crazy decisions and crazy declarations.

Little wonder that the situation is getting crazier and crazier. We are told that were the United States and the Soviet Union to exchange 'only' a few thousand of the warheads they are now known to possess, they could kill each other's urban populations and destroy most of each other's industrial capacity. This, as we would see presently, is a gross understatement. But even if the damage were no more serious than this, it is easy to see that as a result of such an exchange, each of the combatants would cease to function as something that could be recognised to be a society. In fact, so diabolical is the kind of destructive power now available that a single Poseidon submarine captain could fire as many as 160 independently targetable nuclear warheads, each with a yield several times larger than those of the weapons which destroyed Hiroshima and Nagasaki.[22] Assuming that there were no technical breakdowns of any kind at any level, the fate of as many as 160 Soviet cities would thus be sealed more or less instantaneously. This alone could perhaps result in some 30 million 'fatalities' which is the Pentagonese for 'deaths'. The United States, being a sanctuary no more, could hardly expect to escape similar devastation.

## IV

## The Biospheric Imperative

But what even such dire prognostications fail to take into account is the existence of something which is very intricate, very vulnerable and at the same time vitally important for our existence itself. This is the biosphere, a major imponderable which remains unaccounted for, if not entirely unperceived, by the war gamesters of the Pentagon or of the Kremlin. Or, if they do manage to take it into account, they do not let it influence their calculations: such calculations at least as are meant for the consumption of their respective populations. In any case, they do not let their policies be affected by the biospheric imperative. But how absolutely vital is it to make these policies respect this imperative follows from an observation which Norman Cousins made many years ago:

> It is impossible for any nation to wage nuclear war against another nation without also waging war against the human race. The winds are the conveyor belt of mass death. The nuclear gun contains three barrels: one is pointed against the enemy; a second is pointed against people who are not enemies; a third bends back completely and is pointed squarely at the holder.[23]

This means that it would be impossible for the Poseidon captain to destroy only the Soviet cities. He would inevitably be raining death on Soviet villages too; and on the villages and cities of the United States and of the rest of the world as well. Besides, he would be doing all this even if all his shots went wide of the mark. No inaccuracy and lack of precision in aiming would matter. Even so, when Norman Cousins wrote of the nuclear gun having as many as three barrels, winds were the only known carriers through which death unleashed by nuclear explosions could travel.

But it is now known that thousands or even hundreds of such blasts taking place more or less simultaneously would not just unleash death directly, but would also promote it indirectly by causing a catastrophic depletion of the ozone cover of the Earth. This would expose most life-forms on the planet, including our own, to ultra-violet radiation of the Sun. Evidently, madness alone can flow out of the barrel(s) of a nuclear gun.

Reinforcing this assertion is the very strong possibility of a nuclear winter to be triggered by these explosions. Experimental verification of this formulation would obviously be impossible. But the lack of such verification is no reason why we should dismiss or even discount a possibility which at least common sense does not seem to exclude. We don't have to go into the nuclear winter argument here. All that we have to note is that some hundreds of nuclear explosions taking place within a few hours will throw up hundreds of millions of tons of dust and debris into the atmosphere, its uppermost reaches not excluded. This is what volcanic eruptions also do. But the quantities involved in this case will be incomparably larger, and will inevitably shut out most of the light from the Earth for several months. The resulting climatic catastrophe will in itself be enough to kill people and destroy vegetation including crops. In the circumstances, as Carl Sagan has argued, the decision to launch a nuclear attack will amount to little less than national suicide for the attacking side too even if the attacked nation does not lift a finger to retaliate: "If a first strike gains no more than a pyrrhic victory of ten days' duration before the prevailing winds carry the nuclear winter to the aggressor nation, the 'attractiveness' of the first strike would seem to be diminished significantly".[24]

It follows that there can be no such thing as a limited nuclear war in Europe. Of course, if the superpowers were to sign some sort of a Protocol of Annihilation, they could still manage to fight exclusively in Europe. Perhaps, it is in anticipation of some such contingency that the United States, for instance, has deployed on the average one Hiroshima-level warhead for every 50 American soldiers and support troops stationed there.[25] Even so, in terms of *consequences*, a Eurocentred nuclear war could not possibly be confined to Europe. Within weeks if not days, the rest of the world will follow Europe to nuclear sleep. E P Thompson said once, "US scenarios for a limited war in the European theatre do not amuse us: This is where we happen to live"[26]

It seems now that the scenarios of a nuclear war even scrupulously and entirely fought in Europe may not amuse anyone living anywhere on the Earth. For the Third Planet is a single unit and so is the sphere of life around it. Which, after the Greek Earth goddess, James Lovelock has designated as Gaia. This must perforce mean that even if only a part of a living unit like Gaia is exposed to the cosmic fires caused by hundreds if not thousands of nuclear explosions, the whole of it would be destroyed.

Military managers of the superpowers cannot possibly be unaware of this possibility. Certainly, their scientific advisers cannot be so unaware. Else, they would hardly be worth their salt as scientific advisers. But they, the managers and their advisers, remain entirely undeterred. Apparently presuming that the weapons, whether already available or yet to be developed, will somehow remain unused, they are now planning to launch another and so far the craziest and the most reckless round of producing them. To be sure, the initiative still lies with the United States. But if the US goes the laser-way, can the SU be far behind? In particular, because Reagan, an exceedingly good boy that he is, has himself promised that in case the United States can build a foolproof anti-nuclear shield, she would share the technology with the Soviet Union?[27]

We are told that attempts will now be made to put purely defensive weapons in space so that incoming missiles could be destroyed with lasers and particle beams and thus prevented from exploding and doing any damage whatsoever. Already, with a characteristic mixture of chicanery and hucksterey, Ronald Reagan has asked the scientists of the United States who developed the nuclear weapons "to turn their great talents now to the cause of mankind and world peace" and produce "the means of rendering these nuclear weapons impotent and obsolete".

Reagan made what has been commonly described as his Star Wars speech in March 1983. But in so far as the war would take place not light years away but here around the Earth itself and would most certainly cripple its biosphere, it is hardly an apt description. Be that as it may, it was noted immediately that his "Video-game vision of satellites and other weapons that might some day zap enemy missiles with lasers or particle beams and the drama surrounding his unexpected announcement were (at least) partly a political ploy to change the context of the debate over defence spending".[28]

In any case, some leading members of the 'scientific community' whom he had addressed were quick to point out that a perfectly leakproof Ballistic Missile Defence (BMD) system could not be devised at all so that even a small fraction of enemy missiles beating it would cause millions of deaths and immense socio-economic havoc. According to Carl Sagan for example:

> Optimistic informed estimates of porosity or 'penetrance' (the fraction of attacking missiles successfully detonating at their targets despite the BMD) are no lower than five to 30 per cent. The present world arsenal of strategic warheads is so much greater than the threshold for climatic catastrophe that even if five to 30 per cent of attacking missiles got through in something like a full exchange, the catastrophe could be triggered.[29]

But even if such a system could at all be devised, there would be nothing particularly 'defensive' about it. As Simon Ramo put it, "Who says that this technique will be used only to knock out missiles in the sky? If it's such a good technique, why not use it to knock out things on the ground?"[30] Where, moreover, the hits could be surer? But it really is not such a good thing at all, and as Hans Bethe has also warned, one can be as 'optimistic' as one can be within the limits of the laws of physics and geometry, but the system remains unworkable.[31]

But what to my mind has not been even noted, much less emphasised, so far is the crippling impact of this science-fictitious bizarrerie on the biosphere. This it will have in being assembled in space and also in being used. For, in the first place sending such systems into orbit will require immense expenditures of energy which in itself will have extremely serious environmental consequences. There are indications that a comprehensive system of this kind will consist of over a hundred satellites. Which "in turn would need literally thousands of space shuttle sorties to assemble".[32] But Daniel Graham, a 'High Frontiersman' himself, is thinking in terms of over 400 'killer satellites'.[33] And this would mean many, many more thousands of space shuttle sorties. And as far as actually using the laser guns is concerned, at least two sources of environmentally disruptive effects might be specified: (a) Innumerable Hiroshima level nuclear explosions would probably be needed to generate the energy which in turn would be converted into lasers. What it will mean for the environment, particularly that part of it which a country with a laserised defence system could call its own, can better be imagined than described. Also (b) even if all the enemy missiles are effectively destroyed at one stage or the other, very large quantities of unexploded plutonium and other radioactive material will be scattered and before long will reach various parts of the globe. Considering that just ten pounds of plutonium which is the most toxic substance known to man, would, if 'evenly' distributed, expose the entirety of the human race to a variety of cancers.[34] such scattering is not something that any nation can view with equanimity: not even the one which is firing the laser guns.

This does not exhaust the list of objections against a laser-based BMD. But it should be clear already that it is a "dangerous hoax and a cruel and potentially expensive exercise in self-deception".[35]

Does all this mean that "we are fated to live in a MAD world" so that the "principal hope at this time will not be found in seeking NUTS doctrines that ignore the MAD realities but rather in recognising the nuclear world for what it is and seeking to make it more stable and less dangerous"?[36] I think not. For such a view follows from an elitist perception of reality which excludes the inevitability of the erosion of the power of the powers that be. And yet that is the way out of the nuclear world, MAD, MAO, NUTS, BMD and all.

## V

### The Limits of Overreaching

Power and self-destruction are but two sides of the same coin; and as such, overreaching is not an invention of the twentieth century. But the ultimacy of overreaching is. For it is the specific means of power available today which lend to overreaching an entirely unprecedented grimness: a kind of apocalyptic and global character that it has never had before. In fact, even as the Ancients knew, overreaching was by definition counterproductive. For in failing to restrain oneself in time, one could well be ensuring one's own destruction. This was the point, for instance, of the Greek legend of Icarus. Daedalus, his father and a highly skilled craftsman, made wings for them both so that they could escape from the labyrinth of Crete. But the wings were attached to their bodies by wax; and heedless of his father's advice to the contrary, Icarus flew higher and higher and got too close to the Sun. The wax melted, and he fell into the Aegean Sea.

The 'wax' in the legend suggests that technology, particularly if it happens to be very daring, must have some crucial weakness or the other. Evidently, the destruction of Icarus can be explained in terms of his refusal to recognise the inherent limits of technology. The moral is not that technology as such must be discarded but, as the successful escape of Daedalus suggests, used within limits and with care.

To Geoffrey Whitney, the author of "A Choice of Emblems" (1586), this legend was clear 'evidence' of the inevitability of the retribution which would be meted out to those 'Whoe seeke the thinges to mortall men deny'de'. But it was essentially an allegorical warning against overreaching. And it is hardly surprising that an Icarus falling headlong into the sea should have served as the emblem of self-destruction for "The Tragicall History of Doctor Faustus" (1593), the last and also the greatest play that Christopher Marlowe ever wrote in developing his conception of the futility of overreaching.

But it is not a little ironical that precisely at a time when Marlowe was playing the spotlight on the inexorability of the movement towards self-destruction of the individual overreacher, history was getting ready to give birth to a civilisation which would in our own day confront mankind as a whole with the wages of overreaching. In other words, and in due course, overreaching would cease merely to be the hamartia, the tragic flaw, of the individual hero in life, legend or literature. Infinitely more serious, it would become the bane of the entire race of humankind.

An obvious question that one could raise and try to answer would be: How did it happen? And another would be: Can we see any limits, preferably built-in limits, to a process which so far has been inexorable and has in fact overwhelmed the world with its inexorability? Both these questions are significant, and unsurpassably so. But, and at least in the present context, I consider it a lot more important to try to answer the second of the two.

In what follows, therefore, I would like to see if, having been overwhelmed by overreaching so far, we can overwhelm it now: to arrest and to reverse it. I think one can answer this question in the affirmative. In any case, if there is any hope for our race today, it lies only in its ability to provide sufficient justification for an affirmative answer to this question.

It seems necessary to affirm here that overreaching is by no means to be taken as something which may have been written into the genetic code of man. In other words, it is not an integral part of what would be called 'human nature'.

Instead, it is an absolute compulsion of Power. For it is only through overreaching that the powers that be expected to be able to retain their power. This is not to say that they see their pursuits as a continuing exercise in overreaching. For if that were so, the world today would be a much safer and a sounder place than it actually is. Rather, the pursuits in question are little but products of what C Wright Mills once called 'crackpot realism'. Which, as defined by him, is a tendency to become so rigidly focused on the next step as to become creatures of whatever the main drift brings.[37] Each step seems rational and even critically essenti ' to the perpetuation of the *status quo*. But the 'main drift' is directed towards disaster.

This only means that the powers that be cannot but take a purely short-sighted view of their own interests. For what they always do to remain installed is ultimately destructive of all that sustains them as also the power-less. But an absolute inability to 'see' this fundamental truth is what short-sightedness is all about. The ruling circles of all times and of all climes become victims of their own misperceptions. Only, the misperceptions of the ruling circles of today are exceedingly dangerous. E F Schumacher once spoke of the cheerful brutality of Lord Keynes's well-known dictum that in the long run we are all dead. But the brutality of this statement can be cheerful no more. For Keynes could only have been thinking in terms of everybody taking his own turn to die, so that at any given time, the race as such would still be alive. But, as against this, a nuclear war would send us all to an everlasting sleep at the same time, so that there would be no one left to perpetuate the race.

All the more reason why we must see that the attenuation of Power today is vitally important for our existence as a race. To this end, we must take care to dismiss as tendentiously generated illusions what the 'decision-makers' try to sell as self-evident truths. The most dangerous of these is the blatant lie that their quest for more and more weapons is only in response to the growing strength of the 'enemy'. For the literally insatiable appetites for weapons which the two Establishments can be seen to have can only be explained in terms of bloc-internal considerations and not in terms of external military threats which are deliberately exaggerated. Besides, weaponisation of the kind which has been taking place for nearly four decades now can spell nothing but increased or rather intensified insecurity and not, as claimed, any kind of security.

The moment we see this, we can begin to perceive the grim meaning of an assertion like, for example, the following which John F Kennedy made at the time of his Inauguration: "We dare not tempt them with our weakness. For only when our arms are sufficient beyond doubt can we be certain beyond doubt that they will never be employed". But since the sufficiency in question was defined implicitly only in terms of the domestic requirements of the ruling elite, it became in effect an excuse for an open-ended development and proliferation of weapons.

The situation has become so ludicrous now that Ronald Reagan, for example, can manage to ask for truly astronomical sums of money for two opposing requirements: on the one hand, a space-based BMD system which according to him will render all nuclear weapons 'impotent and obsolete' and on the other, as many as 21,000 additional nuclear warheads to be produced during the years 1983 to 1993.

Remember that as per Reagan's own declared intention, the very purpose of laser battle stations is to save lives and not to avenge them. This only means that he and his mates are in any case not thinking even in terms of a second strike but rather in terms of avoiding such American 'fatalities' as might otherwise be caused by a Soviet first strike. If that is so, why would the United States need the additional 21,000 nuclear warheads? One could think of two possible reasons: (a) To neutralise the damage caused by the Soviet missiles leaking through the new BMD system; and (b) To meet the American 'Defence' requirements till the new system got developed and deployed. But on either count, a mere fraction of the existing stock of overoveroverkill would do. Why add to it no less than 21,000 nuclear warheads over a period of no more than ten years? The conclusion is inescapable that the reasons are other than military.

I believe it should be not at all impossible even for the Americans to reject Reagan's queer ideas concerning defence and security. In particular, because the economic and social costs of this kind of insensate weaponisation which are already extremely high are bound to become higher and yet higher. The menacing and the mounting budget deficit which has been described as America's Economic Black Hole and which Reagan wants to fill with the help of Tax Cuts and escalating military expenditures, may be taken as an index of these costs. And, then, a centrally planned economy that it is, the Soviet Union must perforce have its own economic black hole. Which cannot but spell corresponding burdens for the Soviet people.

I find it inconceivable that people can continue to endure these burdens indefinitely. For massified that they now are, as Paulo Freire would say, by the illusion builders of the two Establishments, they must refuse some day to accept these burdens. One only hopes that that day is not very far off.

As I see it, then, the sheer cost of overreaching determines the outer limit which it cannot surmount. But in refusing to accept the costs, people would in effect question the legitimacy of the power of the powers that be. The virulence of this power and therefore the power itself must begin to get attenuated.

Precisely such a beginning will mark the initiation of a truly fundamental revolution in the history of our race. Once that happens, the issue no longer will be one of moving from a world disfigured by a plethora of nuclear weapons to another distorted by a preponderance of 'conventional' weapons. For a non-spurious alternative to an excess of nuclear weapons does not lie in an excess of precision guided missiles and fuel air explosives but in disarmament and peace. Which only means that what we need is a kind of societal reorganisation so thorough that it would define security in terms of mass participation in economic and political activities and thus in terms of the conservation of resources and sustainability and not in terms of the mounting mountains of lethal junk. Perhaps, this would still not be a world completely cleansed of all military equipment. But it would still be a world which will have only such kinds and quantities of weapons as do not promise to destroy what they are said to be in defence of.

For this to happen, our race will have to become sapient enough so as to be in a position to refuse to live with the escalating costs of the prevailing world military order and with the very ultimate risk of Extinction which is inherent in it. To this end, it will need nothing less than 'a leap in consciousness' so large as to help it initiate 'a chain reaction of awareness'. But I should like to conclude with an acknowledgment to the effect that I have borrowed the phrases just quoted from one of the greatest men and visionaries of all time: Albert Einstein.

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# Agrarian Policies of Left Front Government in West Bengal

**Ashok Rudra**

BIPLAB DASGUPTA, in a series of three extremely interesting articles (*EPW*, Reviews of Agriculture, March, June and September, 1984), has covered a huge ground in Indian agricultural economics, focusing attention on agricultural labourers and tenancy relations in their proper historical perspectives. While the historical part of the papers is highly informative and valuable, it is unfortunate that he has messed up matters by trying to take up in the same papers a defence of the agrarian policies of the Left Front Government of West Bengal of which he is an important office-holder and a leading spokesman. Historical narration and their analytical treatment go ill with the polemical style of rebutting all criticisms that might have been made of the West Bengal government's policies. It is in this latter part of his papers that he has made plentiful references to me, many of them critical. Though, curiously, he has made more references to me for presenting evidence in terms of facts and figures for making positive propositions, or refuting views held by some others, I shall try in the following to defend positions held by me against some of his criticisms.

Dasgupta starts with the usual litany of West Bengal being only a state in a federal set up in which there is an excessive concentration of power at the Centre, which puts severe limits on what a state government can achieve. It is ironical that such a point should be made to a person like myself who, since his two years of experience of serving the first Communist ministry in Kerala, has been arguing tirelessly that it is futile for any left party to form a government at the state level and expect to serve the cause of the toiling masses. However, it is a brand new original thesis of Dasgupta that "as long as the rest of the country's agrarian relations are being dominated by the bourgeois-landlord combine, the picture in West Bengal cannot be any different ... agrarian relations in West Bengal cannot be segregated from that prevailing in the rest of the country". This is indeed new, because till recently it used to be said that land reforms being a state subject, a Left government in a state can do a lot, while it can do nothing about controlling monopoly houses. Of course this new thesis comes together with a whole lot of policies identical to those pursued by the Centre, e g, free trade zones, dropping of the programme of land confiscation and redistribution, raising of procurement prices of foodgrains to placate rich farmers, etc. Earlier-held policy stands are all being discarded one after another in the name of West Bengal being only a part of the Indian Union. India as a whole being dominated by capitalists and landlords, the logic of the Left Front seems to suggest that West Bengal government has also to do everything possible for promoting capitalism and landlordism. In this connection, Dasgupta throws a challenge at me that I shall not be able to substantiate my points by quoting from "the manifestoes or the formal political statements of the Marxist parties in the Front". I readily concede this particular point. The Left Front leaders are accomplished practitioners of double-talk. They write one kind of things in their formal party documents and say another kind of things when issuing press statements and making public speeches. (The latest blatant example is the Secretary of the Front issuing a statement certifying Indira Gandhi having been a democrat whereas in all formal documents the Front accused her of 'authoritarianism'.) It is the latter which carry influence with the public and it is perfectly legitimate on the part of a critic to seize upon these public statements rather than refer to the party documents.

A point made by Dasgupta is that one cannot argue about what proportion of sharecroppers has already been registered under Operation Barga, for that "presupposes that the total number of sharecroppers is already known, whereas ... there can be no way of knowing the number until each and every sharecropper has been identified". This is indeed highly interesting and amusing. It seems that spokesmen of the Left Front like Dasgupta want to have it both ways. When we argue that the NSS estimate of sharecroppers is only about twelve lakh whereas the number of agricultural labourers is several times more, so that any radical land reforms programme has to treat agricultural labourers as the target group and not sharecroppers, we are told that the official estimates are under-estimates and the importance of sharecropping in reality is much greater than that suggested by those estimates. From the very beginning of its rule, the Left Front has been advancing in all its public utterances and writings in its official organs a figure of 20 lakh for sharecroppers to be registered. Thus, as late as on January 24 of this year, the senior minister, Benoy Choudhury, stated to the press: "... of the 20 lakh bargadars in the state only 13 lakh have so far been recorded". If however we make the point that the Operation Barga has not managed to record more than two-thirds of the bargadars, we are found fault with by Biplab Dasgupta for inventing the figure of 20 lakh!

The point made by us that in carrying out Operation Barga party interests are being given a lot of importance is too well known a phenomenon to call for serious defence. Everywhere in West Bengal one knows of jotedars who have not been touched either by the Operation Barga or by the ceiling legislation or by any other land reform measures because of their extending financial and other support to the ruling parties.

We may now move over to Dasgupta's treatment of agricultural labourers. It is here that in most cases when he has made some factual statements he has depended upon findings of surveys conducted by ourselves, singly or jointly with Pranab Bardhan. On the other hand, whenever he has thought it fit to contradict some propositions of mine, he has merely made assertions without making any reference to any surveys conducted either by himself or by anybody else. It requires a special kind of arrogant self-confidence to sweepingly reject propositions based on surveys on the basis of nothing but one's own opinion or impressions, especially when those very surveys of ours are considered sound enough for being depended upon at other times when it suits the author's own purpose.

Thus, for example the following factual statements made by him have not been supported by any empirical evidence: (a) "the hired attached worker getting relatively more of his wage in kind than the casual labourers"; (b) "the growing replacement of hired attached labourers by casual labourers"; and (c) "the growing substitution of wage payment in kind by cash".

About wage variations in nearby villages and lack of labour mobility among such villages, Dasgupta writes: "such variations, while possible in the backward areas covered by the study, would be unthinkable in the areas with developed agriculture". I am afraid that Dasgupta will have to think the unthinkable if he would only carry out some investigations, say in the Gushkara area of the advanced district of Burdwan, as I have done and found an identical picture to the one presented by me in the study of mine quoted by him. One wonders what permits him to make such sweeping statements as the following without carrying out any investigations into the question: " ... the labourers do take into account the wages prevailing in other areas, certainly in the adjacent villages, when conducting wage negotiations". Dasgupta may wait patiently for the publication of a joint paper of mine with Pranab Bardhan where we present results about five different clusters of villages in five different districts, some backward and some advanced. Results do vary, and in one cluster we found almost perfect mobility of labourers and a uniform wage rate. But this is in Murshidabad, not a particularly advanced district. On the other hand, labour mobility is as highly restricted in the cluster from Burdwan as from the backward Jalpaiguri district. It seems to us that dissolution of this village isolation, which is undoubtedly taking place, is related to factors other than economic advance in conventional terms.

On the theoretical plane, I vehemently protest against his imputing to me "implicit acceptance that neo-classical tools can be used for understanding capitalist relations, either in agriculture or outside". He cannot point at anything in my writing that indicates such implicit acceptance and his imputation cannot but be regarded as malicious.

I find it amusing that he should suggest that on re-reading my own text I would be convinced that my data are "incompatible with the thesis of 'unfree' labour". It is much more mutually respectful to admit that there are differences in our understanding of the concept of 'unfree' labour. I entirely agree with him that "agricultural labourers in West Bengal today are 'less unfree' and 'more free' than they had been, say, twenty years ago". But all the same, in our judgment, they are not yet so free as to become *commodities*, the criterion of capitalist relations.

We also stick to our position that "agricultural labourers do not constitute a class for itself". This position is not contradicted by our own survey finding that wage rises in many villages have taken place as a result of group actions of various kinds. 'Group actions' cannot be taken to be the same as 'class actions'. We cannot conceive of the different groups of casual labourers in neighbouring villages as constituting so many different classes. If they indeed constituted a class they would be a single class with the consciousness of common class interests. If that were so, the labourers of a large number of villages in a large area will combine together with common demands in a struggle against all the employers of the region. This does happen sometimes, but very exceptionally. Obviously if there were such a level of class consciousness, there would be no question of labourers of one village preventing by force labourers of neighbouring villages from working in their village—a phenomenon that we have encountered very frequently and about which we have given figures in our paper. We have also given in those papers figures about villages where wage rises have taken place as a result of labourers' agitations. In most cases, these events were isolated and there were not even any ripples in the neighbouring villages.

Political parties who are working among agricultural labourers seem to find it opportune to go along with the labourers' group consciousness. We give a concrete instance of the extent to which this kind of opportunistic politicking may go. The cluster of five villages that we have called the 'Sian cluster' in our study are not only adjacent to each other but constitute a single complex of settlement with no visible demarcations. Even among such close villages wages were found to vary. As a part of our investigation, we asked selected labourers why they did not cross the invisible boundaries, so as to receive higher wages. One answer that we got from some labourers is as follows: "Party people have told us to remain within our own villages". So much for Left political parties working towards forming agricultural labourers into a class!

To rebut any of our positions, it certainly will not do for Biplab Dasgupta to merely make assertions and refer to dubious unnamed party documents. That may serve the purpose of propaganda meetings of his own party, but not that of scientific discourse. For the latter, Biplab Dasgupta has to produce results of surveys as scientifically conducted and therefore as dependable as those conducted by myself and cited by him ever so often in support of his own contentions. Despite this implicit acknowledgement of the quality of my investigations he cannot rise above the pettiness of referring to me in such language as ". . . academics with Left-wing pretensions . . ." Assuming that he is contrasting me with himself and such other academic economists who have put themselves at the service of the Left Front government and thus, presumably, qualified for Dasgupta to be "academics with Left-wing commitments", let us see the differences in the methods of study followed by the 'pretenders' and the 'committed ones'. My investigations have involved scientific methods of statistical theory. Their method has consisted of travelling extensively in the countryside and talking to their local party people and local government officials. My means of transportation has been the ramshackle overcrowded buses, where no seats can be reserved, and equally overcrowded second class train compartments (I refuse to travel first class while conducting surveys among the rural poor!) and I have had often to travel standing all the way. (Readers in other parts of the country may not have any idea about the abominable condition of transportation in the West Bengal countryside compared to which the transport systems of Punjab or Kerala would be so advanced as to recall the differences between developed and underdeveloped countries; and this has only worsened in the eight years of Left Front rule.) Dasgupta and his academic colleagues in the service of the government travel, as a matter of rule, in chauffeur-driven saloon cars. For spending nights, I had to depend on mofussil hotels and nobody who has not travelled in West Bengal countryside will know how miserable their conditions can be. Biplab Dasgupta and his friends can enjoy such luxurious accommodation as is provided by Circuit Houses and bungalows of the different Departments meant for touring government officials. Indeed, in contemporary West Bengal, academics with Leftist 'commitments' (meaning thereby support to the Front government) stand to gain ample rewards for their Leftism. For, whatever else the Left Front government may lack resources for, the Finance Minister has always more than enough funds for distributing perquisites and patronage amongst all those intellectuals who are prepared to lend their support to the regime. And in this one respect the state government has outdone the Central government.

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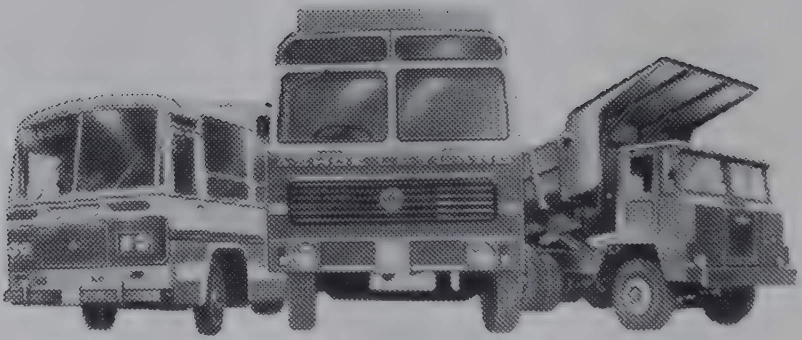

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## SEVENTH PLAN: GOING THROUGH THE MOTIONS

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# The Seventh Plan

IN what is apparently considered something of a minor triumph for the Planning Commission and for planning itself, the Prime Minister was persuaded to spare a little time to attend a meeting of the Commission on June 4, on the eve of his departure for Europe and the United States. The meeting formally decided that there would be no cut in the proposed public sector outlay in the Seventh Plan, that it would be retained at the level of Rs 1,80,000 crore set in the Approach to the Seventh Plan prepared last year. This need not have surprised anyone. The Prime Minister had told the recent meeting of the AICC, as part of his general assurance that his government was not deviating from what are regarded as the long accepted policies of the Congress, that there was no question of the Seventh Plan being reduced in size. Even so, correct form required that the decision be taken by the Planning Commission. This having been done, the Commission can now proceed to work on the prose of the Plan so that in due course a Draft Plan can be presented, once again in keeping with good form, to the National Development Council for its approval.

That this view of the purpose of the recent meeting of the Planning Commission is not unduly cynical is borne out by the official press note issued after the meeting which, apart from references to the Prime Minister's remarks at the meeting on the importance of monitoring the progress of Plan programmes and developing human resources, does not mention anything more than that the meeting had decided to retain the public sector outlay in the Plan at Rs 1,80,000 crore. Even on this very limited point the press note glosses over how the Planning Commission now considers a public sector outlay of this order feasible when only some months back it had informed a meeting of economists called by it that the resources likely to be available for financing the public sector Plan would fall short of the target of outlay by as much as Rs 40,000 crore. While some explanation is due from the Commission on this score, that is not, however, the central issue in regard to the Seventh Plan. For it is not at all difficult to make appropriate assumptions about any of the government's major sources of revenue—the current favourite seems to be the surpluses of public sector enterprises—to expand the figure of resources likely to be available to finance the public sector Plan. Further, thanks to inflation, fulfilling targets of financial outlay has never been a problem in any of the Five-Year Plans and the Seventh Plan need not be an exception. So a debate about the achievability of the target of public sector outlay set for the Seventh Plan would be rather pointless, though, one suspects, it would suit the government and the Planning Commission quite well.

Should not the questions about the Seventh Plan be of a more basic genre? The Five-Year Plans have been sought to be given the character of attempts at development of the national economy in the interests of the people as a whole. Thus the Approach to the Seventh Plan once again describes the strategy of the Plan as being "built around higher agricultural growth and creation of employment, improvement in efficiency and quality of production and technological upgradation in industry and infrastructure, the use of less capital-intensive and more labour-intensive techniques and shifts in investment priorities towards items of mass consumption and measures to improve the quality of life". These objectives, it is unnecessary to emphasise, presume rigorous social control over investment, production and other major economic decisions, whereas the actual trend in the government's economic policies has been in the opposite direction. The government has been in the process of relaxing and removing many of the controls and regulations which had been devised precisely to secure the sort of social control over economic decision-making in a largely private enterprise economy which the objectives of national planning had presumed. It must be said, of course, that the departure from these controls comes after it has been sufficiently demonstrated that they have not achieved—and, it is clear in retrospect, could not have been expected to achieve—the desired social control.

But the logic of this acknowledgment and the relaxation of the concerned regulations must to be extended to a recognition that the Five-Year Plans cannot achieve the objective of development of the national economy in the interests of the people. Consider, for instance, the objective of altering the pattern of investment and production in favour of items of mass consumption so that the level of living of the large majority of the people can be improved. The industrial licensing regulations have, it is true, failed to achieve this objective; what they have achieved in most cases is the creation of oligopolistic situations in industries producing goods of upper class consumption with concomittant shortages and monopoly profits, black money, political corruption and what have you. Now industrial licensing controls are being progressively relaxed, accompanied by suitable changes in the rates of direct and indirect taxes, for the explicit purpose of encouraging the production of goods and services which are demanded by the relatively small segment of the population in whose hands the bulk of incomes and purchasing power are concentrated. Or take again the objective of securing the use of less capital-intensive and more labour-intensive techniques. The controls on industry and other means of influencing the choice of techniques and technologies, it is true once again, have not been successful. And recent economic policy statements have explicitly spelt out that, in the pursuit of modernisation and the adoption of the latest technology, enlargement of employment cannot be an objective, at least as far as industrial sector is concerned. A specific expression of this approach is to be found in the new textile policy announced earlier this month in which large-scale displacement of labour has been accepted as both inevitable and necessary for the reorganisation of the industry on a more viable basis.

There has been some speculation that with these changes in economic policies, planning as we have known it has lost much of its rationale and that, therefore, a sort of plan holiday may be on the cards. It is true that the social objectives of planning, some of which have been referred to above, are likely to get even shorter shrift in the days to come than they have in the past, but precisely for that reason the need to formally and symbolically adhere to planning may be stronger from the point of view of the classes who are the real beneficiaries of planning. For them the Planning Commission and the Five-Year Plans serve the important function of clothing class-oriented development in the garb of development for the people. The appearance has to be kept up that the economic activity of the government is carried on in the interests of development of the national economy and for the betterment of the condition of the people. The need to sustain this appearance is the greater as the government's economic policies and the actual investment and production operations in the economy become more closely tailored to the profitability/calculations of businessmen and industrialists.

## *Textile Policy*

### Many Question Marks

LEFT entirely to itself, the Indian Cotton Mills' Federation which is concerned almost exclusively with championing the cause of the organised mill sector, could not possibly have formulated a textile policy that could serve its interests better than the one announced by the Union minister of state for textiles, Chandrashekhar Singh, on June 6, understandably enough therefore, the ICMF chief Kantikumar R Podar has hailed the policy as "progressive, pragmatic and futuristic" which should enable the industry "to enter the dawn of a new era". Indeed, the mill sector is being allowed operational freedom it has seldom enjoyed in the past—not over the past decades anyway. The policy has apparently been formulated against the background of chronic sickness in the organised mill sector.

Under the new dispensation mills can spin any fibre and weave any fabric, barring, of course, the items exclusively reserved for handlooms. The industry has been assured supply of requisite raw material—cotton as well as man-made fibre—in adequate quantity at reasonable prices. Fiscal levies on man-made fibres/yarns and on intermediates used as inputs for the manufacture of such fibres/yarns shall be progressively reduced in such manner as to facilitate absorption of increased domestic production so that the benefit flows to the consumers in the form of lower prices of fabrics.

The new textile policy seeks to restructure the industry with a longer term perspective by giving up the compartmentalised approach in terms of various sectors and viewing the industry in terms of stages of manufacture—spinning, weaving and processing. Handlooms are being assigned a distinct role and their growth and development are to be accorded high priority. Mills and powerlooms, which are now required to be registered compulsorily, shall be treated at par and shall have to compete on the basis of their inherent strength and capabilities.

Mills will be allowed to contract and expand capacity to achieve efficient production and economic viability. Potentially viable mills will be provided with a rehabilitation package to be supplemented with a financial package if need be. A nodal agency is to be designated to evolve and manage the package. A national level standing advisory committee on modernisation of the industry is to be set up to identify on a continuing basis the needs of modernisation and the type of modernisation the industry should adopt. It is also proposed to set up a concessional fund for modernisation. Units deemed non-viable will be allowed to close down provided "the interests of workers are protected". The funds needed for payment of retrenchment benefit to labour shall be part of the rehabilitation package and loans needed for such compensation shall be provided on concessional terms.

Elimination of irrelevant controls and structural rigidities and full flexibility in the use of fibres—man-made or cotton—should help increase the production of cloth of acceptable quality to meet the clothing needs of a growing population but it is difficult to say whether cloth prices would also be 'reasonable'. It is extremely doubtful whether the new policy will help achieve the other main objective, namely, augmenting the availability of cloth at affordable prices for the poorer sections of the population. The entire production of controlled cloth is to be transferred to the handloom sector by the end of the Seventh Plan. Handlooms cannot produce as efficiently or economically as mills/powerlooms and nor can they offer quality and finish which is readily acceptable to the common folk. That the cost of production can be subsidised is another matter.

On the government's own reckoning the present crisis of the industry is "neither cyclical nor temporary". But it is not rooted entirely in structural deficiencies as the new policy statement would have one believe. Many of the industry's ills are attributable to management inadequacies. Restructuring the industry, welcome as it is, cannot by itself ensure the natural growth of all the textile sectors in an orderly and integrated manner. The proposed structural reorganisation will no doubt help impart vigour to the ailing industry but much will depend on how expeditiously and efficiently this is carried out. The restructuring of the industry, rehabilitation of sick but potentially viable mills and closure of economically unviable units is certain to raise many formidable issues.

Because of the emergence of a large public sector in the textile industry as a result of the take-over of sick units, the government will soon be on trial. The National Textile Corporation has been incurring heavy losses year after year. Nearly a fifth of the 125 mills have been continuously losing and eight very heavily. It will be interesting to know how soon the government decides to close down the non-viable units and how the trade unions react to it. The rehabilitation fund for workers may not be able to meet the workers' demands and labour unrest may well have unpleasant political consequences. Implementation of the modernisation programme also is likely to raise many ticklish issues.

Not much need be read into the assurance held out in the new policy that cotton growers shall "always be assured offtake of their produce at remunerative prices" and that cotton needed by the industry "would be made available in adequate quantity and at reasonable prices". Reconciling conflicting interests of growers and mills is not all that easy. This is amply borne out by the manner in which the government has handled the cotton situtation this season. Cotton prices are on the decline and the three major state and co-operative marketing agencies—CCI and Maharashtra and Gujarat marketing federations—have strongly opposed the import of short and medium staple cotton as they are willing to meet fully the industry's requirements. Even so, New Delhi has permitted import of two lack bales of short-medium staple cotton, apparently under strong pressure from the powerful industry lobby. The various measures taken by the government so far have failed to correct the varietal imbalance, resulting essentially from the relative abundance of long and extra long staple cotton.

Considerable interest centres on the government's assurance in regard to progressive reduction in fiscal levies on manmade fibres/yarns and on the intermediates used as inputs for the production of such fibres/yarns. The reduction will have to be very steep indeed to bring synthetic and blended fabrics within the easy reach of the masses and check smuggling of synthetic fibres and fabrics which is known to have assumed disquieting proportions. The demand and supply position being what it is at present, it is highly unlikely that the industry will pass on the full benefit of reduction in fiscal levies on man-mad fibres/yarns to the consumers of fabrics.

The intentions behind the new textile policy are quite laudable. It is one thing to hold out assurances but quite another when it comes to translating them into concrete programmes of action and effective implementation of these programmes. Even if one were to take the view that Rajiv Gandhi's government is really earnest about pushing ahead with its policies and programmes, nothing can be taken for granted. The new textile policy seeks to do away with the compartmentalised approach in terms of different sectors. But the cloth production targets for the Seventh Plan have been fixed in terms of the three sectors: organised sector 4,500 million metres, powerloom sector 5,400 million metres and handloom sector 4,600 million metres. Different targets for mills and powerlooms accord ill with the new policy under which mills and powerlooms are to be treated at par and they have to compete on the basis of their inherent strength and capabilities.

## *Sri Lanka*

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## The JVP and the Eelamites

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*M S S Pandian writes:*

THE Janata Vimukhti Peramuna (JVP), the ultra-left Sri Lankan party which led the 1971 abortive armed insurrection in the island, has expressed its stance on the Tamil militants in its May Day resolution. The four page resolution characterises in no uncertain terms the Tamil militants as CIA agents trying to create a separate bourgeois state in the northern and eastern Sri Lanka. At the May Day rally, one of the JVP speakers compared the Tamil militant groups to the Nicaraguan Contras and indicated that all armed struggles need not be revolutionary in character.

Contrary to the claims of the JVP, there is no evidence so far to show that the Tamil militants are receiving support from the CIA. In fact they are supported by Libya and the PLO which are opposed to the US. Further, all the militant groups are unequivocal in condemning the economic and political involvement of the US in Sri Lanka. On the other hand, the present Sri Lankan government, which the militants are fighting against, is whole-heartedly pro-US. Apart from the fact that the present government is following an US-inspired open economy policy, one may cite several other instances in support of of this view.

First, in 1980, the UNP government threw open the Trincomalee port, one of the finest natural harbours in the world, to the warships of all countries if they were not carrying nuclear weapons. The ships of the US Seventh Fleet have called at Trincomalee very frequently and made maximum use of the new policy. A Pentagon map went to the extent of portraying Trincomalee as "one of the global facilities available to the US but not to the Soviets". Secondly, in 1981, the Sri Lankan government almost agreed to lease out the oil storage farm at Trincomalee to the Singapore-based Coastal (Bermuda) Ltd, a subsidiary of Coastal Corporation of America, to service commercial vessels in the Indian Ocean. The draft agreement had provisions for servicing US warships after getting clearance from Colombo. Local protests forced the government to scrap the agreement. Subsequently the oil farm was leased out to a consortium of three foreign companies, including the Coastal (Bermuda) Ltd, and the new agreement did not provide for servicing of US warships. On the new agreement, the Jaffna-based *Saturday Review* (April 14, 1984) rightly remarked, "what is there to prevent a tanker from Trincomalee going outside our [Sri Lankan] territorial waters and servicing US warships? Or even supplying oil to the Diego Garcia base?"

Thirdly, the Sri Lankan government has granted more than 1,000 acres of land near Chilan for a Voice of America (VOA) radio station, though an ordinary radio station does not require more than a few acres of land. According to the agreement which was concluded in December 1983,

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VOA will establish six transmitters with a total capacity of 2,500 KW. Moreover, the agreement permits the VOA "to install associated communication and operation facilities", the implications of which are still unknown.

Given this unquestioned loyalty of the Sri Lankan government to the US, the JVP's theory about Tamil militant groups does not stand the test of reason. It is well known that of late the JVP is trying to shed its previous identity of being committed to armed struggle and plunge into electoral politics in the island. Painting the Tamil militants as terrorists backed by the CIA is one way by which the JVP can communicate that it is no more interested in the path of armed struggle.

## *Nicaragua*

### Counter-Productive Embargo

THE US President's order of May 1, imposing a trade embargo on Nicaragua, declares a national emergency to deal with the "unusual and extraordinary threat" posed by "the policies and actions of the Government of Nicaragua" to "the national security and foreign policy of the United States".

What exactly have the Sandinistas done in recent days or weeks to provoke the US action? The US President's message to Congress hardly mentions anything concrete except (a) the Nicaraguan rejection of the US peace initiative asking Sandinistas to negotiate with the rebel forces, generally referred to as 'contras', if the US was to abstain from assisting the latter, and (b) the current visit of Nicaraguan President Ortega to the USSR. But practically everyone knows that the underlying purpose of "the hastily ordered" trade embargo was, as the *New York Times* has put it editorially, "to blot out Congress's embarrassing refusal to keep financing the CIA war" in Nicaragua.

The Administration officials themselves have been reported as justifying the trade embargo in terms of the need not only to send a strong signal to Nicaragua, Cuba and the Soviet Union but also to "put Congress on notice that the White House would continue to seek changes in Nicaragua, with or without Democratic backing". Regardless of how the US Congress in general and the Democrats in particular respond to the signal, which the President's order is thus meant to convey, it is difficult to see how the Nicaraguan response to the US trade embargo cannot but go counter to the US objectives.

Nicaraguan trade with the US has already declined from close to 50 per cent of its total trade in the late 1970s to less than 20 per cent. During this period, Nicaraguan trade with the Soviet bloc has gone up from about one per cent to 20 per cent and with Western Europe from 18 to 26 per cent. "The United States has", as the Nicaraguan Foreign Trade Minister, Martinez Cuenca, puts it, "become a market of last resort". In this context, it is well to remember that when the US slashed the Nicaraguan sugar quota by 90 per cent in May 1983, it was possible for Nicaragua to find alternative markets for its sugar in Iran, Algeria and Libya.

Nicaragua's exports to the United States consist principally of bananas, beef and shrimp but they are nowhere near the levels which once obtained. Nor is Nicaragua's dependence on the US for major imports now as critical as it possibly was some years back.

While the trade embargo is therefore unlikely to push Nicaragua to the brink of economic disaster, it will certainly create some immediate problems for that country, problems that might well "propel the regime to depend still more heavily on Soviet bloc aid" and trade, as the *New York Times* fears. So the danger clearly is that the US action will have exactly the opposite of the intended effect. It will also have been demonstrated to the world that the US leadership can resort to obviously counter-productive measures, if only to reassert its authority in the face of frustrating inability to have things its own way.

## BUSINESS

# Who Owns the Companies?

WHO owns the companies? The people, or almost, a study of the ownership pattern of shares of companies assisted by the Industrial Development Bank of India (IDBI) seems to say. In the sample of 447 companies with a capital of Rs 1,584 crore covered by the study, individuals were the single largest category of shareholders and accounted for 31 per cent of the total equity of the companies. Financial institutions came next with 24.7 per cent of the equity, followed by joint stock companies (22.8 per cent) and government and semi-government bodies (20.4 per cent). The sample consisted of 296 private sector companies, 68 joint sector companies and 83 public sector companies. In terms of the total capital of the sample companies, the shares of these three sectors were 56.5 per cent, 18.4 per cent and 25.1 per cent, respectively.

Individual shareholders accounted for 38.7 per cent of the equity of the private sector companies in the sample. Their share of the equity of joint sector companies was slightly lower at 35.5 per cent and, understandably, it was the lowest (10.3 per cent) in the case of public sector companies, in whose case 64.7 per cent of the equity was provided by government and semi-government bodies. The IDBI study points out that, interestingly enough, the share of individual holdings in MRTP companies at 37.3 per cent was considerably higher than in non-MRTP companies (26.8 per cent) and from this draws the conclusion that "this is perhaps indicative of the assets preference of individuals in favour of well established industrial houses". It would appear, however, that this conclusion needs to be modified if we consider only the private sector companies in respect of which the share of individual holdings is substantially higher in the case of non-MRTP companies (42.5 per cent) than in that of MRTP companies (36.5 per cent). The reverse, curiously enough, is true of the joint sector companies: here individual holdings account for a much higher proportion of the shareholding of MRTP companies (41.2 per cent) than that of non-MRTP companies (34.1 per cent). If any conclusion can at all be drawn from these figures, it may be that the association of government and semi-government bodies with and even their large shareholding in joint sector companies do not by themselves inspire much confidence among individual investors.

Among individual shareholders in the private sector companies in the sample, almost one-fifth were those described as 'persons engaged in household work'. These shareholders, it is reasonable to assume, were women, though there would have been more women shareholders in other categories of individual shareholders such as 'professionals and self-employed persons' and 'salaried persons'. Thus women, it would appear, are an important shareholding group in the Indian corporate sector. However, before any hurried conclusions are drawn from this about the position of women in society, it is as well to consider that very few, if any, of these women 'shareholders' would have had anything to do with the decision to invest in the shares and most might not be even aware of the details of the shares which stand nominally against their names in the share registers of companies.

It comes as no surprise that almost all individual shareholders came from urban areas and from urban occupations. The share of farmers in individual shareholdings in all the companies in the sample was just 7.5 per cent and this figure too was boosted by the efforts of promoters of joint sector units in the fertiliser industry to encourage farmers to purchase shares in these units. The IDBI study feels that the "message of industrial securities" can be spread in rural and semi-urban areas "by encouraging and building a good network of sub-brokers who command good standing in their respective areas and would, therefore, be the right persons to convince rural investors about the benefits of corporate securities". However, the study is not unaware of the dangers of such efforts as is seen from its warning that "while cultivating investors from rural and semi-rural areas adequate caution needs to be exercised and such investors should be encouraged to go in for only safe and profitable corporate securities . . .".

Financial institutions accounted for 24.7 per cent of the shareholding of all the companies in the IDBI sample. Their share in private sector companies was 27.3 per cent, in joint sector companies 28.5 per cent and in public sector companies 16.1 per cent. In the case of the financial institutions it can be said that they showed a distinct preference for MRTP companies and this was true of both private sector and joint sector companies. Their holding in MRTP companies in the private sector was 29.1 per cent and in MRTP companies in the joint sector 37.6 per cent—significantly higher than the proportions of their overall holdings in the two sectors.

The separate information provided for companies promoted by existing entrepreneurs and by new entrepreneurs shows that the financial institutions accounted for a larger proportion of the shareholding in the latter category of companies. But this was due entirely to the development finance institutions at the all-India and state levels. The state level financial institutions particularly had contributed as much as 24.1 per cent to the equity of new joint sector companies. On the other hand, the investment finance companies (LIC, GIC and UTI) had stuck faithfully to MRTP companies and to companies promoted by established entrepreneurs. Among private sector companies their share of the equity was 21.9 per cent in the case of MRTP companies and 8.4 per cent in the case of non-MRTP companies. Even more pronounced was their preference for companies promoted by established entrepreneurs: their share of the equity of these companies was 18.1 per cent compared to a mere 3.2 per cent of that of companies promoted by new entrepreneurs.

The information on the manner of acquisition of equity by the financial institutions once again confirms that the hue and cry about the so-called convertibility clause was vastly exaggerated. Only 7.3 per cent of the total equity holdings of the financial institutions in the sample companies had been acquired through conversion of loan to equity. Even if only the IDBI, ICICI and IFCI are considered, less than 10 per cent of their equity holding in the sample companies had been acquired through conversion.

Inter-corporate investment continues to be the standard means of retaining and exercising corporate control. In the private sector companies in the sample, among the large shareholdings (defined as holdings in excess of Rs 50,000) which are what are relevant for control, inter-corporate investment accounted for as much as 41.3 per cent and, if the holdings of the financial institutions are excluded, for nearly two-thirds. Who then owns the companies, after all?

## *Electronic Components*

### No Growth Strategy Still

THE new electronics policy announced in March this year has set an ambitious production target of Rs 10,000 crore worth of electronic goods for the year 1989-90 as against the estimated production of Rs 2,165 crore in 1984-85. This will call for creating a strong base for the electronic component industry. For achieving the targeted level of output worth Rs 10,000 crore by the electronics industry, the value of production by the component industry will have to increase to at least Rs 2,000 crore in 1989-90 from the present level of about Rs 310 crore.

With a view to providing a boost to the growth of the component industry, it has been delicensed vide a press note issued by the Ministry of Industry and Company Affairs on March 16. The government has also decided to de-reserve some of the components which are at present reserved for the small-scale sector since these are required to be produced in large volume. Normally, manufacture of components is not permitted from intermediate stages. However, in the case of bipolar, linear and digital integrated circuits requiring heavy investments, the units will be permitted to assemble the items from the intermediate stages to begin with provided they make an initial investment of at least Rs 5 crore.

The Electronic Component Industries Association (ELCINA) is of the view that given the present state of the industry, achieving a six-fold growth over the next five years so as to achieve the target of producing Rs 2,000 crore worth of components by 1989-90 will be a difficult task. According to ELCINA, it is also difficult to visualise production of components in the country at international prices during the Seventh Plan period.

Referring to the government's proposal to reduce gradually the import duty on components to 25 per cent by the end of the Seventh Plan, the association has expressed the view that it will seriously affect the domestic component industry. It has pointed out that the recent reduction of customs duty on components to 75 per cent has already put the domestic producers of components under a serious financial strain. It feels that the component manufacturers have to follow irksome rules and procedures to avail of the facility of importing the raw materials required by them at concessional rates of duty. This, according to the association, is in contrast to the situation facing the equipment industry which is not governed by such procedures.

ELCINA has cautioned that any long-term policy of import-led growth for the electronics equipment industry will not succeed and measures will have to be initiated to ensure that the domestic component industry grows at the rate of 45 per cent per annum over the next five years. However, according to the assessment made by the Department of Electronics (DOE), it may not grow by more than 35 per cent per annum.

According to the report of the Seventh Plan working group on electronics set up by the Planning Commission, the investment requirement of the components industry during the Plan is about Rs 800 crore. The working group feels that to encourage this magnitude of investment, the rate of interest on loans advanced to entrepreneurs setting up units for the manufacture of components will have to be brought down by about 5 per cent to 8 to 9 per cent. It feels that the interest subsidy should be made available for a period of five years from the date of disbursement of the first instalment of the loan.

With a view to implementing this suggestion, the Department of Electronics is expected to make a fresh bid to create a

Rs 75 crore Electronic Component Development Fund (ECDF) to provide concessional credit to the component industry. The idea was originally mooted at a seminar organised by ELCINA in February 1983. It was subsequently supported by the Planning Commission working group.

Unfortunately, the latest annual report of the Department of Electronics for 1984-85 has not spelt out any strategy for the growth of the components sector. In view of the ambitious Seventh Plan target fixed for the electronics industry, there is an imperative need to formulate a detailed strategy for the development of the component sector on sound lines.

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## LETTER TO EDITOR

# Ahmedabad Riots

"AHMEDABAD has not seen a worse week" is how Sujata Patel begins her article titled "Collapse of Government" (April 27). Neither has Ahmedabad seen such an armchair report on the issue of reservation. The report in part is factually incorrect, incomplete, misleading, formulistic and ignorant of the social forces at play. Sujata Patel is like a mythical Sanjaya narrating the Mahabharata war to the blind king Dhritrashtra far away from the battle field. In this case, it seems, the waves carrying information from riot-hit areas like "Asodia, Gomtipur, Rakhial", travelled to your correspondent. Albeit they got distorted before reaching her.

(i) Let us first look at her factually incorrect reporting. On page 749 she writes, "ultimately a rumour about the lynching of a police constable by a mob led to a section of the police leading a revolt". That was not at all a 'rumour'. A police constable by the name of Laxmanbhai Desai was in fact stabbed to death in Khadia. The poor fellow was escorting an enquiry committee appointed by the High Court to gather information on the alleged police excesses.

During the whole agitation rumours ran amock—rumours let loose by the people and the press. Rumours were turned into reality by some and reality was turned into rumours by others like Sujata Patel.

(ii) Her report is misleading on several counts. All the while in her article when she sheds crocodile tears over so-called police excesses, she conveniently forgets to mention even a word about the communal carnage at Bapunagar which left 15 dead, around 50 injured, about 40 missing and 400 houses burnt. It was by far the worst affected area anywhere in Gujarat. It was not just police inaction but direct involvement of four police officers in connivance with caste Hindus and Congress(I) local leaders who also happen to be professional union-breakers which led to an orgy of killing and burning in the Muslim neighbourhood for nearly 20 hours from April 21 afternoon to April 22 morning. Actually the title of the article would have been more apt for what happened in Bapunagar, had she but mentioned it.

But it is not accidental that she forgets to write a word about Bapunagar. Nor did any newspaper in Ahmedabad including *Gujarat Samachar* for which her heart pours out so much on page 749. "Police mob burnt the offices of the newspaper that had exposed their excesses ..." Following are a few of the police excesses reported by *Gujarat Samachar* in front page headlines with concocted photographs and equally provocative captions. (Some of these false reports went a long way in worsening the already tense situation.)

Khadia: A few determined police officers did break open a house to nab a band of well trained rioters—of the BJP variety. Much hue and cry was raised over this by the middle class but high caste residents of Khadia with the help of ever obliging *Gujarat Samachar* blowing up the incident as another "police excess".

Gomtipur: *Gujarat Samachar* reported a naked police parade which was not witnessed by a single soul in the area. It carried photographs of "molestation of women". But the fact is that the women who had posed as the victims were immediately identified by the young men of the area as women of easy virtue.

*Gujarat Samachar* was thus not burnt for "exposing police excesses" as Sujata Patel would want us to believe but for its own excesses of malicious reporting. It is a known fact that the owner-cum-editor of *Gujarat Samachar* has a personal axe to grind against the Congaress(I) and Madhavsinh Solanki.

(iii) The point that Sujata Patel's article has missed is that the middle class but upper caste Hindus were infuriated because of the role of the state as an equaliser. The treatment that was so far meted out to the minorities, tribals, dalits and workers by police was this time also extended to a very tiny section of the middle class/caste Hindus. It was this anger which was reflected out of all proportions in *Gujarat Samachar*.

(iv) The formulistic approach towards the analysis of the agitation is glaring when she writes on page 750: " ... and the agitation shifted to working class localities where upper castes but lower classes live together with lower castes". In itself this statement might be true but the fact is that in all the working class localities the caste Hindus live in pucca multi-storeyed houses surrounded by the jhuggies of dalits or Muslims. One just has to throw burning rags or stones from the height of these multi-storeyed houses Force of gravity will do the rest. No amount of heroic determination on the part of the lower castes and Muslims can defeat this advantage. To illustrate our point better, on one of our visits to Jogeshwari chawl in Asarwa which is a small dalit locality surrounded by caste Hindu housing societies, we saw a pulley on the terrace of one of the houses fitted to transport stones. Laws of mechanics were at the service of "meritorious and efficient" caste Hindus. Our departure from the chawl was greeted by a flurry of stones from the caste Hindus in the presence of policemen. The arrogance of the caste Hindus would have sent shivers along the spinal cord of armchair correspondents.

(v) Sujata Patel reveals her ignorance of the spontaneous realignment of social forces taking shape during this agitation. On page 750 she writes, "in this case the use of police by Congress(I) for political gains has ultimately led to caste and communal clashes and for this the government has to accept responsibility". Police atrocities and excesses may aggravate a situation but in fact the clashes were the direct outcome of the anti-reservation stir. The communal clashes were the result of terrorising the Muslims in order to warn them not to be on the side of the backward and scheduled castes. Muslim shopkeepers, throughout the agitation refused to down their shutters in response to the bandh calls given by the anti-reservationists. In a flight of her imagination Sujata Patel divided Muslims from backward and scheduled castes and, not content with that, she also saw divisiveness amongst themselves. "The victims of the riots, both lower caste Hindus and Muslims, are in a vulnerable situation. They have solidarity neither with the backward caste nor within themselves." In comparison to 1981 the unity between these groups have anything but hardened.

NIMESH SHETH
NEERAV PATEL
ROOPA MEHTA

Ahmedabad.

# Government at Siesta

**Romesh Thapar**

NOTHING really makes political sense these days. We seem to be carrying on without a coherent government. As for details about those who are supposedly involved with decision-making, rumours hold the stage. In fact, no one really knows who is concerned We keep hearing about this or that initiative. The materialisation is zero.

Maybe, we are not understanding the real thrust of this generational change. The present still represents a massive public relations phase to reassure us that, dynastic politics notwithstanding, we have been blessed with a remarkably clean, sensitive 'leader' who is learning fast and will begin the action any day now. The Budget? Textiles? Loose ends galore.

Well, we will at least have to wait until Rajiv Gandhi returns from his foreign touring. The cynicism is so thick that you could cut it with the sort of blunt, indigenous, lowest-tender knives they use in five-star hotels of the ITDC type. Yes, he's gone to a 'mela', they say. Isn't that what they call this festivalising? And just when the country is exploding here and there, they say.

The public relations is bad, very bad. Why should the PM's visitation of the West be linked to *melas* of all things, and the 'dirt' associated with them? He is on a critical assignment to change US thinking on India. It will not amount to much admittedly, but it will, it is expected, open the way to sizeable extra aid and an entry into military purchasing *via* the Pentagon network. We will then rub shoulders, as it were, with neighbouring Pakistan. Boring, but that is the focus of the tour.

However, the excitement and euphoria in western diplomatic circles is matched by the undercurrent of amusement in the coterie around the Soviet Union's Gorbachev. The Rajiv Gandhi call on Moscow was ritual, despite the red-carpeting, the 'breaking' of protocol, the exchange of flowers during private walks, and the escorting of Sonia Gandhi by Raisa Gorbachev, but it confirmed earlier alignments. Whoever suggested that it would be otherwise?

With all their feverish looking around for revealing information, it is a wonder that the superpowers haven't yet discovered that India's real interest is to develop the European connection—and, for that matter, the Japanese. Mitterand's France is still doggedly consolidating its toe-hold on the sub-continent. It's no simple mirage. And there is the new interest in Italian military hardware!

This is as it should be. We cannot put all our eggs into a single basket, or even two, if the insistence is strong. Diversification in supply points is the slogan of the new era. It supposedly helps lift the old inhibitions, even returns us to some sovereign thinking in the foreign office. But don't expect 'instant' results. Our bureaucracies are skilled in meandering, and could go on skating here and there for some time—at least until thinking in high places develops some focus, and perspectives.

If the current handling of Assam, Kashmir, Punjab, Gujarat and Maharashtra are indicative of our capacities, we are in for a long and tedious wait during which anything could happen. We seem to be passing through extraordinary confusion. Major internal problems are getting inextricably mixed up in our foreign policy play—and are so treated.

Any non-Congress eruption is sought to be treated as if those involved are foreigners. It's rather difficult to indulge in this somersault on Gujarat and Maharashtra. Hence, the variations. But inept political management, bereft of democratic norms and good manners, can recoil and spark those angers which make the Congress culture even more oriented towards the backward, Hindi-speaking heartlands of the Indo-Gangetic region.

Normally, we should not be disturbed by Rajiv Gandhi's absence from India until June 18. We are large enough, and talented enough, not to miss his benign, meditative presence. But when this subcontinent of 750 millions continues to be run from a single office in New Delhi, it is cause for worry. We don't even know who is in command at the moment, nor does anyone else in the power hierarchy. Or is there somethng we don't know?

Mind you, these summer months in the North were not designed for anything but long siestas. Our rulers are grateful. They don't immediately have to show visible results. But some of us are fearful. Rulership is normally through a party machine or a rabble. Here, the most noticeable feature of the situation is that the ruling political formation drifts rudderless.

Some argue that there is a grievous lack of accessibility to the leader. He is hidden beyond endless cordons of security. Others reveal that he has no grip over the rapscallion MPs and MLAs who can unmake him when the time is propitious and the voting public can digest an ouster.

The truth will take ages to emerge. We are not Gorbachevs and Reagans, prepared to say anything while seizing every stratagem to consolidate their power in South Asia. We will settle issues with them, but only when our disarray is brought under some control. The propaganda and misreporting of the media cannot sell us the notion that all is tickety-boo. We know that a heightening of the disarray in our federal polity could bring the whole democratic edifice down, and suddenly.

India, is left with her age and wisdom to devise some kind of stabilising force to neutralise terrorism, reservationism, regionalism and communalism, to break corruption, black marketing and criminalisation, and to end police brutalities, bureaucratic harassments and lawless law-making. This correction cannot crystallise from the confabulations of a tiny coterie enjoying the blessed presence of the PM. It will only gather power from a wider consultation, at the level of a consultatation between equals. We have the wherewithal, as it is called, in this country. Or have we blinded ourselves to this too?

What, then, is holding us up? A national campaign will have to be led along these lines or else we are likely to stagger from crisis to crisis. The failure of the system can be seen at every level.

*June 7.*

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| Index Numbers of Wholesale Prices (1970-71 = 100) | Weights | Latest Week (25-5-85) | Variation (Per Cent) Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85$^{++}$ | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| All Commodities | 1000 | 351.9 | 0.8 | 6.8 | 1.9 | 7.0 | 9.5 | 2.6 | 9.3 |
| Primary Articles | 417 | 329.2 | 1.3 | 4.0 | 2.2 | 4.8 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 308.7 | 2.5 | 6.6 | 3.8 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 307.5 | −1.6 | −0.9 | −1.0 | 2.3 | 15.1 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 557.8 | 0.4 | 9.9 | 0.6 | 2.6 | 7.6 | 7.5 | 20.7 |
| Manufactured Products | 499 | 336.0 | 0.4 | 8.4 | 2.0 | 6.0 | 8.7 | 0.6 | 5.2 |

| Cost of Living Index | Base | Latest Month | Variation (Per Cent) Over Last Month | Over Last Year | Over March 1984 | In 84-85 | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| For Industrial Workers | 1960 = 100 | 586$^3$ | 0.2 | 5.0 | 5.0 | 6.4 | 12.6 | 7.8 | 12.5 |
| For Urban Non-Manual Employees | 1960 = 100 | 540$^3$ | 0.7 | 6.9 | 6.9 | 8.1 | 10.3 | 8.0 | 11.9 |
| For Agricultural Labourers | July 60 to June 61 = 100 | 517$^3$ | −1.0 | 0.6 | 0.6 | 0.2 | 11.4 | 5.2 | 12.4 |

| Money and Banking | Unit | Latest Week (24-5-85) | Variation Rs Crore (Per Cent in Brackets) Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85$^{++}$ | In 83-84$^{++}$ | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| Money Supply ($M_3$) | Rs Crore | 1,03,716 | 1,491<br>(1.5) | 14,704<br>(16.5) | 2,374<br>(2.3) | 15,443<br>(18.0) | 13,031<br>(17.9) | 10,115<br>(16.1) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 52,027 | 854 | 8,505 | 3,062 | 8,460 | 5,757 | 4,748 | 4,965 |
| Bank Credit to Commercial Sector | Rs Crore | 70,556 | 1,171 | 9,814 | 1,117 | 9,447 | 8,830 | 8,247 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 3,303 | 180 | 1,860 | 304 | 1,419 | −104 | −977 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 72,938 | 540<br>(0.7) | 10,923<br>(17.6) | 1,752<br>(2.5) | 10,590<br>(17.5) | 8,550<br>(16.4) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets** | Rs Crore | 7,223 | 138 | 1,683 | 262 | 1,463<br>(26.6) | 943<br>(20.7) | 911<br>(27.2) | −1,468<br>(−30.4) |

| Index Numbers of Industrial Production (1970 = 100) | Weights | Latest Month | Average of Months* 1985 | 1984 | Variation (Per Cent) In 1985$^{++}$ | In 1984$^{++}$ | In 1983 | In 1982 | In 1981 |
|---|---|---|---|---|---|---|---|---|---|
| General Index | 100.00 | 213.1$^3$ | 207.1 | 200.3 | 3.4 | 6.6 | 4.5 | 4.5 | 9.3 |
| Basic Industries | 32.28 | 267.5$^1$ | 267.5 | 247.1 | 8.3 | 11.7 | 5.5 | 8.0 | 14.5 |
| Capital Goods Industries | 15.25 | 217.4$^1$ | 217.4 | 223.7 | −2.8 | 9.2 | 4.3 | −0.9 | 8.1 |
| Intermediate Goods Industries | 20.95 | 172.1$^1$ | 172.1 | 162.0 | 6.2 | 1.7 | 7.9 | 1.9 | 3.7 |
| Consumer Goods Industries | 31.52 | 174.5$^1$ | 174.5 | 172.4 | 1.2 | 1.3 | 0.4 | 5.8 | 8.2 |
| Durable Goods | 3.41 | 209.2$^1$ | 209.2 | 178.7 | 17.1 | 13.0 | 0.1 | 3.6 | −0.1 |
| Non-Durable Goods | 28.11 | 170.3$^1$ | 170.3 | 171.6 | −0.8 | 0.5 | 0.5 | 6.5 | 9.3 |

| Foreign Trade | Unit | Latest Month (Feb 85) | Cumulative for* 1984-85$^+$ | 1983-84$^+$ | 1984-85 | 1983-84 | 1982-83 | 1981-82 | 1980-81 |
|---|---|---|---|---|---|---|---|---|---|
| Exports | Rs Crore | 928 | 10,288 | 8,633 | 10,288 | 9,868<br>(10.8) | 8,908<br>(14.2) | 7,803<br>(16.3) | 6,711<br>( 3.9) |
| Imports | Rs Crore | 1,477 | 14,915 | 13,930 | 14,915 | 15,763<br>( 9.8) | 14,356<br>(5.0) | 13,671<br>( 9.2) | 12,524<br>(40.6) |
| Balances of Trade | Rs Crore | −549 | −4,627 | −5,297 | −4,627 | −5,895 | −5,448 | −5,868 | −5,813 |

| Employment Exchange Statistics | Unit | Latest Month (March 85) | Cumulative for* 1985 | 1984 | 1984 | 1983 | 1982 | 1981 | 1980 |
|---|---|---|---|---|---|---|---|---|---|
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,744 | 23,744 | 22,603 | 23,696<br>(7.9) | 21,953<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) |
| Number of Registrations | Thousand | 454 | 1,362 | 1,681 | 6,439<br>(−1.8) | 6,555<br>(11.8) | 5,862<br>(−6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) |
| Number of Vacancies Notified | Thousand | 49 | 150 | 162 | 734<br>(−11.4) | 828<br>(1.0) | 820<br>(−8.4) | 895<br>(6.6) | 840<br>(−4.1) |
| Number of Placements | Thousand | 29 | 86 | 101 | 406<br>(−16.5) | 486<br>(2.5) | 474<br>(−6.1) | 505<br>(5.2) | 480<br>(2.6) |

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* For current year upto latest month for which data are available and for corresponding period of last year.
** Excluding gold and SDRs.
+ Variation in current year upto latest month for which data are available over corresponding period of last year.
+ + Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript$^1$ indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

# Clearing the Decks for Growth

### Hansavivek

*STANDARD MILLS COMPANY's* management structure is being reorganised. It has been decided that it should be a board managed company and the day to day affairs of various divisions be entrusted to the president of each division. Accordingly, Rasesh N Mafatlal has resigned from the office of Managing Director. He will, however, continue to be the Chairman of the board. V Ramdurai and C C Maniar have resigned as whole-time directors and are being employed as executives designated as presidents of the chemicals and textiles division, respectively. Yogindra N Mafatlal resigned as a director from June 11, 1984 and Pradeep R Mafatlal was appointed as a director in the casual vacancy caused by his resignation. Jayantilal D Vasa resigned as a director and Madhav L Apte was appointed in the casual vacancy so caused. In pursuance of a special resolution approved by the members in 1980, the company has been paying commission upto one per cent of the net profits to the directors other than Managing Director and the two whole-time directors. Taking into consideration the contemplated board managed nature of the company's management, it would be permissible to pay as remuneration an amount of three per cent of the net profits to the directors.

The company has got a letter of intent for setting up a cement project with an annual capacity of 10.40 lakh tonnes in Raipur district of MP. The geological survey and prospecting of the site is being undertaken to ascertain whether the right quality and quantity of limestone is available in the project area.

The company has turned in improved working results for 1984. Net sales have amounted to Rs 125.36 crore as against Rs 132.34 crore in the preceding 18-month period, but gross profit has increased from Rs 5.23 crore to Rs 6.20 crore. These figures show a significant improvement in margins. After depreciation, net profit has more than quadrupled to Rs 219 lakh (Rs 51 lakh). There is no tax liability in both the years. Dividend raised by 2 points to 12 per cent is covered 1.81 times even though 2 lakh new equity shares allotted on conversion of partly convertible bonds participate in the dividend distribution for half the year. Nearly half of last year's lower dividend payment was short-earned.

**The Week's Companies** *(Rs Lakh)*

| | | Standard Mills | | Anil Starch | | Phillips Carbon | |
|---|---|---|---|---|---|---|---|
| | | Latest Year 31-12-84 | Last Year 31-12-83* | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 30-11-84 | Last Year 30-11-83 |
| Paid-up Capital | | 1106 | 906 | 130 | 130 | 526 | 375 |
| Reserves | | 2465 | 2137 | 780 | 675 | 1613 | 720 |
| Borrowings | | 6600 | 5905 | 959 | 633 | 877 | 310 |
| *of which* Term borrowings | | 3228 | 2378 | 223 | 93 | — | — |
| Gross fixed assets | | 10116 | 9484 | 1705 | 1353 | 1596 | 568 |
| Net fixed assets | | 6098 | 5662 | 1159 | 920 | 1173 | 176 |
| Investments | | 269 | 268 | 5 | 3 | 165 | 248 |
| Current liabilities | | 2023 | 2216 | 476 | 340 | 398 | 505 |
| Current assets | | 5797 | 5199 | 1181 | 853 | 2075 | 1486 |
| Stocks | | 2587 | 2404 | 691 | 435 | 411 | 271 |
| Book debts | | 2385 | 1778 | 390 | 327 | 578 | 664 |
| Net sales | | 12536 | 13234 | 2349 | 2265 | 3803 | 3348 |
| Other income | | 518 | 738 | 45 | 48 | 203 | 91 |
| Raw material costs | | 4457 | 4622 | 1144 | 1092 | 2559 | 1837 |
| Wages | | 1752 | 1991 | 230 | 219 | 110 | 101 |
| Interest | | 940 | 1026 | 117 | 89 | 119 | 63 |
| Gross profit (+)/loss (−) | | 620 | 523 | 204 | 103 | 289 | 411 |
| Depreciation provision | | 401 | 472 | 77 | 45 | 37 | 43 |
| Tax provision | | — | — | — | — | 130 | 230 |
| Net profit (+)/loss (−) | | 219 | 51 | 127 | 58 | 122 | 138 |
| Investment allowance reserve | | — | — | — | — | 1 | 15 |
| Transfer to reserves | | 98 | — | 54 | 39 | 42 | 28 |
| Dividend | | | | | | | |
| Amount | P | — | 1 | 0.35 | 0.35 | — | — |
| | E | 121 | 91 | 22.50 | 18.75 | 89 | 95 |
| Rate (per cent) | P | — | 5.72 | 7 | 7 | — | — |
| | E | 12 | 10 | 18 | 15 | 17 | 25 |
| Cover (times) | | 1.81 | 0.55 | 5.77 | 3.05 | 1.37 | 1.45 |
| *Ratios* (per cent) | | | | | | | |
| Gross profit/sales | | 4.94 | 3.95 | 8.68 | 4.55 | 7.59 | 12.27 |
| Net profit/capital employed | | 6.13 | 1.67 | 13.95 | 7.20 | 10.81 | 12.60 |
| Inventories/sales | | 20.63 | 18.16 | 29.41 | 19.21 | 10.83 | 8.09 |
| Wages/sales | | 13.97 | 15.04 | 9.79 | 9.67 | 2.89 | 3.01 |

* 18 months.

The textiles division had to contend with disturbing trends. Hardly had the Bombay textile industry recovered from the after effects of the strike, it was saddled with chronic problems of surging costs and depression in the textile market. Accumulation of stocks adversely affected liquidity, and extended credit had to be allowed for marketing of goods. Unchecked proliferation of power looms, with their distinct competitive edge on account of very low labour costs and overheads, continued to pose a threat to the organised mill sector. Export sales amounted to Rs 513 lakh against Rs 463 lakh during 1982-83. As a part of the modernisation programme, 20 Sulzer looms were installed, making a total of 104 such looms. Additions and replacement of plant and machinery, etc amounted to Rs 4.73 crore. Research and development efforts are directed towards standardisation of dyeing recipes on polyester blends by use of computerised colour matching equipment. Cost and energy saving practices are also being implemented on the basis of scientific studies.

The chemicals division experienced a squeeze on margins due to steep increase in power costs and the sagging market. By the end of the year, market conditions stabilised and the plant continued to operate at 70 per cent of the installed capacity. All steps have been completed to bring down power consumption in one of the plants. This has resulted in saving of about 400 units of power per tonne of caustic soda. Efforts are in progress to study various alternatives for power saving in the Uhde plant. Additions and replacements of plant and machinery, etc, in the division amounted to Rs 1.88 crore. The R and D wing completed the plant for the manufacture of 1.1.1 trichloroethane (methyl chloroform) and trial production has commenced. The quality of the product has been approved by the consumers. A plant for the manufacture of sebacic acid and its esters based on castor oil has been visualised and the company has applied for a licence for the manufacture of sebacic acid. Meanwhile, the product made in the laboratory has been approved by consumers abroad. Negotiations are afoot with BARC for licensing the technology for manufacture of sulphur hexafluoride. Agreements for the technology transfer from BARC has been signed. The company's joint venture in Indonesia, P T The Standard Mills Industries Indonesia, has started trial production of cots and aprons for the spinning industry and industrial rubber rollers. Full production is expected to commence in the near future.

*ANIL STARCH PRODUCTS* has fared so well during 1984 that the board of directors has stepped up dividend by three points to 18 per cent which is well covered by earnings. Although net sales increased only modestly from the previous year's Rs 22.65 crore to Rs 23.49 crore, gross profit has nearly doubled, reflecting an impressive rise in profit margins. Net profit is also higher at Rs 127 lakh against Rs 58 lakh and the enhanced distribution is covered 5.77 times as against 3.05 times previously. With a view to reflect the actual cost of fixed assets, the company decided to capitalise the interest on term loans/debentures raised to finance the fixed assets for the entire contracted period of such borrowings availed of during the year. Prices of maize and tapioca declined during the year on account of good monsoon. This helped the company to contain the cost of production. Prices have remained stable even during the current year. But there had been an exorbitant increase in the price of sulphur from Rs 1,284 per tonne in December 1983 to Rs 2,408 per tonne in January 1985. Moreover, the quality of some of the consignments was very poor, which adversely affected the efficiency of the plant and yields, and also resulted in frequent shutdowns and high maintenance costs. The cost of rock phosphate was higher by about 15 per cent as compared to the previous year. Besides, there was an increase in the cost of sulphuric acid. Accordingly, the cost of superphosphate increased.

There has been an improvement in the overall power supply position, but the average cost of power per KWH has risen from Re 0.77 in 1983 to Re 0.90 in 1984. As a power intensive industry, the company had to contend with this substantial increase in cost. Prices of coal were also increased by 30 per cent from January 1984. There has been no improvement in the quality of coal which contains considerable amount of moisture and ash. Besides, heavy transit shortages are also experienced. The imposition of a 10 per cent surcharge on freight in the Railway Budget for 1985-86 and heavy imposts on crude petroleum will further increase the already high costs of coal and electricity. The organised textile industry continued to pass through one of the worst crises yet encountered. This resulted in closure of about 67 mills. In Ahmedabad alone 17 mills have closed down. This has not only affected the demand for starches but is posing serious problems for the recovery of debts. In spite of adverse and highly competitive market conditions, the company has been able to sustain its sales on account of its well established reputation for quality products. The directors say that demand recession and highly competitive conditions prevail for starches and glucose. Markets for other processed foods and for sulphuric acid have improved. The demand for superphosphate throughout 1984 was very sluggish and, in spite of best efforts, the company was not able to step up sales. As a result, there has been a heavy accumulation of stocks. The demand is now picking up and concentrated marketing efforts are being made to increase the sales. The forgings division continued to suffer because of a demand recession and inordinate delays in payments by major customers, forcing the division to curtail its production. The sulphuric acid and sorbitol plants have been commissioned with the new improved technology. Both the plants are working at rated capacities. The sulphuric acid plant at Bhavnagar is being modified to achieve the emission standards with a view to arresting air pollution. The modification is expected to be completed by mid-1985. The average dearness allowance increased from Rs 606 in 1983 to Rs 658 in 1984. As a result, the wage bill increased substantially. The Industrial Court gave its award on demands of workmen of the Bhavnagar factory, raising wages from April 1, 1983. The workmen, being not satisfied, have moved the High Court of Gujarat. The industrial relations continued to be harmonious. Shantanu N Desai has been appointed as a director by the board to fill the casual vacancy caused by the resignation of B K Daphtary. In order to provide relief to the preference shareholders, the directors have decided to cancel the existing low yielding preference shares and issue instead to the preference shareholders redeemable secured non-convertible debentures bearing interest at 13.5 per cent per annum.

*PHILLIPS CARBON BLACK* has turned in poor working results for the year ended November 1984 despite higher production and sales. The directors attribute this outcome to the surplus installed capacity in the carbon black industry. There are now seven carbon black plants in the country with an annual licensed capacity of 1,55,000 tonnes and can produce 1,94,000 tonnes in a year. The current demand is around 90,000 tonnes and all plants are therefore operating well below capacity. Letters of intent for new plants for another 27,000 tonnes capacity are being converted into licences. According to the company's management, demand even in 1990 is not likely to exceed 1,30,000 tonnes. It strongly urges the government not to consider issue of any further licences. During 1983-84, the company produced 29,213 tonnes against 23,497 tonnes in the previous year and the licensed capacity of 36,000 tonnes. Sales volume too increased from 25,708 tonnes to 28,702 tonnes and sales realisation from Rs 33.48 crore to Rs 38.03 crore, but gross profit fell from Rs 4.11 crore to Rs 2.89 crore, reflecting the impact of erosion of margins. Saving in taxation has helped to narrow the gap and net profit is Rs 1.22 crore against Rs 1.38 crore. Dividend has been slashed from 25 per cent to 15 per cent. In addition a two per cent payment is recommended by the board in commemoration of the company's silver jubilee. Distribution is covered 1.37 times by earnings as against 1.45 times previously.

The company has not been able to export any quantity, as international prices would not even cover the cost of feedstock. Although feedstock prices did not change, the cost of feedstock per unit of carbon black went up substantially, mainly because of the limited availability of phenol extract, a higher yielding feedstock, and the necessity to purchase larger quantities of CBFS-72, a lower yielding feedstock. Petroleum feedstock prices continue to be far higher than international prices for much better quality material. Considering the difficult times faced by the automobile tyre industry, the company did not increase its selling prices and the major customers expressed their appreciation of this restraint. The company, however, has increased its selling prices in the current year consequent upon the prices of the raw material having been substantially raised by Indian Oil Corporation. In order to augment its long-term resources for meeting working capital requirements, the company proposes to issue 15 per cent secured non-convertible debentures upto Rs four crore to financial institutions and by private placement. The company has revalued its fixed assets to bring them in line with current costs and the surplus of Rs 10.11 crore has been credited to Revaluation Reserve Account.

**NEW DELHI**

# Seventh Plan: Going through the Motions

### BM

THE planners in Yojana Bhavan expect to finish writing the draft of the Seventh Five-Year Plan by end July or early August and to present it to the Union Cabinet thereafter. According to this time-table, the National Development Council will be convened to consider the draft Plan in September. This has been possible because the planners were able to persuade the Prime Minister to hold a meeting of the full Planning Commission to determine the overall size of the Plan before leaving for his foreign tour with which he was evidently very much preoccupied. Earlier the Prime Minister had twice postponed the scheduled meeting of the Planning Commission because of more pressing preoccupations. Development planning cannot after all have a very high priority on the Prime Minister's agenda when liberalisation of the economy, so as to give private enterprise and market forces freer play, is the credo. However, the making of a development plan has its own uses and there is no question, at least as yet, of formally abandoning planning.

It was no surprise when, at the end of the meeting of the full Planning Commission over which the Prime Minister presided, it was announced that the Rs 180,000 crore outlay for the public sector, as originally stipulated in the Approach Paper adopted last year under the direction of the late Prime Minister, Indira Gandhi, had been approved. The announcement was made through a brief press note. It was not considered convenient to give the press more details at a press conference as has been customary in the past. The planners were evidently not ready to face awkward questions.

The Prime Minister had told the recently held AICC(I) session that there would be no cut in the size of the Plan. This was part of the famous leftward lurch staged at the session. The planners too had been told to work on that basis. The decision on the size of the Plan has been quite frankly a political one. The planners have also been told that they would have to project a respectable rate of growth of the economy for the Seventh Plan. This too is considered politically essential. The political directive is that the growth rate to be projected for the Seventh Plan should be close to the 5.5 per cent per annum which is claimed to have been achieved in the Sixth Plan. The planners have formally opted for a growth rate of 5 per cent in the Seventh Plan for which an outlay of Rs 320,000 crore—Rs 180,000 crore in the public sector and Rs 140,000 crore in the private sector—is estimated to be required.

It is not known how the gap in resources which was earlier estimated to be as large as Rs 40,000 crore for the public sector part of the Plan has been or is proposed to be filled. Some smart exercises have been undertaken to show that the gap may be reduced to Rs 11,000 crore by assuming better tax compliance and better returns from public sector undertakings through improved efficiency and productivity in the Central and State sectors. These optimistic assumptions too would appear to have been made primarily on grounds of political expediency. What is their relevance to the reality on the ground is a different matter altogether. In any case, even if there are large lags and shortfalls in the implementation of the Plan, that will not be anything new. There was no point, therefore, in being squeamish about making optimistic assumptions at the stage of drafting the Plan. 'Sights must be set high' has been a good watchword for planning in the past and must not be discarded!

But even the most cursory enquiries reveal that the assumptions which have been made to prepare a politically respectable Plan have given cause for many misgivings among the planners themselves. The Finance Minister is reported to have asked in the meeting of the full Commission whether the resources assumed for the Plan would hold good in the face of the needs of security and the demands of the Defence Ministry. The query was evidently addressed to the Defence Minister who is a Member of the Commission and was present at the meeting. He is reported to have responded by pointing to the need to improve pay and perks in the armed forces which would require more money. Though the question of larger provisions for the para-military and police forces did not apparently attract attention at the meeting, the need under this head is also large. The Planning Commission in any case is precluded from having any say on defence expenditure and expenditure on internal security and law and order.

In the resources scheme for the Plan as now drawn up, it appears that the planners feel they are on far firmer ground about the position of the states than that of the Centre. While a scheme for eliminating the state's overdrafts on the Reserve Bank has been set in motion, the revenue deficit of the Centre remains an intractable problem. There is no way by which the revenue deficit of nearly Rs 6,000 crore in the Central Budget for the current year can be considered acceptable. The overall Budget deficit of the Centre is expected to grow to Rs 5,000 crore compared to the Budget estimate of Rs 3,400 crore.

The problem, according to the planners in Yojana Bhavan, is that 1984-85 was a very bad year so far as fiscal and financial management was concerned. The election-eve Budget of the Union government last year and the reckless spending spree during the year have caused much damage. There was, in these conditions, no alternative but to make a very modest start in the implementation of the Seventh Plan in its first year. But this will have repercussions for the Plan in the coming four years.

It is in this context that the planners look upon the Budget for the current year, especially its feeble resource mobilisation effort for development, with misgivings. They have no option but to go along with the politically preferred fiscal philosophy embodied in the Budget and the concessions given in direct taxes on personal incomes and profits of corporations. The Finance Ministry's claim that the losses in revenue on this account will be made up by better tax compliance is taken with a pinch of salt in Yojana Bhavan.

The planners are in no position, however, to challenge the facile claims and assumptions of the Finance Ministry. They have to take a wait and watch stance. They have raised in a general way the issue of improving the ratio of tax receipts to incremental incomes, especially in the area of direct taxes under the auspices of the Union government. They do not find any scope for further lowering of the rates of direct and indirect taxes during the rest of the Seventh Plan period if serious erosion of the resources assumed to be available for development is to be avoided. But they will leave it to the Finance Ministry to demonstrate in practice its ability to make up the loss of revenue from cuts in rates of taxes by improving tax compliance and tax administration. If the Finance Ministry fails to make good its promises on this score, which is most likely, the planners may be expected to cry a halt to the so-called liberalising philosophy of the current year's Budget in the area of fiscal policy. As matters stand, it is easy to see that relations between the Finance Ministry and the planners are rather cool. This is not a very good augury for making a Plan, much less for implementing it.

Another area of anxiety for the planners is export performance which is far from adequate to sustain the import liberalisation policy without getting into serious balance of payments difficulties. The growth of exports in volume terms has been only two per cent during the Sixth Plan. The problem can only worsen, if, in addition to liberal imports in the name of securing high tech inputs for upgrading domestic production capacities, there are imports, as for instance in the case of sugar, for augmenting supplies for current consumption in the name of holding the price line and easing inflationary pressures. The planners have considered it wise that the level of foreign financing of the Seventh Plan should be modest. Even so, it is proposed to be 10 per cent of the Plan outlay which will be higher than that in the Sixth Plan which was seven per cent. However, considering what is euphemistically called deterioration in the climate for foreign aid flows and the rising cost of servicing foreign credit, even the modest level of foreign financing proposed for the Seventh Plan will involve onerous repayment liabilities. In the absence of any visible signs of a breakthrough in exports, the viability of the policy of import liberalisation is bound to remain in question. In this context Yojana Bhavan circles are intrigued that the Prime Minister has not so far found suitable Cabinet Ministers to take charge of even such important ministries as Commerce and Industry. They are also worried about the dragging of feet on the question of improving the management structures of public sector enterprises which continue to suffer from bureaucratic and political interference. The fact indeed appears to be that except for a few enthusiasts of liberalising, the Planning Commission as such is not that close to the economic policy preferences of the government. Nor does it enjoy the confidence of the political authority as is necessary for making the Commission's advice effective and its work purposeful. While, therefore, the Seventh Plan will be prepared with all the usual frills and pretensions, the planners themselves seem to be uncertain about the direction of the government's economic policies.

The planners have, it would appear, tried in a circumspect way to caution the government against impetuosity in economic policy and management. The estimate of the saving rate which in the Approach Paper had been pitched as high as 26 per cent, which would imply an incremental rate as high as 30 per cent, has been revised downwards. The savings rate which is now estimated to be achieved in the Seventh Plan is 22/23 per cent with the incremental rate expected to be about 25 per cent. A more realistic capital-output ratio is also proposed to be assumed, which shows that the planners are rather skeptical about expectations of dramatic improvements in productivity and efficiency. On the contrary, it is pointed out, the improvement in the capital-output ratio observed in the Sixth Plan period, which came about because of the spurt in agriculture and in oil production, cannot persist in the Seventh Plan. The Planning Commission is also cautioning against too much centralisation of development responsibilities in such areas as education, health and rural development. More dispersed and decentralised activity with responsibility vested mainly at the level of the state governments is favoured. But the strong, almost-reckless, urge of the political leadership at the helm of the Central government for showing dramatic achievements has resulted in sharply tilting the financial allocations under the Plan in favour of the Centre. The states are to be allocated only Rs 80,000 crore and the rest of the Plan outlay of Rs 180,000 crore is reserved for the Union government. This will be a major issue of dispute when the National Development Council considers the Plan.

In spite of the enlarged role assumed by the Centre, the inevitable dissatisfaction among Central ministries over the sectoral allocation of resources remains. There has been a sharp cut in allocation in particular under the head 'Industry and Minerals'. The allocation is only Rs 24,000 crore as against Rs 19,000 crore in the Sixth Plan. The fact is that no major new start in this sector is planned in the Seventh Plan. This will amount to a sharp deceleration of the rate of growth of investment in public sector industrial enterprises with all its implications. The idea obviously is that the private sector will take up these areas with its vaunted efficiency. This after all is what liberalisation is really all about. But will the private sector be able to come up to these expectations about its enlarged role in industrial development?

The energy sector gets the largest allocation of about Rs 50,000 crore, with power development being allocated Rs 30,000 crore. Irrigation gets Rs 17,000 crore and agriculture, including rural development, Rs 9,000 crore. Social services are allocated Rs 30,000 crore. The Centre has been allowed a larger say in the implementation of programmes in sectors ranging from power to education in which the states have hitherto played the leading role.

## BIHAR

# Teaching the Santhals a Lesson

### Umesh Sinha

THE small town of Sahabganj, headquarters of the district of the same name, was humming with activity as usual. But just 15 km away amidst the forests and hillocks of the Rajmhala hill range, an eerie silence had gripped the adivasi village of Banjhi. In this village a week ago 15 Santhals had been killed and many injured by the police. Since then the village has been cut off from the rest of the district. No passenger vehicles had been passing through the village, except for an occasional jeep packed with visitors.

On April 19 talks were in progress in the Panchayat Bhavan between the SDO and a delegation of Santhals led by Father Anthony Murmu. The delegation had gone to the SDO to ask him why non-tribal Mahajans had fired gun shots in the morning. According to Babulal Murmu, who served as a bodyguard for Father Murmu and was present at the talks, "the SDO denied there had been any firing and said that what the tribals had heard was the sound of crackers". Father Murmu refuted the SDO's claim saying that he could prove there had been firing. In the meantime, Gopal Bhagat, a 'dalal' of the police, entered the room and interefered in the talks. An altercation followed with Father Murmu. According to Babulal, "The talks ended and we were about to go. But all of a sudden the Bihar Military Police posted there started indiscriminate firing on the defenceless crowd. People began running for their lives. I too ran away."

Tension had been simmering between the Santhals and the Dikkus (Santhal term for non-tribals) since March 25 when the Santhals had fished out the body of Mutru Murmu from the village pond. There had been no trace of Mutru for the last 15 days. The village pond had been auctioned for fising to Moti Bhagat, a forest contractor and big moneylender of the area and a strongman of the Congress(I), by the administration for Rs 2,200 for three years. It is customary for the Santhals to fish in the pond during their hunting season which begins after the harvesting of the rabi crop and continues till the onset of the monsoon. Moti Bhagat, however, forbade them to fish in the northern corner of the pond. The Santhals protested that this would mean that they would not get enough fish. Against this background, when Mutru Murmu's body was found in the pond, the Santhals suspected foul-play. They informed the Boreo police station. The body was kept near the pond for two days, but the police did not take any notice and even refused to register a case. The Santhals then held a meeting and resolved to deal with the situation in their own way. The meeting awarded the punishment of 'Bithlaha' (the Santhal edict to destroy a person's house as the minimum punishment for his crime) to Moti Bhagat. The sentence was executed and a part of Bhagat's house and a thatched godown were damaged. The same day some Santhal women were assaulted by a group of young Dikkus at the haat. The Santhals decided to boycott the haat and to hold a separate one at Saviaya village.

The incident of firing by the Dikkus on the morning of April 19 about which Father Murmu had sought to complain to the SDO has to be seen against this background of provocative acts by the Dikkus against the Santhals. It is now apparent in retrospect that the Dikkus had resolved to teach the Santhals a lesson in a much bigger way with the help of the Bihar Military Police.

After the massacre by the BMP, the Santhals were so terrified that those who had been injured in the firing preferred their own methods of treatment to going to the hospital. They feared that they would be killed in the hospital by the Dikkus or that the police would arrest them and shoot them dead. This correspondent was told that 40-50 Santhals were lying injured in the nearby villages. Only four injured Santhals had been admitted to the dilapidated Sahabganj district hospital.

The district authorities continued to maintain that only six persons had been killed and six injured. In fact 15 persons, including two children, had been killed, according to the Santhals. There are also good reasons for believing that the Dikku Mahajans had taken part in the attack on the Santhals along with the BMP. It is difficult otherwise to understand how so many casualties could have been caused by the 25 shots fired by the police. Three of those injured have gun shot injuries which could not have been caused by shots from police rifles.

The authorities have also claimed that Father Murmu and Madan Murmu, brother of the village Pradhan, had been killed in police firing while leading a 10,000 strong violent mob. The Santhals, however, maintain that they had been tortured and killed by the police. The nature of the injuries found on their bodies tells a tale of police brutality. Both had been shot dead at point blank range. Besides, they had rifle shot injuries on their palms as though they had raised their hands instinctively to save their lives. Father Murmu's left arm had been nearly severed by a sharp weapon. Who had attacked him with a sharp weapon: the police or the Dikku Mahajans? The district authorities did not inform Father Murmu's wife of his death nor did they return his body to her. Instead they handed over the body to Father Murmu's brother at Bhagalpur. The bodies of the other 14 Santhals who were killed were also not returned to their families. Contrary to the Santhal custom of burying the dead near their houses, the bodies of the Santhals killed by the police were cremated by the authorities.

In a bid to justify the police firing, the Dikku Mahajans have alleged that an enraged Santhal mob had set two houses on fire. What is difficult to understand is why the Santhals should have decided to set fire to a house belonging to a Muslim widow and to the village post office. Enquiries suggest that the Dikku had themselves set fire to the buildings to create evidence of a Santhal mob having gone on a rampage.

The age-old exploitation of the tribals continues unabated in this area. Usury is widespread. The interest rate is such that Rs 100 lent becomes Rs 150 in a year. The farm wage of Rs 4 or Rs 4.50 is much below the prescribed minimum wage, but there is no movement among the tribals on this issue. Besides farming, the Santhals depend on the forests. Dikku traders and contractors purchase firewood and forest produce from the Santhals at throw-away prices. Santhal women who go into the forest to collect kendu leaf, fruit and firewood are molested by Dikkus and by forest officials. The contractors indulge in illegal felling of trees and smuggle out the wood. A Santhal forest guard, Eric Hansda, had sought to oppose these illegal activities and had complained to higher officials and even lodged a case with the police. Later he was involved in a false case of carrying illegal arms and arrested. Hansda eventually got himself transferred.

The government too has emerged as a formidable exploiter of the tribals. The Bihar Minister of State for Welfare and Jails, Thomas Hansda, has admitted as much. The Forest Department auctions kendu trees belonging to the Pahariyas and Santhals, but the tribals are yet to receive compensation amounting to lakhs of rupees. Such cases are common in the Boreo and Barhet areas.

A significant aspect of the tension between the tribals and the Dikkus is the involvement of youth on both sides. The sons of the Mahajans have formed a gang at Banjhi haat to restrict the entry of Santhal youths into business. Santhals are stepping into business slowly. Madan Murmu had started timber business. Bhagat and Sheikh had taken this as a challenge to their monopoly. They started to use their influence to hold Madan Murmu back.

Father Anthony Murmu had been working to arouse consciousness among Santhals since 1975 when he left the church. He contested the parliamentary by-election unsuccessfully in 1975 as a Hul Jharkhand candidate. In 1977 he was elected to Parliament as a Janata party nominee. Later he came close to Congress(I) politics. In the last two elections—parliamentary and assembly—he had been counting agent of the Congress(I). But whatever his political affiliation, Father Murmu was wedded to the Santhal cause. He had been working tirelessly to revive their past glory. In this pursuit he had been organising a fair every year at Barhat, the old capital of Santhal Pargana, with exhibitions, dramas and cultural shows. The fairs have had a tremendous appeal for Santhals, attracting them from far off places.

Just three days before the massacre of Santhals by the police and 21 days after the March 25 incident, the Jharkhand Mukti Morcha (JMM) leaders had organised a meeting in Savaiya village. Sibu Soren and other leaders addressed the gathering and exhorted the Santhals to launch an agitation against the Dikkus. The meeting demanded immediate transfer of the Boreo police station in-charge and punishment for those involved in Mutru's murder. Simon Marandy, the JMM MLA, assured the Santhals that he would talk to the district administration about these demands. But later, even a week after the ruthless killing of Santhals, none of these leaders turned up in the area. Ther were busy manoeuvring for the assembly by-election slated for April 24.

Chief Minister Bindeshwari Dubey, who visited Banjhi, had to yield to the demand of several democratic organisations and opposition parties for a judicial probe. His ministerial colleague, Thomas Hansda, too confessed, before visiting journalists at Sahabganj, that there had been high-handedness on the part of the administration. In the meanwhile, Bibiyana Baski has, in a letter to the Supreme Court, prayed for justice and an impartial enquiry into her husband's killing.

# Social Tensions and Protest Movements in Maharashtra

### D N Dhanagare

GROWING social tensions have become an inseparable part of modernising societies and have been an important source of a variety of protest movements—a social reality that sociologists encounter practically everyday. These tensions and social movements emanate from the ever-widening gap between rising aspirations of the people and limited resource-base as well as limited capacities of social systems to fulfil them. In other words, certain structural conditions and institutional inadequacies in bringing distributive justice to diverse but competing interest groups or pressure groups give rise to tensions and protest movements which in turn contribute significantly to social dynamics and change. For far too long sociologists in India had neglected study of social and political movements and although in the last decade and a half some sociological studies and researches on social movements have taken place, no attempt has been made to bring this theme on the cognitive map of those engaged in the teaching of sociology at the undergraduate level.

The need of sensitising sociology teachers to their immediate social surrounding and social reality must therefore be acknowledged. With a view to make under-graduate sociology teaching more purposeful and relevant by enriching its content through illustrative material drawn from immediate life situations, a ten-day long workshop on "Social Tensions and Protest Movements in Maharashtra" was organised by the Department of Sociology, Poona University from March 18 to 27, 1985. The workshop formed an integral part of the Department's activities initiated under the University Leadership Programme (ULP) of the UGC. From time to time different seminars, symposia and workshops had been organised by this Department for orientation and training of sociology teachers from colleges affiliated to the Poona University. It was felt that the benefit of such an innovative exercise should go to sociology teachers from other universities in Maharashtra too.

The workshop was inaugurated by Ram Joshi who stressed the need for studying social protests and movements from a more analytical and a more sympathetic point of view. He went into the question of concepts and definitions of 'social movement' in his inaugural address. In yet another lecture Ram Joshi highlighted the social tensions arising out of the rapid and somewhat indiscriminate expansion of education (higher education in particular), the growing inequalities in higher education (particularly professional education), the falling standards and quality of academic excellence, and the failure of the educational system to bring higher education within the reach of the disadvantaged sections of society.

A number of topical themes were selected and on these lectures were arranged by guest-speakers consisting of social science scholars, social reformers and activists. D N Dhanagare gave two lectures spelling out a proper conceptual and analytical framework and typologies for studying social protests and movements. On the very first day Sharad Joshi, the ideologue of the Shetkari Sanghatana in Maharashtra elucidated the ideology, organisation, agitational strategies and tactics of the recent farmers' movement for remunerative prices for agricultural produce. On the theme of women's liberation movement Neelam Gorhe an active worker of the Nari Samata Manch, Pune, highlighted the ideological streams and shades represented by different women's organisations and recapitulated the main demands of the women's movement today. Sharad Kulkarni, an activist engaged in the work of tribal conscientisation talked to the workshop participants on the tribal movements in Maharashtra. He focused attention on the questions of forest-lands, bonded labour, and rehabilitation of tribals affected by the newly constructed dams. Related to the theme of tribal protest movements, yet another lecture was delivered by R K Mutatkar of the Anthropology Department, Poona University.

In recent times the Dalit movement in Maharashtra has attracted considerable attention of social scientists, politicians and activists alike. There are many thought streams within the Dalit movement and these were searchingly discussed by Baba Adhava of the Mahatma Phule Samata Pratishthan, Pune. He not only explained the legacy inherited by the present day Dalit movement from Mahatma Jyotiba Phuley and Babasahib Ambedkar but also stressed the need for a dialogue between the Dalits and the non-Dalits (caste Hindus) since confrontation would lead both of them nowhere except to growing distrust and disaffection. The reflections of this discontent are increasingly seen in Dalit literature. In fact one can talk of a Dalit literary movement in Maharashtra. On this theme V G Pundlik delivered a lecture elaborating the various protest themes and their sensitive nuances as they have been reflected in various literary forms—novels, autobiographies, short stories, plays and poetry. Apart from these Anil Awachat spoke on the *Devadasi pratha* (the tradition of temple-women) and problems arising out of this custom. Prabhakar Mande of the Marathi Department, Marathwada University, talked to the workshop on the theme of 'superstitions, folkways and beliefs of people in Maharashtra'.

The working class movement was discussed in three separate sessions. In one session M K Singh, Department of Sociology, Poona University, lectured on the problems of the working class movement today. Vijyendra Kabra from Aurangabad spoke on the changing nature of the labour/trade union movement, and different labour laws in Maharashtra. This was followed by the third session in which Malanibai Tulpule narrated her experiences while working as an activist in the workers' movement, specifically in the engineering, chemical and bidi industries. She totally rejected the view that the leadership of professional 'outsiders' is largely responsible for the problems of working class movements today.

The Hindu-Muslim tensions, the problem of Muslim identity and roots of communal riots were discussed by U B Bhoite, Sociology Department, Poona University, in his lecture, while the problems of rural-urban-migration and the social tensions in urban slums were critically analysed by A Bopegamage and A Ramanamma. The latter attributed the rise of the Shiv Sena movement primarily to inter-state migration and competition among ethnic groups for scarce opportunities.

Social tensions and protest movements arising out of regional disparities and developmental imbalances are burning issues today. The rise of the movement for a separate Vidarbha state and growth of a separate identity and consciousness among the people from the Marathwada region are cases in point. These were discussed by Vijayendra Kabra. He put forward the case of the Marathwada region very poignantly and criticised the recent Dandekar Committee's report which had bypassed the question of regional disparities as such by selecting the district and the taluka as units for assessing development. In the next session a counterpoint was presented by V M Dandekar who was chairman of the Committee on Regional Imbalances. He brought out the political motives and undercurrents of the hue and cry over regional imbalances. Through statistics Dandekar showed that often some talukas within a district have received most of the benefits of development while other talukas—for example, in Sangli district—have remained dry and drought-affected in spite of massive capital inputs in irrigation schemes in that district. Dandekar enumerated such instances of unevenness of growth both in the infrastructure (such as roads, transport, industries and irrigation) and in social welfare schemes (i e, education, health services and the like) and strongly defended the methodology adopted by his Committee in calculating the backlog of developmental expenditure districtwise, instead of regionwise. The two presentations, by Kabra and Dandekar, giving opposite viewpoints helped participants in the workshop in understanding the complexities of the problem of regional disparities, in separating myth from reality and also in seeing through the motives of the political elite who have vested interest in promoting the 'regional identity'.

A massive and somewhat indiscriminate expansion of education (higher education in particular) has not only created its own problems but has led to intensifying educational inequalities in recent times. Social tensions arising out of such disparities manifest themselves in agitations and protest movements both for and against the reservation policy. The recommendations of the Mandal Commission in general and its retention of 'caste' as one of the important criteria for determining social and economic backwardness in particular have sparked off such agitations and protests in certain parts like Gujarat, Madhya Pradesh and Bihar. The root causes of these social tensions and protests were discussed in a symposium in which six teachers representing different universities participated. The symposium was conducted by T N Valunjkar.

Some 10 teachers from Amravati and Nagpur universities, one each from Shivaji and Bombay Universities, two from the SNDT Women's University, seven from Marathwada and 13 from Poona University participated in this workshop. The workshop was in the form of a follow-up on a month-long Winter Institute which the Poona University's Department of Sociology had organised in November 1981 on 'Maharashtra—Society and Culture'. The exercise enabled sociology teachers to perceive and to bridge the gap between the arm-chair musings of social scientists and the grassroots level social realities as well as the problems faced by social reformers and activists working in different spheres. The nature of interface between social analysis and social action, the strength and limitations of both, and above all the need to bring effectively both of them into teaching and research priorities were revealed by the workshop with some measure of success.

# Fidel Castro on Third World's Foreign Debt

### Firdaus Jhabvala

TOWARDS the end of March, Fidel Castro, Cuban President, was interviewed by Regino Diaz Redondo, Director of *Excelsior*, one of Mexico's leading newspapers. At the time of writing this report, the interview was still being serialised. In the interview, Castro deals with a range of issues, including Central America, the Reagan Administration, Castro's own early years as a conspirator in Mexico in preparation for the overthrow of the Batista regime, etc. However, the first three parts of the serialised interview deal with the foreign debt of the Third World in general, and Latin America in particular. In three taped sessions that lasted 16 hours and three more conversations that went well into dawn, Castro sets out what he himself terms an 'Economic Proclamation'. His basic theses are that the foreign debt of the Third World is so large that it is not repayable; that the effort to extract just the interest on the debt is converting the deep social crisis of the underdeveloped world into a revolutionary problem; and that a just solution to the problem would be for the creditor nations to pay off the foreign debt of the Third World employing 10 to 12 per cent of the resources that go into armaments.

In what follows, I have translated excerpts from the Spanish text published in *Excelsior* and have attempted to select those parts of the interview that bear on the problem of foreign debt. Even so, for reasons of space, what follows is a sample of the interview.

Castro's first thesis develops out of the following question: "Could there be unity in Latin America among governments so dissimilar?"

Fidel Castro: "I think so. The economic crisis and the debt are what is going to unite Latin America, and it's going to unite it much more than the Falklands War (between Great Britain and Argentina). In this case, the Latin American people united because of a problem, we might say a sentimental, moral and political family relationship. We were dealing with the fight against a fellow people originating in a colonial pretension, a historical booty, an unjust act when England was the most powerful empire on earth. They saw in the Falklands War a European country against a Latin American one, but it was not something that affected vital patriotic interests for the Latin American countries. That is to say, except for this patriotic Latin American aspect and the political aspect of the question, they didn't have anything to gain or lose economically. This solidarity was really disinterested. However, given the relationship between the economic crisis of Latin America and its foreign debt, the solution of this problem is a question of survival for the Latin American countries.

"They talk of the crisis of the thirties. The present crisis is worse still. If oil is left out, the purchasing power of Latin America's export products is inferior to that of the crisis of the thirties. But without going back to such a distant date, calculating the prices of our products 24 years ago, the purchasing power of the principal traditional articles of export in many cases, among them sugar, is three to four times less at this moment . . . Now, we have a bigger crisis, accumulated social problems incomparably greater, and a debt of 360,000 million dollars [md].

"An arithmetical analysis of this situation shows that this debt is not payable, whether you analyse the situation of all the countries together, or of any one of them. In some cases it is more serious; but in all, without exception, it is serious.

"Brazil, according to the latest data compiled by the Economic Commission for Latin America and the Caribbean of the UN, owes 101,800 md; Mexico 95,900 md; Argentina 48,000 md; Venezuela 34,000 md; . . .

"Some countries, like Argentina, are utilising 52 per cent of their exports to pay interest on the debt; Bolivia uses 57 per cent; Mexico 36.5; Peru 35.5; Brazil 36.5 and Chile 45.5. It is considered that 20 per cent of the total exports for the payment of the foreign debt is in itself an unsustainable percentage."

Regino Diaz Redondo: "What do these figures signify?"

FC: "That the development of any country is impossible under these conditions, because the GNP of the Latin American countries as a whole has diminished between 1981 and 1984. In Uruguay, for example, by 13.9 per cent, in Argentina by 6 per cent, in Chile by 5.4 per cent, and in Venezuela by 6.1 per cent, despite the enormous economic resources of this country. As population increased in these years at the same time, the GNP per inhabitant was reduced even more. Thus, in Bolivia by 24.6 per cent, in Costa Rica by 14.1 per cent, in Chile by 11.2 per cent, in Mexico by 6.3 per cent, in Argentina by 11.8 per cent, in Venezuela by 16.2 per cent, and in Uruguay by 16.2 per cent. ... Some countries are making truly impressive efforts to face the situation."

RDR: "Can you cite three of the biggest, of the most important?"

FC: "Yes. Brazil, in 1982, had exports of 20,172 md; in 1984, exports were 26,960 md; imports, which in 1982 were 19,395 md, in 1984 were reduced to 14,360 md. Mexico, which in 1982 had exports of 22,081 md, raised exports in 1984 to 23,500 md; imports were reduced from 14,434 md in 1982 to 10,000 md in 1984. Argentina exported in 1982, 7,622 md and in 1984, 8,700 md; on the other hand, it reduced imports from 4,859 md in 1982 to 4,270 md in 1984. Through this great effort, these countries obtained favourable commercial balances. Brazil achieved a commercial balance of 12,600 md, Mexico of 13,500 md and Argentina of 4,430 md. All this balance, product of an extraordinary effort, using and practically exhausting the stocks of raw materials, and affecting possibly the maintenance and reposition of productive installations, has been invested exclusively, in each of these three countries, to pay the interest on the debt.

"The result is that only in two years, 1983 and 1984, the net flow of financial resources from Latin America abroad rose to 56,700 md. That is to say, the set of underdeveloped countries of Latin America are financing the development of the richer industrialised countries of the World with impressive sums of money. This is a real fact. And that money has escaped forever, no return is possible.

"In Bolivia, where the economic situation is more serious, between 1981 and 1984, GDP fell 16.1 per cent and GDP per capita 24.6 per cent in only three years. The value of Bolivian exports diminished, between 1982 and 1984, from 826 to 730 md. Its modest imports increased from 429 md in 1982 to 460 md in 1984, truly puny figures. It is practically impossible that a country with a population, the problems, and the needs of Bolivia can sustain itself with imports of only 460 md. The 270 md of favourable commercial balance obtained by that nation last year has had to be employed in paying interest on the debt. In Bolivia, in the Dominican Republic, and in Panama, the measures of the International Monetary Fund, or the attempt to apply them, have started serious political and social conflict, because the people are totally determined to oppose the imposition of new reductions of the living standard and new sacrifices."

### FOREIGN DEBT AND POLITICAL UPHEAVALS

This is Castro's second thesis: The attempt to squeeze interest on the debt out of the Latin American countries will lead to political explosions.

FC: "A democratic opening has been produced in the countries of South America and received with enormous interest and great sympathy in the region and in the rest of the world. The opening was produced almost simultaneously in Argentina, Uruguay and Brazil ... Then, the US Administration declares and almost presents this situation as one of the successes of its policy, that democracy is advancing in Latin America, when what is really advancing is the crisis.

"These democratic openings have taken place, of course, in part due to the struggle of the people and their resistance to dictatorships, but what has contributed considerably is that the economic crisis is so deep that the military, demoralised and stunned, do not feel themselves capable of managing the situation any more."

RDR: "With these conditions, could new civilian governments consolidate themselves in the region?"

FC: "We maintain that if the economic problems derived from the debt are not solved, these democratic processes will also inevitably enter in crisis. One cannot conceive the leaders of Uruguay, Brazil and Argentina, who have headed the democratic process in the face of long years of military dictatorship, hurling the army and the police to the streets to shoot people, in order to apply the measures of the International Monetary Fund and pay up the last cent of the debt. These leaders have said three things with total clarity: that they are not willing to lay upon the shoulders of their people the consequences of the debt; that they are not willing to apply recessionary policies; and that they are not willing to sacrifice the development of the country. That is to say, they have framed these three basic premises. What is still not answered is the form in which these premises can be applied if there is no solution found to the problem of the debt."

Castro explains that the crisis has overtaken the requirements of the IMF and so these are impossible to satisfy.

FC: "The IMF demands, first, the reduction of the rate of inflation and of budgetary deficits, restrictive measures of a social character that increase unemployment and aggravate the problems that have been accumulating and multiplied during long years.

"The reality is that if in 1983 consumer prices in Latin America as a whole rose 130.8 per cent, in 1984 they rose 175.4 per cent. With these levels of inflation it is practically impossible to manage the economy.

"How is it possible, in these circumstances, to demand from the set of Latin American countries whose economies have not only stagnated in the past years, but have actually receded, at the same time that population has increased at a high rate, that they extract from their economies 40,000 md every year, and that in 10 more years, they prepare to hand over the colossal sum of 400,000 md, only due to interest on the debt? What types of new sacrifices and restrictions will have to be applied in these countries in order to achieve the objectives of paying this fabulous sum in interest, and at the same time, reducing inflation and developing? ... This is a practically impossible task.

"In some cases, the levels of inflation are really amazing, as in Bolivia, where it reached 2,300 per cent; Argentina 675; Brazil 194.7; Peru 105.8, and so on. How can we ask that in one year they face these problems, reduce inflation, adjust the budgets and pay moreover astronomic quantities of money for interest on the debt?"

With facts and figures, Castro examines four different scenarios where Latin America attempts to pay its foreign debt, holding down the interest rate to under 10 per cent. Nevertheless, the arithmetic is such that in each of the four cases, Latin America pays up close to, or over, a trillion dollars in a period of 10 to 20 years. In other words, "the debt and its interest are unpayable".

### NON-PAYMENT WILL NOT AFFECT FINANCIAL STABILITY

RDR: "If the debt is not paid, what would be the consequences?"

FC: "It has been said that if the debt cannot be paid it would destabilise and sink the international financial system. It is not at all necessary that this occur. We propose that the industrialised creditor countries take charge of the debt of their own banks. As a norm, the public debt of the industrial countries grows, it is a historical law that it tends to grow; what the industrial states would do is simply respond for the interest on that growing public debt.

"The public debt of the US in 205 years reached the figure of a trillion dollars. When I speak of a trillion, I refer to the US trillion, equivalent of the Spanish billion, that is to say, one million million dollars. Well, then, in 1981 the public debt of the US reached that figure. Between 1981 and 1984, that is to say in only three years, it increased by 650,000 md more, and in 1986 it is supposed to reach or pass the second trillion. This, nevertheless, is hardly mentioned in the US. It does not appear to be a big thing to worry about. On the contrary, they emphasise that the economy grows and in fact they inform us that in 1984 it grew by 6.8 per cent. That is to say, if we stick to the official economic concepts and theory, the growth of the public debt has not ruined the economy, nor has it impeded growth, nor the optimism with which some US economists speak of the future development and growth of their economy. If the US, and other industrial powers, were to respond to their own private banks for the debt of Latin America and the rest of the Third World, this would imply an additional increment of their public debt.

"But where could the resources come from to respond for the interest derived from increases of this debt without in the least affecting the economy of the country?"

RDR: "From where, Commander?"

FC: "It's quite simple: from military spending, and not from all military spending, but rather from a small percentage, 10 per cent of those expenses, and if interest rates continue so high, from a maximum of 12 per cent. With that modest percentage of military spending, all the industrial powers can respond to their own banks for the foreign debt of Latin America and the rest of the Third World. Even so, military spending would continue to be fabulously high and worrisome.

". . . As is well known, at the present time, investment in military spending in the whole world is one million million dollars every year. And if the arms race does not cease, which the conscience of the universe considers absurd and unacceptable, in a world with more than a hundred underdeveloped countries and thousands of millions of people suffering from food, health, housing and educational needs, such spending would continue to increase until it lets loose a nuclear catastrophe, a risk that is even more worrisome than the economic catastrophe that a great part of humanity is already suffering."

RDR: "As regards military spending, President . . ."

FC: "It would be truly sensible and wise that a reduction of military spending were to be a beginning to the solution of international economic problems. All economists have proposed that with a part of military spending, they could solve the problems of underdevelopment and the problems that lash the world. This problem of recent military spending and the dangers it holds for humanity were at the centre of a recent meeting in New Delhi, where figures of such international prestige and authority participated as Rajiv Gandhi, Julius Nyerere, Raul Alfonsin, Miguel de la Madrid, Andreas Papandreu and Olof Palme."

RDR: "How would the US government respond before the creditor banks?"

FC: "This is the complete idea: The US, utilising the mechanism of Treasury Certificates, expiring in 10 years, and Treasury Bonds with expiry periods of upto 30 years, could respond to their creditor banks, for the amount of credit authorised to the Third World. This would not affect in the least the present contribution by US citizens to the budget. The banks would recover the capital invested, US export firms would increase their sales, and foreign investors their profits. What is much more important, such a solution would increase employment in all the industrial countries; their factories would use a higher percentage of capacity and international trade would expand.

". . . One should bear in mind that the fundamental problem of the industrial countries at this moment is not the internal public debt nor the foreign debt, but rather the whiplash of unemployment that grows constantly in the greater part of the Western countries, reaching the figure of 3 million in England, in spite of her new oil resources; 2.6 million in the FRG, a postwar record; 3 million in France; 2.8 in Spain, and so on."

RDR: "Then the benefit is mutual . . ."

FC: "The solution of the problem of the foreign debt of the underdeveloped countries could be an important step to get out of the prolonged international economic crisis that is very far from having been resolved in spite of the optimistic forecasts that some wish to present. The economy of the European Economic Community grew in 1984 only 2.4 per cent and better results are not expected in the present year. What does grow constantly is unemployment. According to very recent data, the US economy itself is facing difficulties with its growth in the first trimester of this year.

"The solution to the debt of the Third World, even though it would constitute without doubt a relief for many countries, would be far from resolving the problems of development. In a few years, the situation would be the same or worse than now if we do not overcome once for all unequal exchange, protective measures, dumping, monetary policies based on the economic power of a few countries, excessive interest on loans and other factors that integrate the unjust system of economic relations and of exploitation imposed on the countries of the Third World; that is to say, if a new world economic order is not established."

Several other points are made by Castro in his interview, and I shall try to sum up the most important ones. First, individual countries, acting on their own, cannot solve their debt problems, "precisely when the creditor countries are closely united in the IMF and the Club of Paris". Second, popular support will always be lacking for measures recommended by the IMF. " . . . The population does not understand it, nor can it. There is no other sacrifice for it other than a sterile sacrifice. It has been made many promises from a long time back and it sees things worsen every day. It doesn't understand any of those technicalities, they don't tell it anything, they don't offer it anything when it gets up every day and looks for work, or sees its salary diminished every morning and the goods costlier all the time. Remember what Lincoln said: 'You can't fool all the people all the time'." Third, attempts to create clubs of debtors, such as the Carthagena Group (of 11 Latin American countries) should not be limited to a few countries. Fourth, Castro's interest in the problems of the foreign debt is not, he points out, prompted "to reflect a problem of Cuba. We are fortunately today the only country of Latin America and the Caribbean immune to the crisis. Our debt in convertible money is minimal, hardly 300 dollars per inhabitant. We do not have any type of problem in our financial relations, nor in our trade with the socialist community, with which we realise fortunately 85 per cent of our trade. From 1981 to 1984, our gross social product grew 24.8 per cent and the product per inhabitant 22.6 per cent; our plans of economic and social development in the next 15 years are assured—which constitutes a true privilege in a stage like this for any country." Finally, the size of the foreign debt of the Third World is a pittance for the rich countries. "... Ever since the OPEC countries succeeded in raising oil prices from approximately 2.5 dollars to 30 dollars a barrel, the industrial countries, Europe, the US, Japan and others, in only eleven years, paid up for those additional oil prices sums that pass a million million dollars, much more than all the accumulated foreign debt of all the Third World, without ruining their economies nor even affecting their large military expenditures. Ninety per cent of that money came back to the banks of the same countries from where it had left. They picked up, moreover, the money spent on oil imports by the countries of the Third World that do not produce it. The prices of their exports multiplied. Numerous Western firms did fabulous business in view of the new acquisitive power of their oil clients, amongst them, arms manufacturers. Many technological innovations were made and many measures adopted to save fuel. New and old sources of energy were utilised. Waste diminished considerably. Only the non-oil producing underdeveloped countries suffered the catastrophe in all senses, and a new unequal exchange had arisen for them."

## RESPONSE TO CASTRO'S SUGGESTIONS

The response to Castro's remarks has been mixed. On the one hand, people like Jose Carral, Vice-President of the Bank of America, termed the proposal "utopian". Their argument may be termed the "honour factor": honourable people pay off their debts. On the other hand, people directly linked to the welfare of the Mexican masses termed the proposals as being realistic. Raul Alfonsin, Argentine President, on a state visit to Mexico, declared that "there cannot be discrepancies" with Castro's statement. Asked if Latin America had the arms, in the pacific sense of the word, to achieve the sensibilisation of the developed countries, Miguel de la Madrid, Mexican President, answered: "We have the arms of Reason and Right and the specific weight of the subcontinent of Latin America, its economic power; even though we are in difficulties, we influence the world economy. And we have the institutional and democratic tradition that is fortunately being reborn at this moment in a very vigorous manner."

The debt problem occupies the energies of Latin America as nothing else. Much more dependent upon the world (mainly the US) economy than, say, the Indian economy, the Latin American economies are straining to breaking point to pay up truly spectacular amounts to the world banking system. In some countries, outflows have surpassed 10 per cent of GNP. A country that grew five or six per cent when it received capital from abroad obviously cannot grow if it is drained of 10 per cent of its product. With the closing up of the few avenues to social advancement that existed, the middle classes are being quickly liquidated in most Latin American countries, placing severe pressure upon the fragile social order. From without, the bankers and their allies in classic Shylockian fashion want to be paid their pound of flesh: interest on interest on the debt. The governments of Latin America are rapidly using up their political capital to hold down the often miserable living standards of many of their people, and at the same time putting off Payment Day as far as is allowed by the banking system.

However, the less fortunate countries, such as Bolivia, are virtually flat out on their backs. They are busily fending off creditors without even the possibility of postponing P-Day. A few years ago, when the depth of the current world crisis had not been properly assimilated, some hoped that oil prices would pick up again (in the exporting countries such as Mexico, Venezuela and Ecuador). Others expected an upturn of the world economy, so that they could export more and ease their debt problems with the extra income (Brazil, Argentina, etc). Today, no such easy panacea to the debt problem is forecast. In all of Latin America prevails the idea that the creditor nations cannot collect the amounts involved. This final illusion has been slowly giving way to reality in the face of unrelenting economic pressure by the industrial countries when the Latin American economies most need their understanding.

In the light of sustained economic, social and political difficulties in Latin America, Fidel Castro's proposals would be the most humane and rational way of helping ease the region's terrible burdens. What is true of Latin America would be even more true of the near-starvation levels prevalent in much of Asia and Africa. For all the foreign debt problems of the region, Latin America is better off than most of Asia and Africa. For example, Mexico and India have virtually the same level of GNP, but Mexico has only 11 per cent of India's population. Therefore, per capita income is nine times as high in Mexico. Still, living standards are a relative proposition, and a sustained period of diminishing living standards would increase instability in Latin America. Unfortunately for the region, neither humanity nor rationality enter the calculus of the world banking system.

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# Population and Environment

**Anil Agarwal**

CONSIDER the bare figures. Between 1901 and 1951, India's population grew from 238 million to 361 million, an increase of about 52 per cent over 50 years. Between 1951 and 1981, it expanded from 361 million to 685 million, a whopping increase of 90 per cent in just 30 years. India literally added a second India in the 35-odd years of its independence.

In 1967, William and Paul Paddock wrote a book called "Famine 1975—America's Decision: Who Will Survive?". They classified developing countries, based on their population growth rates and food production potential, into three categories: 'can't be saved', 'walking wounded' and 'should receive food'. India suffered the ignominy of being classified as 'can't be saved' with the comment that it "is the bellwether that shows the path which the others, like sheep going to slaughter, are following". India was a country, according to the authors, to which the US should not have bothered either to provide aid or food.

Fortunately, India's food production managed to keep ahead of population growth, which helped it through some of the most critical drought years like 1979. But the apparent stagnation in agricultural production—though in 1983-84 a new record foodgrain production of over 150 million tonnes was recorded—once again created despondency.

The 1981 census results turned out to be even more of a shocker than usual. The Planning Commission had just put the finishing touches to its Sixth Five-Year Plan when the registrar general of census announced that the country had some 13 million more people than the number estimated by the planners and that the birth rate was not 33 per 1,000 people but around 36. The Planning Commission had to hastily restructure the Sixth Plan to bring it into line with the new figures.

The key question for expert and layperson is: can India's lands support such a large and growing population? This is where the 'carrying capacity' comes in. It is the number of people or animals that an area of land can support on a sustainable basis. Unfortunately, not one expert in the country has attempted to quantify the carrying capacity of the area under a single development block, leave alone the whole country.

Indeed, it is an extremely complicated and uncertain business trying to set a figure to the number of beings a piece of land can support. Take the case of Fiji where, in 1973, UNESCO and the United Nations Fund for Population Activities (UNFPA) launched a pilot project to study the population-environment relationships in the eastern islands. The number of ecological variables were found to be enormous, putting paid to all efforts to put a figure on the small islands' carrying capacity. Only specific inferences were possible. For instance, eastern Fiji is caught in the stranglehold of the declining copra industry and is suffering from poverty and emigration. If the colluvial soils which have been planted with increasingly unproductive coconuts for copra export were converted to farming of taro, a root crop, it was estimated that upto five times more people could be supported with this economy than if they continued with copra. Any talk of carrying capacity must clearly be marked with great caution.

In a modern interdependent world, where trade plays a major role, the population supporting capacity of a particular area can in fact be increased enormously by importing a few critical items like plant nutrients from outside. Densely populated Europe today is heavily supported by the production of a range of items outside European countries, especially in the developing countries. The UN has never dared to estimate how much land in the developing world is today producing food and other items like timber for the developed world and how the quantity of this land has been changing over time. If such a study were undertaken, it would clearly show that, despite decolonisation in large parts of the Third World over the last three decades, many times more land is being used in developing countries to meet the needs of the developed countries as compared to 1950, and today this land use is a major cause of environmental destruction across the Third World. For instance, the first major attack on India's natural forests came with the demand to establish tea plantations to satisfy colonial Britain.

## INDIAN PROSPECTS

But what of India? It is useful to ask just what our land is physically capable of producing on a sustainable basis, without going into the thickets of social organisation and land reform. In late 1983, the Food and Agriculture Organisation (FAO) released an extensive study on the subject, 'Potential Population Supporting Capacities of Lands in the Developing World', the result of almost a decade's work that began with the preparation of a world soil map.

The picture of India that emerges is both exhilarating and sobering. Simply put, India has enormous problems but also has an equally enormous natural resource base to solve them with. Assuming a low level of inputs: local low-yielding varieties, no fertiliser use or chemical pest, disease and weed control, long fallow periods, no long-term soil conservation measures, high rates of soil erosion, steadily declining soil productivity, manual labour with hand tools as the only power source, high labour intensity, subsistence production and fragmented landholdings, the study reports that the population supporting capacity of the irrigated and rainfed areas together was 1.56 persons per hectare in 1975 compared to the 1.93 that existed in reality. In other words, in 1975, India had 119 million—or 19 per cent of the population—more people than its lands could support.

But assuming high and intermediate levels of inputs, the potential population supporting capacity of India's lands shot up to 6.84 and 3.53 persons per hectare: India's lands could have fed as much as three and a half times the existing population in 1975.

TABLE 1: INDIAN FOOD SITUATION OVER THE 1970s

| | Average 1969-71 | Average 1978-80 |
|---|---|---|
| Population (million) | 552.5 (1970) | 684.5 (1980) |
| Population index | 100 (1970) | 124 (1980) |
| Food production index | 100 | 127 (1979-81) |
| Food production per capita index | 100 | 102 (1979-81) |
| Calories per capita per day | 1999 | 1998 |
| Protein per capita per day (gm) | 49.5 | 48.5 |
| Fat per capita per day (gm) | 29.2 | 29.5 |

*Notes:* 1 It is important to note that the quantities of food available indicated in the Table relate to the quantities of food reaching the consumer but not necessarily to the amounts of food actually consumed, which may be lower than the quantity shown depending on the extent of losses of edible food and nutrients in the household.

2 The figures represent only the average supply for the population as a whole and do not indicate differences amongst socio-economic groups and ecological zones and seasonal variations.

*Source:* 1981 FAO Production Yearbook, Vol 35, Rome, 1982, FAO.

By the year 2000 the picture changes for the better because of the country's massive irrigation development plans. That year, India is expected to have a population of 1036.7 million and a population density of 3.23 per hectare. Because of the increased output from irrigated lands even at a low level of inputs, India's lands can support a population density of 3.24. At intermediate and high levels of inputs, the corresponding figures would be 5.62 and 8.18. If India can keep to its irrigation targets and manage its lands properly, by the year 2000 it can feed a population of upto 2,621 million, two and half times the projected population by that year.

To get a good idea of the crucial challenges ahead—if the basic food needs of such vast numbers of people are to be met—it is useful to understand the complex methodology of the FAO study. The first step is an inventory of the country's land resources as indicated by the 1:5 million FAO/UNESCO Soil Map of the World. The map indicates 26 major soil units which have been grouped into nine major soil classes. A separate assessment of the country's climatic patterns provides further information on major climates and lengths of growing period zones. A normal growing period is defined as the period in which rainfall exceeds evaporation and a growing period of less than 75 days is considered to be inadequate for crops. Data on the climate also provides information on whether the temperature poses any serious constraint on crop growth.

By integrating data from the land and climate inventories, it is possible to get a quantification of the land resources of a country in terms of soil and climatic conditions which can then be matched to the soil and climatic requirements of crops. In other words, this exercise results in hundreds of agro-ecological cells, each quantifying the extent of each individual soil (further broken down by soil phase, slope and texture class) as it occurs in each major climate and in each length of growing period zone.

Table 2: Potential Population Supporting Capacity of India's Lands

| | Year 1975 | Year 2000 |
|---|---|---|
| Actual population (million) | 618.7 | 1036.6 |
| **Low inputs** | | |
| Potential supportable population (million) | 499.7 | 1298.1 |
| Contribution of irrigated lands (per cent) | 56 | 87 |
| **Intermediate inputs** | | |
| Potential supportable population (million) | 1130.2 | 1800.1 |
| Contribution of irrigated lands (per cent) | 25 | 63 |
| **High inputs** | | |
| Potential supportable population (million) | 2191.0 | 2619.9 |
| Contribution of irrigated lands (per cent) | 13 | 43 |

*Source:* "Potential Population Suporting Capacities of Lands in the Developing World", FAO/IIASA/UNFPA, Rome 1982.

In the case of India, for instance, nearly 85 per cent of the land (270.5 million hectares) has a climate suitable for agriculture, where both rainfall and temperature conditions are adequate for crop growth. But only 57 per cent of this land (155 million hectares) has soils with no inherent fertility limitations. Of this land, too, about 60 per cent (95.6 million hectares) has a very short growing period of 75-179 days. On this land irrigation can lead to greatly enhanced production as water availability is the only constraint on production.

But slopes will also pose limitations. India's soils have been divided into three slope classes: slope A, level to gently undulating, where dominant slopes range between 0 and 8 per cent; slope B, rolling to hilly, where dominant slopes range between 8 and 30 per cent; and slope C, steeply dissected to mountainous, where dominant slopes are greater than 30 per cent. No soil unit in slope class C and only half of the soils in slope class B are considered fit for cultivation. These lands would best be under forests or well-managed grasslands. Nearly 51.3 per cent of India's land is in slope class A, 35.5 per cent under slope class B, and 13.2 per cent under slope class C. A large part of India's soils with no inherent fertility limitations are under slope classes B and C (together 87.9 million hectare).

Irrigation plays a very important role in boosting food production in India—more so than in most other developing countries. In its study 'Agriculture: Towards 2000', FAO points out that nearly three-fourths of the Third World's additional irrigation capacity will arise in the Far East between 1980 and 2000, and about three-fourths of this will arise in India alone.

In 1975, when India's land could feed only 500 million people using low inputs as against an actual population of 619 million, irrigated lands were meeting the needs of 280 million, that is, 56 per cent of the potential population that could be supported. By the year 2000, the study estimates that irrigated lands will be supporting 87 per cent of the potential supportable population of 1,298 million in that year. In other words, irrigation plays and will have to continue to play an extremely important role in the years to come if India's population is to be fed. And this irrigation will have to take place in a manner that is sustainable and not destructive of land through waterlogging and salinity.

To get an estimate of the land that would be under rainfed production, FAO experts subtracted the land under irrigation and land under non-agricultural uses To get an estimate of the land under non-agricultural use, the study takes an average figure of 0.05 hectare per person of non-agricultural land. This means that in 1975 India needed 31 million hectares of non-agricultural land (10 per cent of the total land area) and by 2000 it will need 52 millión hectares (16 per cent of the total land area).

### PRODUCTIVITY EXERCISE

In this way, the study obtains a number of agro-ecological cells available for rainfed cultivation. After selecting the input level (low, intermediate or high), each agro-ecological unit is then analysed separately for 18 different crops, including grasslands, to get an estimate of the livestock potential. Thus, the study obtains the crop which is most productive under the unique circumstances of the soil and climatic conditions of each agro-ecological unit. This gives the total productivity of each agro-ecological unit.

But a number of restraints are also applied to ensure productivity on a sustainable basis. Limitations on production are imposed by phase, slope and texture of the soils in each agro-ecological unit. Fallow requirements pose yet another constraint. The earth must rest, lie fallow between periods of cultivation—so that it can regain its normal vigour. The extent of the necessary rest period depends on the level of inputs, soil and climatic conditions and crops.

With low levels of inputs in the humid tropics, cultivation of Arenosol soils (2.4 per cent of India's lands) is only possible one year out of 10 if productivity is to be maintained and land degradation avoided. In contrast, Gleysol soils (2.6 per cent of India's lands) may be cultivated six years out of ten with the same level of inputs and climatic circumstances.

Probably the most important factor in agriculture is land degradation. Land degradation resulting from soil erosion/soil loss by water and wind, salinisation and alkalinisation, waterlogging, depletion of plant nutrients/organic matter, deterioration of soils structure and pollution, can lead to partial or even total loss of productivity, argues the FAO study. It is, therefore, very important to take this into account for calculating future productivity and population supporting capacity. Whereas it is possible to estimate the rates of soil loss under specific climatic, soil and land use circumstances, there is still no definite method to calculate the impact of soil loss on productivity. The FAO has used certain interim relationships between rates of soil loss and loss of pro-until further studies can show more accurate relationships.

An extremely important aspect of the FAO study is the fact that it considers soil conservation an important aspect of agricultural management. The scenarios dealing with low levels of inputs assume that no soil conservation measures are being undertaken and hence a full rate of soil loss and loss in productivity takes place. Intermediate levels mean some conservation measures and 50 per cent rate of soil loss, and high level of inputs means complete conservation measures and acceptable rates of soil loss with no impact on land productivity.

The FAO study does not publish separately any data for rates of soil loss in India but the study does show that the Southeast Asia region (which includes India) is the most susceptible region in the world to soil loss. Given the fact that India has large arid and semi-arid lands and also large tracts of land under higher slopes it would be correct to surmise that soil loss is a serious problem for India. If soil erosion were to continue unchecked, rainfed crop lands in Southeast Asia would decrease by 35.6 per cent by 2000 and rainfed crop productivity by 38.6 per cent.

TABLE 3: AREA COVERED BY DOMINANT CLIMATES IN INDIA ACCORDING TO SUITABILITY FOR AGRICULTURE

| Type of Climate | Area Covered (Million Hecatres) | Per Cent of Total Land |
|---|---|---|
| A Cold (severe temperature constraints) | 17.97 | 5.62 |
| B Warm/cool (no severe temperature constraints) | 301.64 | 94.38 |
| *Of which:* | | |
| Dry all year round (0 days) | 6.46 | 2.02 |
| Inadequate growing periods (1-74 days) | 24.67 | 7.72 |
| Short growing periods (75-179 days) | 172.77 | 54.06 |
| Long growing periods (180-365 days) | 97.73 | 30.58 |
| | 319.61 | 100.00 |

*Source:* FAO.

TABLE 4: EXTENT OF INDIAN SOILS BY SLOPES

| | Area (Million Hectares) | Per Cent of Total Area |
|---|---|---|
| Slope A | 163.70 | 51.30 |
| Slope B | 113.23 | 35.48 |
| Slope C | 42.18 | 13.22 |

*Notes:* Slope A—Level to gently undulating; dominant slopes ranging between 0 and 8 per cent.
Slope B—Rolling to hilly; dominant slopes ranging between 8 and 30 per cent.
Slope C—Steeply dissected to mountainous; dominant slopes are greater than 30 per cent.

*Source:* FAO.

The study also takes into account land that would have to be allocated for seed production and assumes 10 per cent harvest and post-harvest losses. The final variable is the choice of crop. At the low level of inputs, the study assumes that presently grown mixture of crops will be cultivated, regardless of the total calorie-protein production. At the intermediate level of inputs, the mixture of crops grown changes partly towards the crop giving the highest calorie production in each agro-ecological unit, and at the high level of input, only the optimum mixture of crops is grown. At the high and intermediate levels of inputs, a minimum protein requirement is also built into the optimal cropping mixture. In this way, the maximum possible production is estimated and matched with the requirements of the country's population.

## STUDY LIMITATIONS

There is no doubt that the study has many shortcomings and despite its complicated nature can only be called a first approximation of the carrying capacity of India's lands. Firstly, the scale of the soil map ought to be enhanced in any detailed study of India, which will provide better data on the extent of India's agro-ecological units. Secondly, the study does not earmark any land for production of cash crops. All areas under higher slopes have been kept aside as fit for forests for reasons of soil and water conservation, but no estimates have been made for lands that would be needed to produce firewood and timber near villages. Thirdly, the study does not take into account the possibilities of producing fish and products like algae from freshwater bodies and along the coast. Fourthly, the study assumes that irrigated lands will produce as expected which, given the past production record of irrigated lands, is highly optimistic especially in the case of India; a separate assessment is needed on sustainable productivity from irrigated lands. Fifthly, the higher inputs scenario assumes much larger use of fertilisers and pesticides and this could lead to serious environmental consequences. It would be better to assume a high input scenario based on biological nitrogen fixation, use of organic resources and integrated pest management techniques.

On the other hand, this rigorous exercise does show that in principle India should have no difficulty in meeting the food needs of its population for at least a century. The challenge lies in removing the socio-economic constraints to agriculture and moving towards higher levels of environmentally acceptable inputs. Indeed, in all areas where agricultural inputs have increased, agricultural production has increased and kept ahead of population growth. But because of environmental neglect a word of caution is necessary: whether even the high-input areas will provide sustained yields remains an open question.

The FAO study shows that a significant part of the increased production must come from its irrigated lands. Unfortunately, not only are yields from India's irrigated lands dismally low, nearly a quarter to half are threatened with waterlogging and salinity. In most areas, organic manuring is neglected. In the high production areas of Punjab, the problem of micro-nutrients is growing rapidly and soil fertility is being rapidly depleted. The drylands of India have been completely neglected and few measures for water harvesting and soil and water conservation have been promoted. R J Dudal, director of FAO's soil and water division points out that probably the most important input immediately needed is soil conservation measures: the land resources base cannot be taken for granted.

Madhav Ashish, environmentalist, has argued that good management of crop lands will require an equally good management of forest and grazing lands. For instance, the destruction of forests means shortage of firewood and greater use of cowdung as fuel which affects the fertility of the crop lands. The indiscriminate expansion of crop lands into marginal areas earlier used for grazing, means that not only grazing lands deteriorate but that cattle are pushed into forests for grazing, preventing regeneration and creating a perpetual firewood famine.

In sum, what the FAO study shows clearly is that the key factors that will determine future success are good soil and water management measures. Unfortunately, both elements are completely lacking in our agricultural management system. If India's people were to go hungry, it can be said with authority that it would not have anything to do with their number but with the callous mismanagement of the country's natural resources. Probably more than family planning programmes, India needs national 'ecodevelopment' programmes.

Ultimately, it is the nature of Indian society that will determine the carrying capacity of India's lands. Clearly, in a society where co-operation plays a major role in the use of natural resources as opposed to competition and personal acquisition, the carrying capacity will be much larger than what it is today.

[This article forms part of "The State of India's Environment, 1984-85: A Citizen's Report", edited by Anil Agarwal and Sunita Narain, to be published by Centre for Science and Environment, New Delhi.]

# ZUARI AGRO CHEMICALS LIMITED

JAI KISAAN

## STATEMENT OF THE CHAIRMAN SHRI K. K. BIRLA AT THE SEVENTEENTH ANNUAL GENERAL MEETING HELD ON JUNE 12, 1985

Shri K. K. Birla

Ladies and Gentlemen:

I have the privilege to welcome you to the Seventeenth Annual General Meeting of the Company. You have already with you the Annual Report with the audited accounts and the Directors' Report for the year ending December 31, 1984. I seek your permission to take them as read.

At the outset I must express, on behalf of the shareholders, the Board of Directors, the employees, and myself, profound sorrow at the death of Prime Minister Indira Gandhi, who guided the destiny of the country for nearly two crucial decades in the formative years of our young democracy. With rare vision, indomitable courage, dedicated commitment to the unity of the country and boundless love for the common people of our country, she not only captained the ship of state ably but also contributed in great measure to international peace and harmony. The most appropriate tribute to her would be to continue to work hard and endeavour to further the causes for which she so valiantly lived and died. Our country is fortunate that the people have chosen, with an unprecedented mandate a youthful and dynamic leader, Mr. Rajiv Gandhi, who now leads the nation as Prime Minister.

The progressive and pragmatic policies of the Government are reflected in the budget proposals presented by the Finance Minister. This budget recognises the need to revitalise the economy. It also reflects the Prime Minister's approach to liberalise economic policies and take the country into the technological and industrial culture of the 21st century. People in all walks of life have welcomed the budget proposals. The reduced burden of taxation, incentives to industry, liberalisation of the licensing policy, and the benefits provided to various sections are, illustratively, some of the salient aspects of the new deal. In the perspective of the progressive policies of the Government and the healthy economic environment, the coming years offer new opportunities to business and industry for growth and service, and we can look forward to a period of accelerated economic progress, prosperity and social justice.

A review of the economy at the end of the Sixth Five Year Plan indicates that the country has done well in the agricultural sector with bumper crops in two successive years. The production of foodgrains during the last three years of the Sixth Five Year Plan increased significantly from 129 million tonnes in 1982-83 to 151 million tonnes estimated in 1984-85. Undoubtedly this is a good performance, but there is no room for complacency, especially in view of the need for providing food for a growing population. In the industrial sector also, there has been considerable improvement in the output of goods and services. The economy as a whole is gathering momentum.

The need to improve food production would necessitate higher production of chemical fertilisers. It is estimated that the fertiliser production in the country has to be increased from the current level of about 7.5 million tonnes to nearly 20 million tonnes by the turn of the century to achieve self-reliance in the availability of this vitally needed input. The Government has already initiated steps to meet the challenge. A number of projects to build giant fertiliser complexes based on proven reserves of off-shore gas are already under implementation and plans are under review for additional capacity. As you know, your Company has been entrusted the responsibility of setting up one of these plants near Sawai Madhopur in Rajasthan, to which I shall revert later.

When the new plants in Gujarat, Madhya Pradesh, Rajasthan, Uttar Pradesh, Andhra Pradesh and Orissa are commissioned, the fertiliser production in the country is expected to go up to over 12.0 million tonnes. The demand for fertilisers will continue to outpace supplies, and at the end of the Seventh Plan period we will still have a gap of nearly three million tonnes. The targets in the Eighth Plan will be still more ambitious in view of the need to further boost the production of foodgrains. The current production of 151 million tonnes of foodgrains will have to be increased to over 225 million tonnes by the turn of the century to meet our needs. The challenge can be met primarily through increased use of irrigation and fertilisers. All this gives us some idea of the gigantic task before our industry in the years to come.

Let me now turn to the performance

of the Company which has by all standards been excellent. The gross profit rose from Rs. 15.80 crores to Rs. 21.90 crores. The profit before taxation also showed a substantial increase from Rs. 8.84 crores to Rs. 14.85 crores. The net profit stood at Rs. 10.48 crores compared to Rs. 4.94 crores in the previous year.

These results were achieved mainly because of the marked improvement in the performance of our Ammonia and Urea plants during the year compared to the previous year. The capacity utilisation of Ammonia and Urea plants was 90% and 94% respectively as against 83% and 86% in 1983. Our new project to manufacture Di-Ammonium Phosphate (DAP) was commissioned on schedule and within the budgeted cost in December 1984. The DAP plant is presently operating at the rated capacity. This project has enabled us to more than double our capacity for the manufacture of phosphatic fertilisers. The performance during the first five months of the current year has been very satisfactory. The production of Urea and Complex fertilisers at 201,256 tonnes is higher than the production achieved during the same period last year.

Last year I had referred to the proposal to set up a gas-based fertiliser plant near Sawai Madhopur in Rajasthan. I am happy to inform you that this project is now under implementation. Your Company has promoted a new company "Aravali Fertilisers Limited", to put up this large fertiliser complex near Sawai Madhopur in Rajasthan. The proposed complex will be designed to manufacture 1,350 tonnes of Ammonia per day and 2,250 tonnes of Urea per day. The Letter of Intent for the Rs. 750 crore project was received in the last quarter of 1984. The site for the complex has been selected and action initiated for acquisition of land. Acquisition formalities are expected to be completed shortly. The pre-construction activity has gained momentum and I am confident that the project will be commissioned as per schedule.

After a careful review of available technologies, the Company has selected the catalytic steam reforming process based on Haldor Topsoe technology for the Ammonia and Snamprogetti's ammonia stripping process for the Urea plant. These technologies are well proven both in India and other countries.

Your Company has also applied for an industrial licence to set up a one-million-tonne per annum capacity cement plant at Mandalgarh in Rajasthan. The Letter of Intent for this project is expected to be received soon. Meanwhile, prospecting of limestone deposits in the Mandalgarh area is progressing satisfactorily.

It has been already mentioned in the Directors' Report that the Company plans to acquire a bulk carrier for transporting Phosphoric Acid from North Africa and U.S. Gulf to India. The raw material is needed by our expanding fertiliser industry, and we feel that this avenue offers good opportunities for growth.

In our endeavours to keep pace with high technology, which is assuming greater significance, we are seriously considering diversification into the field of manufacturing telecommunications equipment.

The Directors' Report has referred to the Company's achievements in marketing. It stands to the credit of our marketing staff that our sales have crossed, for the first time, the half-a-million-tonne mark. Our enlarged marketing area includes parts of Madhya Pradesh and Uttar Pradesh in addition to the existing areas of Goa, Andhra Pradesh, Karnataka and Maharashtra. The Urea produced at the proposed plant of Aravali Fertilisers Limited will be marketed in Rajasthan, Madhya Pradesh, Uttar Pradesh, Haryana and Punjab to meet the increasing demand of fertilisers in that region. This will give you some idea of the challenge we will have to meet in the years to come. I assure you that our people in the far-flung marketing regions will deliver the goods and while maintaining our high professional standards.

I now refer to your Company's efforts in the field of environmental conservation. I would like to reaffirm that the management continues to accord priority to its responsibility of maintaining not only high but exemplary standards of environmental conservation. It would be no exaggeration to say that our plant is one of the cleanest in the country and we will continue to maintain the highest standards to preserve and improve the environment around us.

The Company's safety record has also been excellent. At the plant, the most rigorous and stringent safety measures are followed. Our employees deserve compliments for a high level of safety awareness. I have no doubt that this record of safe and accident-free operation will be maintained.

In the past, at this very forum I have pleaded for a review of the fertiliser pricing policies. Frankly, such a review is long overdue. I hope that the pricing policies will be re-oriented to ensure adequate return on investment and encourage modernisation and growth.

As we look back, I can say with a great deal of pride that Zuari Agro Chemicals has put in a commendable performance over the years. More than anything else, we have succeeded in building a professionally managed organisation which has earned a reputation for excellence. Looking ahead, I believe that the professional competence of our people will enable us to shoulder the new responsibilities in our journey towards the new frontiers of growth.

I would like to place on record my appreciation of the dedicated efforts of our employees and their valuable contribution to the success of the Company. I take this opportunity to thank them most sincerely for their support and cooperation.

In conclusion, I express my gratitude to the Government of India and the Government of Goa, Daman and Diu for their guidance and continued support. I must also thank our technical collaborators, Messrs United States Steel Corporation for their whole-hearted cooperation.

Thank you.

*Note: This does not purport to be a record of the proceedings of the Annual General Meeting.*

# Towards a Macro-Economics of India

**Amit Bhaduri**

**The Labour Surplus Economy: A Neo-Keynesian Approach** by Mihir Rakshit; Macmillan India Limited, 1982; pp ix + 295, Rs 110.

THIS book bears the mark of sustained reflection over the years by one of the most distinguished teachers of economic theory in India. Any serious teacher of economics in India cannot escape a certain feeling of despair. Macro-economics, as it is normally taught, has at best only marginal relevance for an underdeveloped country like India and, at the worst, we mislead students about the utter irrelevance of fashionable high theory of the neo-classical variety. It goes to the credit of Mihir Rakshit that he has the intellectual courage to face this challenge honestly. He does not tread the path of least intellectual resistance, either by relying on empty left-wing slogans or by taking recourse to the usual right-wing mystification of the market mechanism as the best available cure for all economic evils. Instead, he carefully develops his argument more or less from the first principle, in search of the essential ingredients for a relevant macro-economic theory for India. The book deserves our grateful and serious attention, if only for that reason.

The book is quite ambitious in its theoretical scope; too ambitious, some (including the present reviewer) might say. Instead of starting with a few structural and institutional characteristics of an economy like India's and a few 'stylised facts' to be explained in that institutional context, Mihir Rakshit starts at the other end. His theoretical enquiry spans a whole historical spectrum, starting from a pre-industrial society in the image of the physiocrats with landlords, peasants and artisans (chapters 2-4 especially) to a 'dual' economic structure with a modern, capitalist manufacturing sector coexisting with some form of pre-capitalist and capitalist agriculture. This forces the author not to build his formal models around one central insight or idea, but a series of specific models, mostly exhibiting short-period adjustments to macro-economic balance ('equilibrium') conditions in a variety of institutional contexts. This way the book gains in range, but I suspect, loses in the depth which could otherwise have come from the author's pursuing a central idea as the 'organising principle' of his entire analysis.

Rakshit begins (in chapter 2) his analysis by demonstrating how the level of non-agricultural output may be demand-determined even in a pre-capitalist economy. If the relative price of the product of this artisan sector is assumed fixed in terms of agricultural produce ('corn'), then the level of demand for artisan products by agriculture in terms of corn is simply the marketable surplus of agriculture. This yields the balance equation,

$$\beta Y = X_s, \text{ or, } Y = \frac{X_s}{\beta} \qquad \ldots (1)$$

[**Rakshit's** (2.5)]

Where $\beta$ = artisans' propensity to spend on corn, $X_s$ = marketable surplus of corn, and Y = level of output of the artisan sector.

Note that marketable surplus $X_s$ plays the same role in (1), as does investment in the Keynesian theory of output determination.

However, instead of treating $X_s$ as autonomous, at least in the short period (which would have been akin to Keynesian theory), Rakshit endogenously determines $X_s$. This is the weakest part of his basic model, where he takes recourse to the dubious, neo-classical marginal productivity relation [his equation (2.1)] to determine agricultural output. Given landlords' and peasants' propensities to consume out of that agricultural output, the marketable surplus $X_s$ becomes a residual variable [see his (2.2) to (2.4)] and non-agricultural output is determined by virtue of (1) above.

When he introduces government (in chapter 3) or international trade (in chapter 4) or even money and inventory holding in a rudimentary form (in chapter 5), we basically have successive stages of modification in equation (1) through changes in the level of marketable surplus $X_s$ [see his (3.2), (4.5a) and (5.5) in particular]. The most interesting point he makes in this context is about export of corn: The more corn is exported, the less is the level of agricultural marketable surplus $X_s$ and, therefore, the lower is the level of non-agricultural output from (1). This suggests the operation of a *negative* foreign trade multiplier through the export of primary products (p 55) and perhaps contains an important ingredient for an analysis of economic imperialism and neo-colonialism. Rakshit however touches this issue only tengentially with a few passing observations on 'de-industrialisation'.

The argument reaches a more complex level (in chapter 6) when the model of a dual economy is explicitly considered with flexible terms of trade. Somewhat suddenly, there are too many changes in economic assumptions in this chapter and it would have been better to call it Part II of the book. Now we are in a capitalist economy with prices determined by the historically given money wages and the degree of monopoly. This, in turn, determines the relative price or terms of trade [equation (6.4)] between wage and non-wage goods. But before this scheme can be applied to an underdeveloped country like India, the author also finds it necessary to break up the total output of wage goods into that produced by a capitalist sector and the remaining produced by a non-capitalist sector (p 136). The basis of the subsequent analysis is formed by the assumption that the non-capitalist sector is supply-determined, while the capitalist sector is demand-determined. On this basis an elaborate set of market-clearing conditions are set up where demand equals supply in individual markets. Finally, we are prepared for 'dynamic' analysis, where the non-wage good (Y) market has quantity adjustment while the capitalistic sub-sector of the wage good market (X) undergoes price adjustment. This class of models with partly price and partly quantity adjustment are widely gaining acceptance (e g, Lance Taylor, "Structural Macroeconomics", Basic Books, New York, 1983, chapter 3). Rakshit's systematic analysis based on the usual *local* stability analysis (using Hurwitz condition that the real parts of the roots are negative) leads to a set of interesting comparative static results (*via* the so-called 'correspondence principle', see especially pp 151-153). And the same line of enquiry is further extended both by considering alternative hypothesis about the adjustment process of the agricultural/wage goods sector (pp 159-166) as well as through detailed classification of the possible character of the operative constraint on the non-wage goods (Y) sector.

One of the most ambitious and refreshingly novel aspects of this book is its attempt to model (in chapter 8) the dualism of the organised and unorganised credit market and then try to integrate the analysis of the credit market with the rest of the economy (i e, the wage and non-wage goods sector) in the final chapter 9. If this sounds like the 'dichotomy' between the 'real' and the 'monetary' aspects *a lá* the IS-LM apparatus, the novel aspect is to be found in the author's insistence also on the 'flow' equilibrium in the credit market. This was introduced as early as in chapter 5, where, for example, the possibility of the flow of consumption credit affecting the level of marketable surplus (X) and hence the level of demand-determined output in the non-agricultural sector (see equation 1 above) was indicated. Such a simple conclusion is largely lost in the more complex analysis (of chapters 8 and 9) and the elaborate adjustment equations of chapter 9 (especially pp 252-255) provide heavy algebra without many further clear-cut economic results. At this final stage, the book seems to suffer from the usual syndrome of neo-classical 'general equilibrium'-type analysis where 'everything depends on everything else' and unambiguous results become hard to obtain! The book ends with a long (pp 256-286) and interesting appendix on the much debated issue of tenancy in agriculture.

Any reader who carefully goes through the argument of the book will naturally find many points of disagreement about how to model a complex economy like India's. There can however be no doubt that he would also learn an enormous amount from the careful step by step analysis through which Rakshit guides him. In particular, it is to be hoped that the builders of computable, econometric models of India would pay a lot of attention to the analysis presented in this book for fresh insights about the 'relevant' macro-economic relations. (I have often wondered whether the 'stability conditions' which play such an important role in theoretical discussions could not serve as a criterion in deciding which econometrically estimated parameters are especially sensitive for the model being used.) However, in spite of my admiration for the serious intellectual attempt made by Rakshit to take some steps towards a macro-economics of India, I am left with the awkward feeling that this book has not entirely succeeded in making the right theoretical simplifications necessary. In particular, the analysis would have gained a lot by introducing 'an ordering of markets' in terms of their *relative* speeds of adjustment (e g, 'adiabatic approximation', as it is called in mechanics). This method, I believe, was essential for Keynes' treatment of historical time in the General Theory, but it got lost in the subsequent neo-classical 'synthesis' of the IS-LM variety. Second, the relation between marketed surplus and commerce remains largely unexplored in this work. Yet it is my guess that one of the distinguishing features of underdeveloped capitalism is the peculiarities of its commercial system. Rakshit touches this point tangentially at several places, but it does not get formally integrated with his main argument. It is probable that neither quantity nor price adjustment induced by excess demand/supply (which constitute the basis of Rakshit's dynamic processes) would tell us the essential story until we learn how demand and supply conditions are moulded by the commercial relations. It is in these areas that bold, imaginative advances are necessary before any real success can come in modelling the Indian economy.

# Ford, Chrysler and I

### H T Parekh

**Iacocca: An Autobiography** by Lee Iacocca with William Novak; Bantam Books, 1984; pp 352, $ 19.

THE US automobile industry is of course the first and largest in the world. Lee Iacocca's autobiography, published in 1984, became an instant best seller in the non-fiction list. It provides a deep insight into how the US auto industry grew, what types of problems it had to face from time to time, and what innovations it was required to make to expand the market, to reorganise itself and to remain viable and profitable. The book is highly stimulating and provocative and, in my view, essential reading for managers, executives, bureaucrats and economists. The author is forthright, pungent and unsparing. His style is racy, so the book makes easy and lively reading.

The book easily divides itself into two sections. The first section is the Ford story, because the author spent the first over 30 years of his career in the service of Ford Company, but after reaching the position of President of the company was fired by his boss Henry Ford II. Lee joined Ford Company as a young engineer, but rose rapidly in the first ten years by proving his salesmenahip and marketing skills. When MacNamara left Ford to join the Kennedy administration in 1960, Lee got his chance by proving his other managerial skills, to reach the top executive position of President in the next ten years.

Henry Ford I pioneered the auto industry, but managed the company in his own personal way as was the way with business tycoons in those days. After World War II, his grandson Henry Ford II came in charge. He found the company in a shambles, but revived it by taking on a new team of bright young men with fresh ideas of management. The list included dynamic persons like MacNamara and Lee Iacocca, fresh from World War II, representing the new executive class who ushered in the management revolution. A group of ten young men joined the Ford Company as a team under the leadership of MacNamara who had a computer mind and succeeded in reorganising the company from old style management to modern management in keeping with the needs of the twentieth century.

The Chrysler story constitutes the second part of the book. Lee joined Chrysler soon after his dismissal in 1978, when that company was rapidly sinking, and poured new life into it with the force of his many-sided personality. It is this success story which made him famous.

Both stories make fascinating reading and for Indian executives in the private and public sector many lessons can be usefully drawn from the Chrysler story, especially when sickness in industry is the refrain one hears all the time from government, industrialists and financial agencies, without much comprehension that sickness can be cured through leadership, personal determination, application, innovation and of course government assistance at the right time and in the right manner and with the active co-operation of and equal sacrifice by all parties, particularly labour and banks.

Competition is the soul of progress and even an oligopoly of three competitors, of varying sizes, in the auto industry can contribute a great deal to advance an industry, quantitatively and qualitatively, as the US auto industry has demonstrated. General Motors made and sold 5 million cars, Ford half that figure and Chrysler half of what Ford sold. And yet each company had its strength and weakness and as each fought the others at the plant level and in the market place, each learnt something from the other in technical, organisational and marketing fields. They all passed through difficult phases and had to face choices in regard to big *versus* small cars, cheap *versus* luxury cars, a car for each need and for each class of earners. Though Chrysler was the smallest of the three, it led the others in engineering skills, in bringing out fuel-economy cars and in other technical achievements such as being the first to introduce hydraulic brakes, electronic ignition, etc. This ultimately accounted for Chrysler's revival after touching a near-bankruptcy stage, by introducing the K-cars, compact, light, solid, comfortable, fuel efficient, front wheel drive, four cylindered and at the same time stylish—and other models, where it could steal march over the others.

The book shows that Iacocca is self-centred, egoistic, full of himself, somewhat difficult to deal with, over-ambitious and yet his remarkable success at Ford and Chrysler is attributable to his innovativeness, enormous energy, quickness of decision, foresight and, above all, his high degree of salesmanship. His management style is well organised but also highly personal, as against the multiple committee style management at General Motors, but he proves his capacity to look ahead, to manufacture what people want in a fast changing market. Henry Ford I's first model made USA car-conscious. He had the imagination to pay wages which were twice the prevailing levels because he felt that the masses must be enabled to own a car, cheap, simple, utilitarian. After him, his successors came up with the Edsel model which failed miserably. MacNamara produced Falcon in the old Ford style and succeeded. Iacocca produced the Mustang which was an instant success because it appealed to the younger generation. With the growing prosperity in the US in the sixties and with the two-car family and the coming on the scene of women as car purchasers, the car market expanded feverishly. Lee later produced Mark II and revived the expensive car division of Ford, Mercury/Lincoln.

Lee depended on market research into changing tastes and fashions and he believed that there must be a model for people at every level of income and for every type of need. People bought a cheap car but were willing to spend more on new frills.

In the sixties, petrol was cheap and the fashion was to have big, roomy cars. OPEC turned the tide in the seventies when oil prices rose steeply, almost ten times, which gave a big jolt to US car manufacturers and made possible the coming in of the economical Volkswagon and the Japanese cars. That forced US car manufacturers also to make sub-compact cars to fight imports. The fortunes of the US auto industry fluctuated widely in the seventies and it took a decade before it came out of the woods in the early eighties but not before it was rudely shaken by the Japanese who brought out quality cars at cheaper prices and made life hell for the US auto industry. The strong US auto industry was forced by competition to adopt new ways of manufacture with the help of robots and to emphasise cost cutting. Ultimately it was even forced to seek partnership with Japanese and other foreign manufacturers.

So far as the dismissal of Iacocca is concerned, it was perhaps the result of a clash of personalities—the determination of Henry Ford II to keep the company in the family and his fears that Lee might someday become too powerful and snatch the company away from the family. Ford accepted professional management, but only under family domination. He was an autocrat—King Henry—and also a spendthrift and easy-going. Yet he showed his shrewdness and acumen in selecting the right men, such as MacNamara and Lee, early in his life, when he took over the responsibility of the Ford Company, and did not interfere in the day-to-day management of the company, leaving it in able hands.

## THE CHRYSLER STORY

Lee is at his best when facing a challenge, which his new job as President of Chrysler provided. He took over his new job in 1978, immediately after his dismissal from Ford. He found a different management style, lack of team-work, acute financial stringency, an uncoordinated management structure, as also steep rise in oil prices which brought down sales of big cars, and sharp rise in interest rates which went against purchases of cars on credit. He was faced with a large inventory of unsaleable finished cars and used cars and loss-making overseas Chrysler joint ventures, all leading to an impending threat of bankruptcy. He rose magnificiently to meet these challenges. He fired old executives and selected his own team out of old Ford executives and retired executives; he took bold decisions to sell loss-making plants, foreign ventures, even earning units like the tank unit to mobilise cash, he liquidated the unwanted inventory at a heavy loss to have more funds, he revived confidence in his dealers and buyers by wide, forceful publicity, took a $ one salary and induced his executives and workers to accept a cut in their salary, as the only alternative was to face unemployment.

Ruthless cost cutting was his strength. Financial control was his strong point and he succeeded in bringing order, discipline and system in the Chrysler organisation. His slogan was people, products and profits in which the first was responsible for the rest. Quality and productivity were two sides of the same coin and he stressed both these equally.

He succeeded in obtaining government guarantee for $ 1.2 billion without which he could not have got more funds for his new models and for working capital. He had to fight US business and US banks who worked against his obtaining the government guarantee and finally won. He never lost heart and proved himself an outstanding leader by putting Chrysler back on its feet and even paid back his creditors and the government in three years.

He believed in free enterprise, but also revised his thinking to seek government aid to keep up competition in industry and to avert unemployment.

Even when Lee had got over the initial hurdles, 1980 and 1981 proved full of problems and the company incurred huge losses due to the simultaneous operation of recession, energy crisis and government regulation. He nonetheless worked to produce what they called K-cars, stylish from outside, with a seating capacity of six persons, fuel economy and, at the same time, strong and light so as to give a higher mileage than the competing cars. After two anxious years, Chrysler began to make profits in 1982 and 1983. It was a spectacular recovery which enabled him to prepay his debts, raise more equity and capture 20 per cent of the compact car market.

Iacocca has a lot of praise for the Japanese cars but he is strong in his belief in the need for protection or a quota system for imports and against total free trade in a world where different degrees of protection is the order of the day. Towards competitors his policy is that when you are not able to fight them face to face you outflank them by producing new models such as the Mini van convertible, etc.

It must be said to his credit that in less than five years he changed the face of Chrysler by keeping to his promise of modernising car plants, adopting the latest technology, giving all his cars front wheel drives, taking the lead in fuel economy, maintaining employment and coming out with newer products. He achieved the highest production and profits ever by Chrysler in its over 50 years of life.

Iacocca is most bitter about bankers. He had less trouble getting the government guarantee for $ 1.2 billion than some concessions from banks. His criticism of banks is that when they make wrong loans the Federal Reserve protects them but when industry seeks help in times of difficulty, they are hard to deal with. The bank-industry relationship is one of love-hate, but while in other countries such as Japan and West Germany there is a close rapport between them and with the governments, there is no such relationship in the USA.

The work is full of provocative observations which set one thinking, even as the story of Lee Iacocca unfolds in a most readable manner.

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# 'I am the Government Labour Officer . . .'

## State Protection for Rural Proletariat of South Gujarat

**Jan Breman**

*Gujarat is one of the states in which the government claims to make vigorous efforts to improve the conditions of those who, in official jargon, have fallen behind in the development process. In this context agricultural labourers from an important target group, and several years ago a separate government agency was set up especially for them, to supervise compliance with the law on minimum wages. A Rural Labour Commissioner based in Gandhinagar heads the organisation, which has its own offices and personnel in every district with a high percentage of landless. Surat in South Gujarat is one of these concentration areas.*

*Presented here are the author's first critical observations, based on intensive field research in three talukas, on the government's claim that the special provision introduced offer effective protection for the very large landless class in the South Gujarat countryside.*

### I

### Introduction

'WHERE are you working today? How much do you get?' The agricultural labourer, completely taken aback, hesitates before answering these questions which are put to him so aggressively. We have overtaken him on a country road, and my companion has to shout loudly to make himself heard above the sound of the motor cycle, but we stop our vehicle when we hear that the man earns only five-and-a-half rupees a day. The briefcase is opened to bring out the forms, and now we begin to fill in yet more facts. A stamp pad appears, and the agricultural labourer's thumbprint guarantees the accuracy of the information he has given us. Content at having recorded yet another case of underpayment, we ride on in search of our next victim.

Today I am touring my fieldwork area with a government labour officer. Gujarat is one of the states in which the government claims to make vigorous efforts to improve the conditions of those who, in official jargon, have fallen behind in the development process. In this context agricultural labourers form an important target group, and several years ago a separate government agency was set up especially for them, to supervise compliance with the law on minimum wages. A Rural Labour Commissioner based in Gandhinagar heads the organisation, which has its own offices and personnel in every district with a high percentage of landless. Surat in South Gujarat is one of these concentration areas. According to the last census, in 1981 agricultural labourers comprised 54.6 per cent of the agrarian workforce. With a total number of 281,025 the size of this class is bigger than in any other district of Gujarat state. In the fertile and densely populated agricultural zone upon which I have centred my current research—three talukas in the central plain—their percentage rises to 80 or even higher. Such an over-representation is quite exceptional in India. In twelve out of the thirteen talukas in the district, there is an assistant government labour officer under the command of two senior officers who man the headquarters in Surat city.[1] Most officers have motor cycles, and each of them is expected to spend at least twelve days of every month in the field making a total of 200 inspections. Besides this they hold sessions one day a week in the office of the taluka administration to hear labourers' complaints and farmers' reactions to these.

Within the governmental bureaucracy a division of labour has developed between the officials responsible for industrial labour relations, whose work is mainly limited to visiting the establishments and industries within urban locations, and their colleagues who are almost entirely concerned with agricultural labour in the countryside. This exclusive preoccupation on both sides is not only detrimental to the interests of wage labour in the urban informal sector, but also produces a situation in which employment in large sections of the rural economy escapes any kind of official control. All kinds of activity outside agriculture, but still rural in nature, lie beyond the reach of the labour inspectorate, even where the law has declared a minimum wage for the work.

These are my first critical observations on the governmental claim that the special provisions introduced offer effective protection for the very large landless class in the South Gujarat countryside. Life in these households can only be understood by recognising that work in agriculture is only one of their sources of income and is far from always being the main source. For this reason alone, it would be better to talk of a 'rural' rather than an 'agrarian' proletariat. Certainly where Surat district is concerned, rapid economic growth goes hand in hand with a steadily increasing diversification of the rural economy as a whole.[2] It is clear from my current research into off-farm employment that the government has absolutely no interest in the labour relations prevailing in, for example, brickfields, stone quarries and stone crushing units, road construction, to name but a few of the employment sectors for which legal regulations have been in force for several years.

Admittedly, beginnings are never easy, and one could look on the situation of a separate inspectorate for agricultural labour as a promising step towards better control of labour conditions in the rural milieu. In that case I am all the more interested in the way this agency works and in the results achieved. With this in mind I have made repeated visits to the head office, and whenever the opportunity has arisen, I have gratefully accepted invitations to accompany the government labour officers on their rounds in the district.

We had already met several times before today's trip. Although this has gone some way towards allaying my companion's suspicions, he still does not quite know how to behave in my presence. I do my best to leave the initiative entirely to him, and show myself perfectly willing to follow in his footsteps keeping as low a profile as possible. 'Please go ahead and do what you would normally do, as if I weren't here.' My fellow traveller clearly has reservations about this; the idea that I shall be monitoring all his actions at rather close quarters for several days does nothing to put him at his ease. The tension never entirely disappears, although he becomes accustomed to my presence after a while.

Once on the road I ask him about the current wage rate in this prosperous area. 'Yes, well—it's somewhere around the official minimum wage, and at the moment that's nine rupees for an eight-hour working day, sometimes even a bit more in the peak periods.' My guide tells me that at present the farmers pay six rupees in cash, supplemented with two meals, or else seven or eight rupees with some food, a cup of tea, and a few cigarettes thrown in.

It soon becomes clear that these figures are incorrect, and in fact on this particular day we will not meet a single agricultural labourer who receives as much as he should for his work. In passing, it is interesting to note that in their first contacts with outsiders, labour officers tend to maintain that there is hardly any discrepancy between what is legally prescribed and what is done in practice.

## II

## Control among the Landless

The inspection has something of the nature of a raid into hostile territory. The GLO selects his clients at random, but those we stop on the road are seldom anything other than agricultural labourers. His long experience enables him to identify members of this class even at a distance. After first putting a few opening questions he makes himself known. 'I am the government labour officer . . .' As a rule those with whom he is talking do not seem to be very happy about the encounter. Any contact with a representative of the government, especially by the roadside, unprepared and outside any kind of a group situation, is best avoided. Still, most of them answer the GLO's questions meekly and to the best of their ability. The government official radiates authority in his bearing and gestures, and he acts in a manner calculated to compel respect. From the road he beckons to labourers working in the field. If they dawdle as they come over to us, he urges them irritably to hurry up.

Right from the beginning the conversation is conducted on a footing of inequality and takes the form of an interrogation. Sometimes the questioner turns abruptly to another worker, paying absolutely no further attention to his previous respondent. The vast majority of agricultural labourers say they earn five or five-and-a-half rupees, or even less if they are given a meal as well, Their accounts are invariably consistent with the data I collected during my current fieldwork in this region. The GLO never questions the information given, but now and then shows irritation if respondents are unable to answer any of his queries. Some cannot give the father's name of the farmer for whom they are working, while others do not have even the vaguest idea of their own ages or of how long they have been working for the same boss. Yet almost everyone can tell me exactly how much the official minimum wage is, whenever I ask this in the margins of our conversation.

At the end of every interrogation the GLO unceremoniously grabs each informant's thumb and presses it, inked, on to the completed form. Their illiteracy is taken for granted. Without another word, let alone with any kind of explanation to the labourers, the GLO gets back on his motor cycle. Yet not all of our respondents resign themselves to the confrontation so meekly. One boy herding a few cattle is so unnerved by the questions being fired at him that he takes to his heels after a few minutes. With one leap he is over the hedge and running away as hard as he can across the field without once looking back, escaping from his protector. It strikes me that the agricultural labourers who have had the chance to prepare themselves for the interview with us are somewhat more reserved about giving information, yet an answer that is obviously meant to be evasive is not necessarily less reliable, for all that.

Q How much do you earn?

A That depends on the season.

Q Yes, but what is the daily wage at present?

A Today I'm working on contract (*udhad*).

Q With which farmer?

A That depends. Sometimes with one, sometimes with another.

Q How many hours do you work?

A Sometimes from before dawn until after sunset, but sometimes only half day or no more than a couple of hours.

This kind of detail, although it gives a very realistic picture of the agricultural labourer's day-to-day life, is too complicated to be caught accurately in a straightforward questionnnaire. The GLO soon abandons his attempts to record this case. Without co-operation you can't do much, he sighs.

Farm servants in permanent employment are remarkably loyal to their masters. One of them, a tractor driver, gives the figure of 200 rupees for his monthly wage without realising that this is still less than he should be paid on an annual basis. Grumbling, he 'signs' his statement. He vainly tries to prevent us from questioning his co-driver by telling us that it has not yet been decided what this casual labourer will be given at the end of the day. Although I know that this is not unusual, the GLO refuses to accept the story and the co-driver, a seasonal migrant from another state who keeps silent because his Gujarati is not very good, also gets a summons. This is meant quite literally, because the way in which we are working unintentionally gives the impression that it is the agricultural labourers rather than their employers who are at fault. At all events, the reactions of the people we are interviewing foster this assumption.

After we have been on the go in this way for a couple of hours, my guide suggests that we visit the agricultural labourers in their own neighbourhood. The next village which we enter is in the centre of his official domain, but he tells me that he has never been into the slums where landless labourers live. Only the wife is at home in the first hut we visit. She says that she earns five-and-a-half rupees a day—when there is any work for her at all. Her neighbours' answers are no different, and the forms are filled in one after the other. When a respondent is unable to answer the GLO's question about age, a rapid glance suffices for a rough guess at this.

The arbitrary classification into a few age categories—twenty, thirty, forty-five year olds, and so on—that is found in so many government statistics, is taking place before my very eyes. We are sitting on the *charpoy* (a rope-bottomed bedstead), the only piece of furniture in this one-room dwelling. A government official definitely does not sit on the floor, eye to eye with his audience. Meanwhile the man of the house has arrived. After we have been through his own testimony, he is assigned the job of arranging for a steady stream of respondents from this locality. One by one they enter through the hole serving as a door and remain standing as they submit to the interrogation, then disappear again as soon as they have signed the form. In a few moments the GLO manages to create an office atmosphere in this small dark space, behaving like a senior officer summoning his subordinates before him to present their reports. No one dares to ask what all this is about.

Naturally, in the neighbourhood we are big news. The landless have assembled in small groups. No one dares to count on deriving any benefit from our presence. The majority of those talking it over afterwards think that the information they have given could well be used against them. After all, isn't that always the case? It is a rather disturbing prospect because who can afford to be marked down as a trouble maker? Others, especially the women, who are fiercer and more embittered than the men, reason that there is nothing to be gained by hiding the truth.

The hutment colony is rather crowded at this time of the day. The usual interruption in the work between twelve and two o'clock only partly explains this. Even if we were to come earlier or later in the day, we would find many of the landless at home. The peak period of the agrarian cycle has passed, and when labourers report for work early in the morning, at this time of the year (January) they are often turned away by the farmers, because there is no work for them to do. The casual labourers are told this, day after day in the quieter winter months. Moreover, it often happens that the local landless are excluded from the work which is still available. A large proportion of the cultivable land is planted with sugar cane, and the co-operative sugar factories have brought in a great number of labourers from far away for the duration of the harvest campaign lasting from the beginning of December until May. These migrants live and work in gangs. Their temporary camps consist of tent-like shelters made from a few woven mats; they are spread over the entire region and are a marked feature of the landscape around this time of the year. They will disappear again at the end of the cutting season.[3]

The sugar harvest workers constitute only part of the huge army of migrants. The individual farmers can also count on the labour of a great many additional workers, coming from other parts of the district or far beyond it, who have made the trek to the plain to profit from the plentiful supply of work in the peak period of the year. They move around in gangs of between five and twenty workers, both male and female. Many of them appear to have settled down indefinitely in the villages on the plain. Lacking dwellings of their own, they bivouac in the immediate vicinity of the farmer's house—in the compound, in the byre with the cattle, in the loft—where they are employed as farm servants or maids. The migrants who are given shelter in a pump house or a field shed far outside the actual village, remain completely invisible. The local landless trace a direct link between both their own underpayment and their chronic unemployment, and this reserve army of cheap labourers which has invaded the region in ever-increasing numbers over the past two decades.

Even though in principle the outsiders also fall within the purview of the minimum wage legislation, the government leaves them undisturbed and unprotected. However clear it may be that the arrival, temporary or permanent, of several hundreds of migrants in each village has sharply increased the vulnerability of the local rural proletariat, policy-makers and bureaucrats do nothing to put a stop to this influx of migrants. One of the agricultural labourers we are interviewing openly questions the point of filling in so many forms when nothing ever comes of them, and dares to suggest that we would do better to spend our time on the problem created by the presence of so many migrants. This persistance earns him a sharp reprimand from the GLO. How could anyone who is illiterate think of taking an official to task, telling him how he should be performing his job? It is obviously time to leave.

## III

### Visiting the Farmers

The GLO confides to me that in half a day he has filled in enough forms to complete more than his week's quota, and he suggests that we should pay a visit to the farmers in the village. He impresses upon me that it is unwise to place too much reliance on information deriving from one party alone. For the sake of objectivity it is necessary to get to know the other side as well, and develop understanding for the employers' viewpoint.

We go straight to the house of the village headman, whom my companion has already met on earlier visits. The sirpanch himself is not at home, and his wife invites us in, without much enthusiasm, to wait for him. A small boy is dispatched to fetch the police patel, who materialises a few minutes later and is given the task of bringing several farmers to us. The GLO reads out their names from the forms he has just filled in. We stay behind, alone, in our host's front room. The lady of the house returns to her kitchen, and neighbours who otherwise turn up very quickly when strangers are visiting the village, keep away on this occasion. Our halt at the landless labourers' part of the village, located on the outskirts, has not gone unnoticed by the employers. The identity of these uninvited visitors was undoubtedly conveyed to them while we were still talking to the labourers. The farmers can well do without a meeting, particularly as we have violated the unwritten rules by not presenting ourselves to them right at the beginning. Who is this official who has taken it into his head to overlook the landowning elite and to establish direct contact with rural poor, going in search of the landless who are hidden away in the inaccessible parts of the village?

To kill time I chat with the farm-cum-house servant who is bringing us tea and snacks. He is all praise for his master and begins to catalogue all the extras he receives. Besides the tea, and food that he is allowed to take home with him at the end of each day, he is also given old clothing and shoes, money for the doctor and medicines in case of sickness, or when his wife is giving birth, small loans when he asks for them, and so on. Nonetheless, calculating all this on annual basis, his wages and bonuses together still add upto less than the Rs 3,200 which a farm servant ought to be earning, in accordance with the minimum wage legislation. At this point in our conversation the GLO begins to fidget restlessly on his chair. He tries in vain to suggest that the employer might not be paying out part of the daily cash wage, but is keeping note of it as a balance in the servant's favour. On the contrary, quite the reverse is true; it is the farm servant who has been in debt to his boss for many years. I wonder out loud if we are not confronted here with a case of bonded labour, according to the letter of the law. The GLO hastily brings out a new questionnaire, to record this umpteenth case of underpayment—in duty bound to do so, even though we both know that he will do nothing further with it. Yet it is a painful moment to be enjoying hospitality. The lady of the house appears from the kitchen to ask indignantly what all this is about, and makes sure that the servant leaves the room.

After half an hour of waiting the police patel comes in, herding a couple of farmers before him like cattle gone astray. None of them is on the GLO's list. All the listed farmers just happen to be absent from the village today or have pressing business. However, the replacements the police patel has found are prepared to talk with us in a general way about government regulations on labourers' wages. In their view, this kind of interference has an absolutely negative effect on agriculture, since it is not the landless but the landowners who are the weaker party. It's a pretty upside-down world in which the government protects the worthless ones of society who have no sense of responsibility, rather than taking the producers' side. I suggest cautiously that nine rupees for an eight-hour working day is really not very good pay. It is barely possible for one person to survive on it, let alone to share it with the non-working members of a household, who also have to live. Two kinds of argument, mutually conflicting, are advanced against this view. In the first place there is the denial that labour is grossly underpaid. Totally at variance with the statements by agricultural workers with whom we have spoken, the farmers continue to maintain staunchly that the wages they pay do entirely conform with the legally prescribed rate. Admittedly, they do not give the full amount in cash, as the law says they should, but even the labourers themselves do not want this. If one were to add up all the payments made in both cash and kind, one would arrive at an even higher total figure than the nine rupees a day. They are providing their subordinates with nothing less than total care! In that case, why is it that the majority of agricultural labourers in this village are in such a miserable state, in spite of this guaranteed livelihood? Well, say the farmers, that is their own fault. It is what comes of immoderate drinking and other vices, but particularly of their refusal to work in the way they should.

And here we have the second argument heard among landowners in every conceivable variation. Whenever the agricultural labourers have to make ends meet on so little money, this is only the consequence of their own careless behaviour. You can never rely on them. A farm servant who comes one day, stays away the next day without giving any reason. Isn't it therefore logical that the farmers in their turn send labourers away if there is no need for them? Apart from the fact that they arrive late and leave early, it cannot be said that they work even reasonably well during the few hours they spend in the fields. They are always complaining; it is too cold on winter mornings, too hot on summer afternoons, and in the monsoon it rains too hard for their liking. Any employer who still pays the full daily wage is not only injuring himself but is also putting a premium on behaviour that cannot be tolerated. It does not help matters when I remark that it is strange to hear this censure of the labourers' boundless laziness from the lips of landowners. *Their* fathers were accustomed to working hard themselves on the land alongside their labourers, in contrast to the present generation, who shun any form of physical labour. My comment falls on stony ground with these members of the dominant caste in the region. Their prosperity and upward social mobility has been achieved to no small degree by exploiting their subordinates to the full and they have no qualms about their anti-labour stance.

The GLO has remained largely aloof from the conversation, but when he does join in, it is to supplement and illustrate the farmers' point of view. He feels clearly much more at home in these surroundings than he did a short while ago in the labourers' company. The attitude he adopts is that of an ordinary official who is only carrying out his superior's orders. Is it his fault if his instructions conflict with the big farmers' interests? To the latter he represents a government that does not have their interests at heart, yet they do not seem to hold this against him on a personal level. Where his social background and outlook are concerned, he shows that he is closer to the landowners than to the labourers. They tacitly appeal to him for approval, and he indicates cautious agreement with some of their rhetorical judgments by gestures of the hand or head.

What, for instance, is the use of ordering the farmers to keep records of the labour they employ? Inquisitively I ask one of them to fetch me his labourers' wage slips. He hesitates but finally gives in. The daily wage shown is invariably four rupees, for half a day's work according to his own notes in the margin. He is legally covered to the extent that he has obtained his labourers' thumbprints, but only the first pages of the book have been filled in, and the last entry is many months old. He has 'forgotten' to keep his administration up to date, he says with a challenging look in the direction of the GLO, who pretends not to have heard. Why should he spoil the atmosphere with formalistic objections? A fresh round of tea is brought in, and gradually the conversation moves on to other, less sensitive topics. There is no mention of any kind of infringement as we leave. We shall be most welcome to come again, and next time we must stay for a meal, and even stay the night if we can. The guest is king here, after all.

Our road out of the village runs alongside the hutment colonies of the landless, but this time we take no notice of them. Some of the labourers watch us from the door openings of their ramshackle huts, in silence. They know where we have been.

## IV

## The Due Course of Law

What happens next? In theory matters take the following course. The farmers suspected of infringing the law on minimum wages are summoned to the GLO's office. Even in the cases where this point is reached, no further action is taken. Largely due to the arbitrary way in which statements are drawn up, these often remain incomplete or incorrect. In theory it would be quite easy for an employer to dispute the legal validity of the complaint against him. Objections of this kind are nevertheless rarely heard, since it is always possible for the GLO to adjust the original statement. The farmer has to prove, by means of wage slips and a daily register of the labourers employed, that he has paid the minimum wage. If he is unable to produce these proofs, he is given the chance to reach an amicable settlement. When the inspector has listened to both sides he determines the arrears of wages due to the labourers over the foregoing period, for a maximum of six months, assuming a working month of twenty days. But when the farmer promises to pay the minimum wage in future and to keep a daily record as well he is allowed to go scot-free.

However, if the employer continues to deny that he had broken the law, or if he refuses to abide by the settlement reached, the GLO can file a suit, at all events where the labourer has not withdrawn his original statement in the meantime. The case now goes before the local court, which determines the sum that the farmer must pay the labourer. This includes a fine, which can amount to ten times the arrears of wages. As we can see from the Table, only in very exceptional cases does the GLO actually resort to prosecution, and of the cases actually brought against farmers, only a few reach the stage of a formal charge, and even then they seldom result in a penalty. In other words, the employer caught breaking the law runs little risk of having a legal case brought against him. There is even less chance that a labourer would have the opportunity of registering a complaint against the farmer. A total of 12,000 to 15,000 inspections a year (see Table) means that scarcely more than four per cent of the agricultural labour force in the district is approached by a GLO for the required information. Yet what can one official do in a *taluka* with twenty to thirty thousand agricultural labourers, sometimes even more than that?

Nevertheless the plea that more staff would be needed for enforcing compliance with the minimum-wage laws, simply does not hold water. It is not only the (assistant) GLO's who are officially authorised to inspect and prosecute. On the strength of a special clause in the law, various other officials in the district administration can also act as labour inspectors. These are the Deputy Collectors, Deputy District Development Officers, Mamlatdars, Taluka Development Officers, and Soil Conservation Officers. To my knowledge these bureaucrats seldom if at all exercise their right as law enforcement officers. The figures stated in the Table imply that out of every 10,000 agricultural labourers in South Gujarat, scarcely 250 are contacted each year. Only in ten cases out of this number is there a decision to prosecute, and of these no more than a single case is finally brought before the local court. There is a good chance that even this will end without a verdict being brought or sentence being passed.

To the picture that has thus far emerged, we must add that only a handful of employers comply voluntarily with the law on minimum wages. Underpayment is a universal phenomenon. Judging by my own data, the loss of wages per agricultural labourer per day averages two and a half rupees, even allowing for extras in kind, and the partial or total failure to repay money advanced. If one estimates the average number of working days in the agrarian year at two hundred, the labourers receives approximately five hundred rupees a year less than the sum prescribed by the government. According to my calculations, the landowning elite withhold 15 crore rupee a year from the landless class in the form of an extra-legal surplus. We would do well to bear in mind that although this sum is only a fraction of the bigger landowners' costs and ultimate profits, it constitutes a very substantial proportion of the labourers' total earnings. I would estimate that it amounts to between a quarter and a third of their annual income, a sum that makes the difference between the life of extreme poverty which for very many of the landless is something to strive towards, and their actual, utterly pauperised existence.

In view of this background it is hardly surprising to learn that the agricultural labourers benefit very little from the help the Government of Gujarat claims to provide so generously and determinedly. When questioned they answer candidly, although not with the intention of registering complaints against their employers. Experience has taught them that the chances of actually receiving the compensation awarded them are extremely slim. Furthermore, even if it were to reach them, it would count for little against the certainty of never again being offered work. Not only would the farmer sack the labourer concerned, but he would also not hesitate to turn the other landowners aginst him. There is no question of a right to work. However low wages may be, what is even worse for the landless than underpayment is that they are regarded as troublesome and unreliable, and are therefore no longer considered for regular employment. Although no one talks about it, the employers do maintain a blacklist. Anyone finding his way onto that list would do better to disappear from the village altogether, or at all events to look quite far afield for employment outside agriculture. Time and again GLOs assured me that fear of this kind of vengeance was the main reason why so few labourers are prepared to stick to their initial statements made in brief and surprise encounters. Only a few of them will continue to maintain that they are underpaid when confronted by their employers. Without a complaint of this nature there is no chance of a prosecution.

Most agricultural labourers have the courage to talk openly in the safety of their own localities, beyond the reach of the farmers' eyes and ears. Their account is always the same, as we are able to confirm later that day, while visiting yet another village. Serious underpayment, little work to be had, and this is diminished still further by migrants who are content to take even less wages. Maidservants in farmers' households constitute a separate category of workers. For several hours' work each morning—cleaning vessels, washing clothes, sweeping the house, cleaning out the byre and so on—they are paid only five to fifteen rupees a month in addition to a daily meal which they usually take home. The farmer's wife, who give orders to these maidservants, is often even more of a tyrant and skinflint than the husband.

For the first time we came to know about labourers who have already encountered GLOs. Their experiences have been anything but encouraging. An old man tells how, about a year ago, someone stopped him on the road to ask the same questions we are now putting to him. His questioner had told him that he would hear more about it. Did our visit have anything to do with it, and would someone else turn up next year too? Loud laughter from the bystanders. It is a barely veiled insinuation that all this nosiness never produces any results, not for the victims at any rate. Made bolder by this candidness, another labourer tells us how an official had taken his son's thumbprint. The boy herded cattle for two rupees a day. The farmer did not hold it against the son, but did charge him (the father) the sixty rupees that had to be paid to the

TABLE: ACTION UNDERTAKEN IN 1983 AND 1984 IN CONNECTION WITH THE IMPLEMENTATION OF MINIMUM WAGE LEGISLATION FOR AGRICULTURAL LABOUR IN SURAT DISTRICT*

| Taluka | Agricultural Labourers** | 1983 | | | | 1984 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Inspections | Prosecutions | Court Cases | | Inspections | Prosecutions | Court Cases | |
| | | | | Suits Filed | Suits Disposed of | | | Suits Filed | Suits Disposed of |
| Chorasi | 26,981 | 1,044 | 28 | 20 | — | 894 | 25 | 4 | 9 |
| Olpad | 25,663 | 1,377 | 39 | — | — | 1,511 | 20 | — | 3 |
| Kamrej | 29,983 | 708 | 32 | 8 | 3 | 895 | 13 | 11 | 5 |
| Palsana | 22,672 | 569 | 40 | — | — | 1,416 | 43 | — | — |
| Bardoli | 34,054 | 1,176 | 28 | 10 | 5 | 1,170 | 52 | 12 | 1 |
| Mahuva | 20,556 | 1,103 | 5 | — | 3 | 1,212 | 125 | — | 4 |
| Mangrol | 30,322 | 904 | 24 | 7 | 8 | 962 | 54 | — | 2 |
| Mandvi | 16,975 | 1,062 | 145 | — | 5 | 1,154 | 222 | 9 | — |
| Songadh | 15,215 | 1,078 | 11 | — | — | 1,029 | 20 | — | — |
| Vyara | 20,364 | 890 | 14 | — | — | 854 | 12 | — | — |
| Valod | 11,572 | 410 | 31 | — | — | 1,245 | 30 | 1 | — |
| Nizar | 17,681 | 704 | 27 | — | — | 1,020 | 147 | — | — |
| Uchchhal[a] | 7,780 | — | — | — | — | — | — | — | — |
| Surat (city)[b] | — | 1,114 | 58 | 23 | 11 | 1,501 | 30 | 13 | 23 |
| Total | 279,818 | 12,139 | 482 | 68 | 35 | 14,863 | 793 | 50 | 47 |

*Notes:* a No assistant government labour officers have been posted in talukas with less than 10,000 agricultural labourers.

b These inspections have probably been carried out throughout the district by personnel belonging to the head office in Surat.

*Source:* * Data provided by the rural branch of the Government Labour Office, Surat.

** Census of India 1981, Series 5, Gujarat, "General Population Tables", Part II B, "Primary Census Abstract".

official to close the file'. Besides having his outstanding debt increased with this sum, he was also warned not to give information to strangers in future. He had learned his lesson.

Although many nod their heads in agreement, only a few prefer to remain silent. A labourer steps forward from the circle that has formed around us, complaining that he is being boycotted by the farmers. The master for whom he has been working for many years gave him to understand a month ago that he had to repay his debt of five hundred rupees. But he has never had such a sum in his life, so how could he consent to a deduction of one or two rupees from his daily wage of only six rupees? It is absolutely impossible to survive on even less than that. He never went back after that incident, but since then all the other farmers have refused him work. Out of necessity he is now going to a neighbouring village to hire himself out as a day labourer, but can nothing be done about what has happened to him? Perhaps influenced by the open criticism that he has just heard, the GLO spontaneously suggests seeking out the farmer in question and finding a solution to the dispute on the spot. This will also give me the chance to see arbitration in action.

The three of us get on the motor cycle, the labourer between us. Everything about him shows that he has little confidence in the undertaking once we are on our way. Arriving at the landowner's bungalow, he hides himself behind a parked tractor. He nearly creeps away altogether when urged to come inside the house with us and take a seat on the sofa in the front room. In fact he is not really expected to accept the invitation. It would be quite unthinkable for a labourer to enter the house in the company of people who are socially far superior to him. The GLO shrugs when I say that it might have been better to fetch the master to the servant, instead of the other way round. He would never think of such a thing of his own accord, and he does not want to hear of it from me.

Our appearance on the scene attracts a good deal of attention. The landowner is not there, but his wife says that he could be home at any moment. She takes the GLO on one side to ask him what is going on, and he tells her in a whisper. The neighbours, who are quick to make their appearance, also join in. They discuss the matter among themselves—the identity of the labourer involved in this business, and the pack of lies he has been telling us. His debt has reached five hundred rupees because he asked so often for the loan of small sums in the past few years. Isn't it true that the farmers have to pay back the money they borrow from the bank? Instead of being grateful to his master for giving him so much credit, something most landowners have been unwilling to do for a long time now precisely because they are afraid of bad debts, here we have a labourer who is insolent enough to complain when reminded of his obligations.

The line of argument has now been decided, and the former farm servant is called inside to listen to it. Although he is only one against eight or nine farmers, he defends himself staunchly. The ensuing dialogue makes it clear that a good deal of the money at the centre of the dispute was lent to him for medical treatment. The year before, he had become ill after spraying the standing crops with *deva* ('medicine', i e, a pesticide). The expenditure for treatment, some two hundred rupees, had been paid by his boss but only as a loan, as he found out much later. In view of the nature of his illness and its cause, he refused to accept this as a debt. After all, has he not sustained much greater damage than the farmer, since he received no wages in the weeks he was unfit for work?

At this point the GLO abruptly cuts the conversation short. He has just heard that the master of the house is in fact at a meeting, in his capacity as board member of one of the large co-operative sugar factories in the region. Suddenly he sees no further need to await his return or to continue this claim-and-counterclaim session. Even the suggestion that someone of this calibre might be guilty of labour malpractices cannot be entertained for a moment, and would certainly not be a wise course of action. Haven't I seen with my own eyes how difficult it is to obtain evidence one way or the other? In no time we are standing outside again. The GLO curtly dismisses the labourer he has dragged here virtually by the scruff of his neck. The man has to find his own way back in the dark, accompanied by some of his neighbours, who have been waiting for him. They ran behind us to the farmer's house, not unjustifiably suspicious that we would be unable or unwilling to protect their comrade in the confrontation awaiting him.

## V

## Official Mediation

Next day in an informal meeting at the headquarters we talk over these matters again. The official in question says that he is dependent upon the labourers' co-operation, something they are only willing to give where conflict is acute and has come into the open. And then one has to ask oneself whether the information they give is reliable. Don't the landless tend to exaggerate, on the other hand? His chief backs him up with the remark that there is great resistance to labour inspection. He leaves no room for doubt that this has a great deal to do with the attitude taken by the rural elite. If his staff were to keep to the letter of the law, they would no longer be able to go into the villages'. The dominant landowners would use violence to drive them out, if need be.

Statement of this kind throw the vulnerable position of the landless into glaring relief, and in fact the prevailing social climate is used in this way to excuse the ineffectiveness of government control. It explains the indulgent way in which GLOs turn a blind eye towards farmers' infringements of the law, such as failure to fill in pay slips or failure to keep a daily register of the labourers employed. For the same reason the inspectors are reluctant to press farmers to repay arrears of wages. The officials call this the room for manoeuvre necessary for persuading the employers to make concessions. What I would like to emphasise is that these officials are not implementing the law, only interpreting it. Although this agency has a mandate to enforce observance of the rights of the weakest party, he refuses to give the agricultural workers their due, unconditionally and systematically. Actually the GLOs claim to be impartial and to play a mediatory role between the two parties. It is arbitration that is considered important, rather than advancing the interests of those who are their real clients. The issue at stake is that this office, set up to provide a counterweight to the economic and extra-economic pressures exerted by the dominant farmers, in fact very often confirms the great and increasing inequality between landowners and landless, through its mode of operation.

While institutionally speaking an impartial stance has been adopted, the social background of the officers to whom the task of law enforcement has been entrusted inevitably tilts them further in the employers' direction. At one of the discussions at headquarters I ask an official for his personal views. It is no mere slip of the tongue when he begins saying 'we farmers ...'. Besides working for the government he also farms his own land in the area for which he is responsible. He is speaking from his own experience but most of his colleagues as well, when expressing their opinions freely, have a great deal of understanding and sympathy for the landowners' viewpoint. They have little insight into the landless labourers' existence, even though in their official capacity it is their main task to show concern for this. These bureaucrats may formulate their views in a more refined way than the average farmer but they have the same preconceived ideas about the utter worthlessness of most agricultural workers.

Does this class affinity mean that officials really behave as the landowners' allies, intent on causing them as little trouble as possible? To listen to the farmers, one would hardly think so. On the contrary, they are fiercely opposed to 'state interference', and subject visiting GLOs to a stream of criticism and reproach. Government intervention in labour relations is based on the premise that the rural order consists of two parties, employers and employees each with justifiable aspirations or even demands that have to be reconciled as far as possible, with the help of official mediation. However much distortion in favour of farmers there may be in practice, the terms of arbitration are based on the principle, firstly, that there is more than one interested party, and secondly, that an external authority is competent to settle the differences between the parties. The latter notion in particular irritates the landowners a great deal. In fact they will not tolerate the idea that the landless, whom they have dominated for many generations, can call upon the government for support. The fact that little ever comes of this in practice does little to diminish the landowners' displeasure.

The attitude adopted by the labour inspectors is one of understanding for the landowners' complaints but at the same time making it clear that, as officials they have to satisfy their superiors where both inspections and prosecutions of defaulters are concerned. They hint, however, that something can be done about the latter. Farmers who are called to account on a labourer's statement can buy their way out of trouble. What this really means is that inspectors can use the discretion with which they are officially rested to make money. Rather than being *anti*-labourers or *pro*-farmers, they act largely in their self-interest.

It is one of the many examples of privatisation of public function. The proceeds of this conversion are often greater than the formal salary. This is also the reason why quite a high sum has to be paid for appointments to a post offering prospect of generous 'earnings' on the side. The market mechanism is not limited only to the sphere known as free enterprise, but extends to the state apparatus. There are more inspections made by GLOs than are found in statistics, and more questionnaires are filled in than are included in the monthly report. For the officials in charge, a proportion of these constitute the working capital for their own extra-public operations. Obviously I have not been able to follow close at hand the negotiations with employers, with a few exceptions, but several of my informants among the landowners have talked very frankly about the price they have had to pay to save themselves from prosecution.

Such practices as these reinforce the farmers' negative image of the state bureaucracy. It reinforces their dislike of a useless government that battens on their pockets. Yet in the last analysis it is the landless who are the real victims, since the bribe is always less than the wages withheld from the latter. Even the labourers know quite well that the statements they make are often used for the purpose of extorting a bribe. Some of them were able to tell me exactly how much their employers had paid in hush money, sometimes only an hour or two after they had been obliged to set their thumbprints on paper. It is one more reason why labourers, when approached by GLOs, are not very forthcoming with information.

We have associated the official inability to offer adequate protection to the rural proletariat, with the powerful position of the large-landowner class on the one hand, and with the failure of the agency entrusted with providing that protection on the other. The fact that wages lag far behind the legally prescribed minimum results from the huge supply of available labour, partly from the region itself but supplemented by migrant workers. The farmers' dominance in a non-economic sense as well, adds yet another dimension to the problem of the agricultural labourers, the essence of which is that there are simply too many of them. They have no bargaining power whatsoever. Under these circumstances, so the excuse always runs, a government can do little more than establish a norm by fixing a price for labour, in the hope that this will be accepted as quickly and completely as possible. The question of why so little ever comes of it can be disposed of by pointing to class bias and bureaucratic corruption. Yet in my view resistance by dominant forces in society combined with official misconduct fall somewhat short of providing a complete explanation for the ineffectiveness of government action. One must also analyse the broader economic and social context of which policies for the protection of labour form a part.

There can be no doubt whatsoever that a strategy for capitalist development is being followed and promoted in Gujarat. Slogans and advertisements aimed at enticing entrepreneurs and capital to the state, enlarge at length upon 'the favourable labour climate'. Formulated in a more straightforward way this means low wages and lack of labour unrest, an attractive combination for employers from Bombay, for example. The point I want to make is that a policy in which labour is systematically subordinated to capital allows little room for manoeuvre to an official agency commissioned to compensate the agricultural workers in some measure for their acknowledged inferiority. This handicap can never be overcome even if officials were prepared to range themselves solidly behind (or better, in front of) their clients, rather than being inclined to use the law to fill their own pockets. Such an agency is, like other branches of the government bureaucracy, part of a state order that shows little real concern for the conditions of the rural proletariat. When the minimum wage was raised on an earlier occasion, a minister who came under fire from an audience of landowners while visiting a village in Surat district, told them plainly that some laws were never meant to be implemented. At the very moment he was making this statement in one part of the village, agricultural labourers in another part who seized the opportunity of the bigwig's visit to press for the payment of the new rate, were beaten up by farmers' sons for their insolence. The resulting police case was shelved and nothing more has been heard of it. In the light of such remarks and incidents involving leading politicians, it would seem sensible to tone down strictures on the culpability of government labour officers.

There is another example from which one could conclude that failure to protect the most vulnerable in rural society is connected with forces at work in the political arena. This is the refusal to apply the minimum wage law to the army of sugarcane cutters, who each year are brought in from far away by the co-operative sugar factories in South Gujarat, to work throughout the campaign. Once the government came to know of the conditions under whcih they were working, it was no longer possible to remain aloof from the problem.[4] Here was a clear case of across-the-board infringements of formal regulations. The co-operative factories, belonging to the bigger landowners, were guilty of underpaying harvest workers on a truly massive scale; they did not abide by the regulations governing the use of contract labour; they ignored legal restrictions on inter-state labour migration.

For the sake of brevity I shall only take up the first point. Several seasons ago a committee in which the government was also represented, fixed the harvesting rate at eighteen rupees a tonne. Since this is the exact amount that a work team (*koyta*), consisting of a man and his wife or any other pair, is presumed to be able to cut in one day, the committee's obvious objective was to raise wages to the legal minimum. This decision was acclaimed as a considerable improvement, right up to the highest bureaucratic and political echelons. Yet this is a serious misrepresentation of the situation. Firstly, most harvesting teams consist not of two workers but of two-and-a-half to three, that is, a man and wife and a child aged between ten and fifteen years, who has to work along with the adults. Secondly, a work team usually cuts only two-thirds to three-quarters of a tonne in a day. Thus earnings for an extremely heavy workload, often requiring a return to the fields in the night hours in order not to interrupt the flow of sugarcane to the factory, remain far below the officially prescribed rate. The policy-makers' ignorance of these practices is no excuse. As I have been able to confirm, they are perfectly well aware of what is going on, but they shut their eyes in order to maintain the fiction of compliance with the legal regulations.

Yet where these agro-industries are concerned it would be quite easy to implement the labour laws. We are dealing here with a large-scale, well-administered, and extremely profitable sector of the rural economy. There are none of the organisational difficulties that beset GLOs when they are inspecting the thousands of separate farms that employ agricultural labourers in limited numbers and often on an irregular basis. Nevertheless, governmental control in what can be called the formal sector of the rural econony appears to be essentially just as ineffective. The cause lies not in the system of labour inspection but, as the official in charge confided to me, in the institutional inability of the agency to resist the political pressures from the strong sugar producers' lobby in the state.

The bigger landowners realise that they form a class in itself and have united into a powerful farmers' alliance based on that consciousness. In the past this Khedut Semaj gave particular support to the political opposition, but its dominance is also acknowledged by the ruling Congress Party. Yet it would be wrong to see the public stand taken by the alliance simply as an extension of the established political parties. Right from the time the Khedut Semaj was set up at the end of the 1950s, it has taken a strongly anti-state line, to which a new impulse has been given by an agrarian producers' movement that has recently been spreading very rapidly from Maharashtra over the whole of western India.[5]

In contrast to this mobilisation among the rural bourgeoisie, the landless are still hardly aware of their class identity. Soon after Independence an organisation was set up under the direction of Gandhian social workers for the uplift of the particular tribal caste in South Gujarat to which the vast majority of agricultural labourers in the central plain belong. Imbued with Gandhian ideology, this Halpati Seva Sangh has focused particularly on welfare and educational activities. The efforts of the staff, mainly members of higher castes, have been directed towards training their clients to be better Hindus. Hardly any economic demands are made on behalf of the landless and consequently agricultural labourers were passed over when land reforms were implemented in the region between 1950 and 1970. In the ensuing years, the HSS has mounted no campaign for better wages on behalf of its clientele. Whenever labourers have engaged in local action on their own initiative, calling a strike for instance, the farmers have quite frequently enlisted the aid of Gandhian social workers in ending the agitation. My sketch of the HSS in an earlier publication[6] is still valid, but in the meanwhile the main leader, who himself comes from the class of dominant landowners, has completely lost his hold over the members of this caste of landless. There are still a number of government subsidised activities, but these are very routine in nature and have hardly any impact.

Besides the HSS, an urban politician in Surat has in recent years set himself up as the agricultural labourers' champion. Rather than operating from within a regular organisation, he holds regular meetings that constitute a barometer of his popularity. He is notorious as an outright opportunist who frequently changes political sides and who is on the lookout for a vote bank for whom he can act as a broker in the political arena, mainly with the intention of furthering his own interests.

The aim of the above discussion has been to emphasise the fact that the landless labourers among the working population of rural South Gujarat, forming the largest class, still lead an extremely fragmented existence in social and political terms. The immediate result is the absence of a counter-balance to the landowners dominant position. In the implementation of agrarian policy the agricultural labourers' interests—employment opportunities, earnings, access to public facilities—carry no weight. Their presence in large numbers is even defined as being counter-productive for society at large. To the extent that the labourers have anything at all to do with government, they come in contact mostly with the officials and agencies charged with keeping this class under control (for instance, through family planning) or even with 'conditioning' them in the negative sense. Police behaviour is a telling example of the latter. Finally, since the labourers lack their own organisations, especially trade unions, state personnel at local level are under no pressure to apply official rulings in an impartial way, and to give the labourers even their minimum legal rights.

## VI

## The Government in Action

It is quite openly acknowledged at higher state levels that good intentions, even when converted into concrete measures, have no effect because the proletariat totally lacks the ability to defend itself. The formal reasoning is that official intervention can achieve little as long as landowners continue to evade regulations and the landless are unwilling to complain about it. In 1982 the government in Gujarat set up the Gram Majur Kalyan Kendra (Rural Workers' Welfare Centre) in an attempt to create a counterweight. There was a double aim in this: firstly, the creation of a local platform for all kinds of special social-economic programmes and facilities for agricultural labourers; secondly, to motivate this target group to make use of whatever was offered to them from above.

Briefly, the train of thought behind this objective is as follows. The amorphous mass of landless live in a state of apathy. The misery of their existence derives from their ignorance and, more particularly, from their unfamiliarity with protective and corrective government measures. The absence of social consciousness prevents them from uniting to find their strength in mutual co-operation.

I shall come back to this definition of the problem in terms of a culture of poverty in the final paragraph. First I want to discuss the impact of the action centres set up for them. Has this experiment been successful?

The new approach is still in the trial stage, currently extending no further than one village in every taluka with at least 10,000 agricultural labourers. Thus the programme reaches only a fraction of the households qualifying for it. The Rural Labour Commissioner has been given the responsibility of organising and supervising the programme. While travelling round the South Gujarat plain with officials from this agency, I had the opportunity of visiting one of these centres, quite close to Bardoli.

It is already late in the afternoon when we reach the village. The place in which the centre is housed is locked up, but a startled office boy (peon) opens it up for us. The Rural Organiser who had assumed would be sitting in the centre, has to be fetehced from his home. He has been selected for this post from among a large number of candidates, all unemployed youths with schooling, and owes his appointment to the fact that he belongs to an untouchable caste, which gives him a head start in obtaining a government job. He is considered to belong to the actual target group and receives only a nominal sum for his efforts, yet the monthly Rs 400 he earns is far higher than the agricultural labourers' wages, whether actual or theoretical. Supposedly one of them, someone who acts as their spokesman and champion in the outside world, he behaves in fact as a government agent, the lowest in the hierarchy of officials whose task it is to maintain contact with the landless. The Rural Organiser is assisted by a child minder (ayah) earning Rs 100 a month, and an office boy (peon) who is paid Rs 50 a month. Only the latter comes from among the landless labourers.

What are the duties of the Rural Organiser? Not many; in fact so few that one can hardly talk of a regular daily work routine. He is somewhat nonplussed at my question about the work he actually does. 'The organising of sports and games for labourers in the village', says the instructions, which we all read together. Even his boss, the official accompanying me, jokes about this. No, very little comes of this, it is true. Stacked in his office there are a few cooking pots and pans and other kitchen necessities, which poor households in the village may borrow when there is a wedding feast to prepare, for instance. There are also a few musical instruments for the religious song gatherings called *bhajans*. This equipment is covered with a thick layer of dust, suggesting that it is used infrequently. In contrast, there is no sign of the reading materials with which the centres are provided to help labourers to keep up to date with what is going on in the wider society outside the village. In view of the high incidence of illiteracy, newspapers and magazines would in any case only be accessible to a handful of the labourers. Neither is there any adult education; the evening classes mentioned in the programme of activities are not in fact held, due to lack of interest, the Rural Organiser tells us. From the records he keeps it appears that between 40 and 50 toddlers come to the centre every day, where they are kept amused for a few hours and are given a meal by the ayah. This ostensibly costs Rs 500 a month. If it is prepared at all in the quantities suggested by this sum of money, the food certainly does not reach so many children. There is nothing to show that the building serves as a social meeting place for women or youths. This disposes of leadership training and promotion of communal feelings.

A handful of landless in the village have been given loans to enable them to find livings outside agriculture. In 1983 members of 22 households received an average sum of Rs 1,000—part loan, part subsidy—with which to buy carpenter's or mason's tools, fishnets, a sewing machine, axes and saws for wood cutting, a buffalo or goat, a handcart or bicycle for hawking vegetables, or to stock up a roadside stall, and so on. When I came back to this village a few weeks later and this time on my own, I tried to verify the use made of these loans. In only a few cases was I able to track down the tools or other means of production that had been purchased with loan money. Even then, the recipients quoted markedly lower figures for the sums received than were recorded in the Rural Organiser's account books.

At the time of my research in Gujarat, the state government mounted a publicity campaign drawing attention to the progress the state had made in the agrarian sector, including the introduction of life insurance for agricultural labourers, in mid-1983. For a premium of five rupees a year, agricultural labourers' relatives are entitled to Rs 2,000 in the case of a fatal accident, and Rs 1,000 where the labour has died from natural causes. The actual premium is ten rupees a year, the government making up the deficiency. The proud advertisement suggests that this group insurance scheme is unique and is being promoted in a big way.[7] The reality in Surat district, where the scheme was first introduced, tells us something different. In the centre I am visiting, the number who have taken out insurance under the scheme over the previous year has remained confined to scarcely 300 labourers spread over six villages. This represents only a tiny fraction of the total landless population, and even then they have often only joined the scheme because a sympathetic farmer has been good enough to pay the premium for his farm servants. Few of the rural poor are able to set aside as much as five rupees for this purpose. Finally, I have never found anyone receiving the monthly payment that, according to a new regulation, can be claimed by the aged and by those labourers declared physically unfit for work.

In the first report on the action centres, it is admitted that upto now the work has been mainly devoted to welfare, with the aim of developing social consciousness, and that there have been few tangible results to date.[8] The intention is to shift the emphasis gradually to objectives of a more economic kind and at the same time to make a start with more socially sensitive tasks. The Rural Organisers are supposed to play a crucial role in this, uncovering and rectifying abuses in the treatment of rural labour. They will be expected to inform both landowners and labourers about the law on the minimum wage; to persuade farmers who continue to underpay their workers that they should fall into line; to show concern for migrant labourers and to prevent them from being exploited; finally to summon any employer using sanctions against labourers to break their resistance.

With all this at the back of my mind I ask the Rural Organiser in the centre how much labourers in this village earn in a day. 'Nine rupees' he answers without a blush, and continues to maintain this even when I express doubt. Given his role of local government representative, what else can he say? He is only prepared to amend this figure, cautiously, when his boss intervenes to make it clear that we know better, after talking with labourers of various neighbourhoods in this village. After much hesitation, he gives the figure of seven rupees. After a further exchange in which we establish that even this sum is much too high, he leaves it to us to find out the extent of underpayment. What good does it do to bring all this into the open? He cannot tell us even approximately how many landless labourers' huts there are in the village, where the migrants are staying, how much they earn, and so on. The Organiser ought to identify himself strongly with his clientele—this is at least the underlying assumption of the programme—but he quite clearly feels himself to be a cut above them, because of his middle-school education (twelfth standard failed). It is absolutely naive to think that this young man would want to, or dare to, teach the farmers their legal obligations, perhaps hauling them over the coals and ultimately making complaints about them to the authorities. I would not count on the likelihood of a contest with the landowners initiated by the government. Official publications talk of training for responsible leadership and only permit social action regarded as 'constructive'. It seems to me that a far more important function of the action centres is to keep the growing tension in the countryside within bounds and to provide politicians with a platform that will facilitate communication with the landless, who constitute a sizeable vote bank, without conflicting with the first objective. The centres serve as checkpoints for the allocation of all kinds of benefits and facilities (including loans and subsidies, regular jobs, materials for building huts, admission to education or vocational training) to a small vanguard among the landless who have some influence in their own neighbourhoods. It is possible to recruit an even bigger following through these rank-and-file leaders, who naturally also profit to a disproportionate extent from whatever comes up for distribution. Government programmes such as IRDP and Tribal Sub Plan provide the financial means for this type of public expenditure. Are these 'loan *melas*' the enormous waste of money that some studies seem to suggest? The donations are enough to secure political allegiance, even if they fall short of bringing about genuine structural change. This, in any case, is not the ultimate objective. There is a knack to acquiring ever more new sinecures with which to mobilise and consolidate political support, especially at election time. Thus there will be soon a further rise in the minimum wage for agricultural labour, if only because statistics produced by government agencies show that nine rupees is no longer enough to fulfil basic needs because of the continuous rise in prices. Naturally, the introduction of the new rate does not mean that it will be put into practice.[9]

Policy on landless labourers can be summed up as one of accommodation, but does this strategy work? And if so, for how much longer can it succeed?

## VII

## Acute Confrontation

There has been a sharp increase in rural labour unrest in recent years, not excluding violent conflicts. There was a clash between landowners and landless in this village shortly before the Rural Workers' Welfare Centre was opened. When the landowners ignored the labourers' protests at the preferential treatment shown to the migrants who have settled here in large numbers, small 'incidents' escalated into a full-scale fight. I have not been able to uncover exactly what had happened in this case, but the mood on both sides is one of undiminished aggressiveness. What has struck me forcibly is not so much the farmers' intense enmity towards labourers (I have become accustomed to this) but the labourers' strikingly militant attitude. These outbursts are spontaneous, highly localised, and of short duration, but their increasing number and seriousness is indicative of an acute intensification of rural class antagonisms. To gain a better insight into this escalation, I paid as many visits as possible to villages in the plains where conflicts of this kind were taking place or where they had occurred sometime before. The way government intervened in order to defuse tensions provided a recurring focus of attention in the course of my fieldwork.

Accompanied by a GLO, I spend an afternoon in a village where a longstanding quarrel had ended in a bloody collision a few days after New Year (1985). The village centre where the farmers live is rather deserted. Many of the houses are shut up, and our reception by the remaining residents is lukewarm. They have little reason to be well disposed towards the GLO, since the official sent to the village as soon as news of the conflict became known, served a summons on thirty-three farmers for their failure to comply with the minimum wage law. With this charge hanging over them, few of the landowners see any point in talking to us. The telling of their story, little by little, does nothing to lift the mood of depression. Nine farmers are in hospital, five are in prison. Among them is the son of one of the men with whom we are talking, arrested under suspicion of having used a firearm. The cause of all this was a disagreement starting more than a year ago with the labourers who keep buffaloes. All of them landless, they depend on the village waste for grazing their cattle. They also took them into the farmers' fields without asking the owners' permission, and they were even stealing their crops. The farmers' response was a collective contract made with six field guards (*zim rakha*), strongmen who have come to the village to safeguard their property.

These tactics seem to have been very effective but the labourers, angry at once again having received the dirty end of the stick, went on strike. They would have nothing more to do with the local landowners, and set out each day to look for work in neighbouring villages. This was a nuisance for the farmers but no unsurmountable problem, because a sufficient number of labourers from outside came to the village once they heard about the dispute. The new equilibrium had been disturbed several months ago, when the outside labourers stayed away after being threatened by the local landless. The farmers reacted by intensifying surveillance of their fields and crops so that it became increasingly difficult for the landless to find enough forage for their cattle. Tensions rose still further towards the end of the year, when the current village head, a member of the landless caste, was defeated in the local elections by the farmers' candidate. In order to win, the latter had struck a deal with the village's Harijan households, the price being favours and benefits for these small or marginal landowners. The price was not too great for the bigger farmers from the dominant caste. They felt it was high time that the landless—definitely in the majority, with two hundred households—were pushed back into the lowly position they have always occupied.

Exactly two weeks ago, the bomb exploded. In the evening the field guards apprehended several landless-caste youths in possession of stolen goods. There was a free-for-all fight and farmers who joined in were barely able to prevent the battle from shifting to their part of the village. Fierce blows were exchanged and, although it was some comfort to the farmers that there were higher casualties among their opponents, they were nevertheless shocked that the landless had dared to fight them at all. The labourers even came perilously near to entering the farmers' streets. Rather than keeping this rabble on a tight rein, the government seems to be looking for a compromise, which will be binding on the employers as well. The farmers are very angry about this, and their wrath is vented on my companion. The politicians, even more than the officials, are being made to suffer. Previously the landowners were allowed to manage their own affairs and there were peaceful labour relations in the village. In a milieu like this, one always hears the complaint that politicians are stirring the agricultural labourers up against the farmers. Jinabhai Darji, who belongs to South Gujarat where he has a large following among the rural poor, is the biggest villain of all in the farmers' eyes. He is reported to have said in a meeting held in the labourers' colony during the national electoral campaign a few months ago, that he would be overjoyed at the death of five members of the dominant caste in every village. The GLO does nothing to contradict this kind of insinuation and maintains a meaningful silence whenever the charges become more heated, and extreme. But casual remarks make it clear that he agrees with the general opinion that politicians create incidents of this sort and do nothing to solve them. But his attitude of detachment does not convince all those present. From a distance our conversation is frequently interrupted by a landowner who has refused to join us. Sitting in front of his house across the street, he makes the sarcastic comment 'Don't bother to talk with these guys, they twist everything we say and then use the information against us'. The atmosphere remains strained. After a while the GLO has said everything he wants to say and asks if there is a TV set. The England *versus* India test match is on, and he wants to catch up with it. The only man present who has a set at home is not in the mood for a social visit. He has not watched the TV himself for the past few weeks. How could he do so when his neighbours are in hospital or prison?

The official has the stronger will, though, and soon we are comfortably installed in front of the TV screen. After a short while I suggest that it might do no harm to go to the hutment colonies and talk with the labourers as well. At this, the farmers and my companion all look askance at me. We have already heard and discussed what happened, haven't we? But when I insist, the GLO opts to go with me. Better that than letting me out of his sight in a place where anything might happen, and in fact has happened. As soon as we enter the part of the village where the landless reside we are stopped by a member of the Reserve State Police from the contingent camping here since the disturbances. Five of them are housed in a hut, out of which the occupants had to move to make room for them, and five more are in another labourers' colony. No, they have not been quartered on the farmers. Their orders are to keep an eye on everything the landless do. These have kept in the background since our arrival, although they are not intimated by our presence. When we want to make contact with them, they listen to us, not afraid but certainly in a tense and defensive mood.

Their version of recent events differs significantly from what we have heard from the farmers. A couple of youths on their way home on that evening had been beaten up by the field guards for absolutely no good reason. These landowners' mercenaries who had waylaid them sheered off when other labourers living nearby hurried to their rescue, but the next evening they returned with a large number of farmers who had even driven their tractors to other villages to call up reinforcements. Over a hundred men had begun lashing out at the landless with sticks and sickles and knives, making no distinction between young and old, men, women or children, and had wreaked a great deal of havoc in the landless quarter. Some of the farmers' sons had even used firearms. Dozen of the landless were wounded, some of them seriously, and next day the police had arrested a few of them. Apparently you are not even allowed to defend yourselves any more. An elderly woman shows us a huge wound on her upper leg, inflicted with a farming implement. One of her sons had both arms ripped open and is lying at home now, swathed in bandages up to his armpits. Her second son was taken away by the police, and there is no one left in her house to provide for the family. We walk past huts with their doors kicked in or with their roofs torn apart. Nevertheless, the attackers have not been completely blind in their destructiveness, since the homes most heavily hit are those belonging to the recognised leaders among the landless labourers. Little remains of the former village headman's hut, which you can see right through. I ask him if any of his possessions are missing. No, he answers, but then there was nothing to steal in the first place.

We hear a different story about the background to the conflict, as well. The labourers insist that they graze their cattle only on communal ground, which is after all open to everyone. They cut grass for fodder only along the public road and further point out that, over the years, the village waste has steadily decreased in size. Farmers appropriated some of this area when the coming of canal irrigation made it profitable to level off fallow lands and prepare them for tilling. The labourers say it is not they but the landowners who are the thieves, in extending their property in such an underhand way. Where outside labourers are concerned, there was of course some resentment over these blacklegs, but the local landless labourers piously deny that they have ever used threats to keep these busy-bodies out of the village.

The field guards are the main source of grievance. These farmers' mercenaries terrorise the labourers to the extent that women and children hardly dare set foot outside their own neighbourhood for fear of being raped or at least molested. Incidents of this kind have become familiar here, just like elsewhere on the plain. In the past, local watchmen were chosen from the ranks of the landless, and were paid from the village funds. The farmers put an end to this custom several years ago, dismissing the old watchmen and appointing new men in their place, toughs from outside the area. Even in this, the dominant landowners make it clear that they prefer to to deal with aliens. They refuse employment to the labouring households of the village, yet at the same time deny them access to alternative income opportunities.

The landless admit that they lost the elections for the village panchayat; the farmers bought the votes of the Harijans and even of a minority among the labourers themselves. Yet the Congress Party's huge success in the national elections in December 1984 boosted their morale. They were voting not so much for the majority party as against the opposition supported by the farmers, who are very angry about the election results. That anger has undoubtedly contributed to the violent turn taken by the conflict.

The GLO is intent on a compromise and he tries to make room for this in our conversations with labourers, who do in fact listen to him when he advises them, in a paternal manner, not to force the issue. Their spokesmen say that they are prepared to resume work at the old rate of five-and-a-half rupees. It does not even enter their heads to demand the minimum wage. In the neighbouring villages to which they have scattered in search of work, they are only given five rupees, and by making this concession they hope to be able to once again to collect firewood and to cut grass for their buffaloes or goats, without retribution. Many of their animals have already fallen sick or have died from lack of fodder, and there is nothing else to do except give way. In the circumstances the best solution would be a return to the old state of affairs, but there is one thing over which the labourers will not yield an inch—the *zim rakha* must leave the village.

We carry this message back to the landowners' quarter. The GLO is rather pessimistic but thinks that something might be achieved by offering the farmers exemption from legal proceedings over their infringements of the minimum wage law. This concession, together with the labourers' offer to return to work on the old conditions, might be attractive to the farmers, who indeed listen attentively. Yet as soon as the matter of the *zim rakhas* is raised they become intransigent, branding the labourers as the aggressors. Surely recent events have shown quite clearly that the farmers' safety depends entirely on the presence of this private police force, commanding respect in a situation in which anything may happen at any moment. We leave the village without having effected a compromise.

Several days later there was a newspaper item about a deputation from the Khedut Semaj from Surat district to the Home

Minister in Ahmedabad to lodge a complaint about recent incidents. The delegation includes farmers from villages in which there have recently been violent clashes. It is all the labourers' fault, but the government does not escape lightly either. The trouble the farmers have been experiencing stems directly from the agricultural labourers' purchase of cattle with government money, something that should never have been permitted, because people with no land of their own cannot afford to keep cattle. Out of sheer necessity the farmers have had to bring in their own corps of security guards to stamp out the theft of grass, sugarcane, and other crops from their fields. In villages where the landless have been slow to learn their lesson, there have been fights, sometimes with regrettable results. District authorities are lax in dealing appropriately with trouble-makers, and instead of clamping down on those labourers who have been driving hard-working migrant workers out of the villages, officials have been putting pressure on farmers who do not bother to follow useless regulations. Priority must be given to protecting farmers' property because this is also in the state interests, involving as it does the safeguarding of agrarian production. Further escalation of the situation can only be avoided by mounted police patrols of the rural areas, so the argument goes. According to this type of information published in the local press, law and order itself is hanging in balance.[10]

## VIII

## The Biased State

Landowners in Surat district tend to take the law into their own hands, apparently no longer acknowledging the state's monopoly of violence. This is suggested both by the increasing number of firearms licences issued (although I did not succeed in obtaining more detailed information on this) and by the hiring of *zim rakha* to protect the dominant farmers from the demands and attacks of the maligned landless. Little is known about the background of these hired thugs; the only point upon which everyone is agreed is that they are Muslims, a derivation also suggested by the name of *khanamia*. According to some, they come from the border area between India and Pakistan, where they are usually occupied in smuggling and other illegal activities. The majority probably originates from Jambusar taluka in Broach district, where they are regarded as descendants of *gariasias* (Rajputs) who converted to Islam in the eighteenth century. This information indicates a feudal warrior tradition now carried over into a capitalist context. The *zim rakha* are generally young men of above average height and sturdy build, whose material appearance is emphasised by the weapons they carry—cudgels, knives, and occasionally firearms.

Their leaders operate from urban bases in the region, where they have established a loose foothold. The farmers contract with them for the protection of their property, each village obtaining the services of upto six *zim rakhas* for a sum of Rs 30,000 and 50,000 a year, divided proportionately among the landowners. Part of the agreement is that the leader will, whenever necessary, increase the size of the group he has stationed in a village. Flexibility is a striking trait of these gangs' organisation. When workers from the main sugar factory in the central plain went on strike for a short time last year, *zim rakhas* from villages in the area were mobilised to come and break up the strike. Upto now the law-enforcing authorities have been passive in the face of this competition from private quarters arguing that no one can be forbidden to protect his own property. They prefer to turn a blind eye to infringements of the law accompanying this protection, or to treat them as unconnected incidents when they are actually brought to light. The official reticence should be understood against the background of the links that exist between criminal elements and the aggressive behaviour of pressure groups in the political arena. The social and economic dynamics in rural areas creates a breeding ground for the violence that has come to permeate political life. The fierce antagonism between landowners and landless labourers in Surat district offers abundant proof of this unwholesome trend which also reflects the situation in many other parts of India. Over the past few decades a class of dominant farmers has arisen owing its economic success to land reforms combined with agrarian modernisation. Politically, these farmers behave as a strong lobby prepared to buy, with money and/or violence, the means necessary to strengthen their bargaining power. Although there is more publicity about the extra-legal 'black' economy in urban areas, that of the countryside is just as extensive and active. It would be interesting to investigate whether the political forces underlying this illicit circuit are tending in the same direction as in the cities.

The state does not remain aloof from the struggle between the top and bottom of the rural order. The bureaucrats, both at the district level and above, seem to acknowledge the hegemony of the bigger landowners over their immediate environment. The attempt to soften the misery of the landless labourers' existence is the only governmental modification of this hegemony. To avoid the inevitable clash or prolonged class war that a change-over to a more equal and just society would imply extra facilities and special privileges are granted, based on the assumption that the weaker party's gains is not necessarily the stronger party's loss. This strategy suggests that in a state of expansion, part of the gains can be set aside and apportioned to those segments of the rural population who have fallen behind in the development process.

However, even this purely remedial

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policy arouses opposition because it lessens the beneficiaries' dependence on their opponents. What one side calls the mitigation of deprivation is seen by the other as an attack on the existing social framework, or even as a downright conspiracy to create a new social order. Viewed in this light, we should understand the landowners' exasperation over the loans made to landless labourers for the purchase of cattle, the allocation of land and provision of material for the construction of better huts, the institution of crafts training courses, giving access to off-farm employment, and similar measures. Yet these correctives are too marginal to bring about any real structural change; they remain half-hearted attempts that bog down in corruption and inefficiency. Even the limited resources made available each year for this kind of programme are not exhausted because of apathy among the agencies involved in combination with obstruction from vested interests. The officials in charge have an entirely different explanation for this failure to reach the target group saying that the landless labourers turn down the opportunity for self-improvement when it is offered. Lack of interest among those eligible for such governmental aid is, according to them, the main factor. They are in fact describing a culture of poverty, a mentality that imprisons their clients in ignorance and apathy. This is also presumably the reason why agricultural labourers do not insist on implementation of the minimum wage legislation. Their argumentation continues along the lines that only edcuation and conscientisation will lead to a widening of social horizons and can break down inertia in the milieu of the downtrodden. This was the stand adopted by several high-ranking officials from the Central Ministry of Labour in Delhi, during a conference on bonded labour in Gujarat, held in Ahmedabad in mid-January 1985. Statements that emphaise the landless labourers' indifference and docility in fact confirm the idea that the rural poor themselves are primarily to blame for their present situation.

This is a gross distortion of the truth, since militancy, rather than passivity, marks the agricultural labourers' attitude. Whenver I ask members of the present generation about changes in living standards, many of them answered that their parents found it easier to earn a livelihood in the old days, while at the same time they are certain that their own children will have a better life. This favourable view of the past *and* future combined with a gloomy view of the present seems to me to demonstrate the overriding spirit of impatience and rebelliousness among the landless today. They are only asking for that emancipation from exploitation and oppression which the government has long since promised them on paper. Yet their complaints go unheard and unregistered. The landowners control the landless with intimidation and, when this fails, with outright terrorisation. Those who, with the courage born of despair, take to overt action, have to pay a heavy price for their audacity and are ultimately liquidated if they remain adamant. The state that takes no action when agricultural labourers are murdered, has lost the right to proclaim itself protector of the largest working class in India.

## Notes

[The research, carried out between October 1984 and February 1985, was sponsored by the Indo-Dutch Programme on Alternatives in Development. Enid Perlin took care of the English translation. I gratefully acknowledge the support received from the Director and staff of the Centre for Social Studies, Surat. The paper, a first outcome of my recent stay there, is dedicated to the memory of I P Desai who urged me to write down my findings immediately on completion of my fieldwork.]

1 The only exception is a taluka in the east of the district—rather infertile, isolated and populated by tribals—where there are less than 10,000 agricultural labourers.

2 Breman (1985), Chapter II.

3 For these cane cutters' life and work, see Breman (1978-79).

4 Some political turmoil arose around the publication of a shortened Gujarati translation of my study on harvest workers recruited by the co-operative sugar factories in South Gujarat. The Rural Labour Commissioner was asked to make investigations and to produce recommendations which would improve work conditions in accordance with existing labour legislation.

5 I have in mind the agitation in rural areas led by Sharad Joshi. The movement which he started has become increasingly popular also in South Gujarat.

6 Breman (1974).

7 See, for example, the advertisement published in *Economic and Political Weekly*, December 22-29, 1984, A-172.

8 See, "Rural Workers' Welfare Centres in Gujarat: A Window for the Rural Poor", published by the Gujarat Rural Workers' Welfare Board, Gandhinagar, n d.

9 The increase in wage rates was announced shortly before state elections in March 1985. The going rate of nine rupees was fixed in October 1982.

10 *Gujarat Samachar*, Surat edition, January 22, 1985; see also the same newspaper, and *Gujarat Mitr* of January 20, 1985.

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## Ashok Leyland

ASHOK LEYLAND has plans for product improvement and diversification which aims at consolidating existing markets and penetrating new ones with superior product attributes, traditional high product quality and application-oriented design. These, according to the Chairman Mantosh Sondhi, should considerably strengthen the company's market position. The company has already a good product strength in the two areas where the government has recently announced concessions in excise duty—vehicles with three axles and those with turbocharged engines. The company, in fact, is the only one in India manufacturing multi-axle vehicles. Apart from consolidating the product strengths and market standing in the traditional truck and bus markets, plans are afoot to realise new applications. The company's expansion programe to achieve a capacity of 40,000 vehicles by 1987 had to be considerably slowed down in the face of depressed market conditions. This has provided the company an opportunity to reappraise the long-term technological and product options. The management considers that the core of future product development and diversification must pertain to development of modern, fuel-efficient, weight effective and reliable engines which can meet the technological requirements of the 90s. The engine range would pave the way for the introduction of a diversified and technologically up to date product range. The company has entered into a technical collaboration agreement with Hino Motors, Japan, for manufacture in India of its 'W' series of engines. With a power band extending from 70 to 175 HP, these engines would be an invaluable asset in future product diversification. The company is seeking government approval of this agreement. The company will, in due course, firm up investment plans for this project. Sondhi feels that it is of considerable strategic significance that finalisation of this crucial collaboration should coincide with the reactivation of the company's expansion programme.

# Foreign Technology in the Four Modernisations of China

**K K Subrahmanian**

*China has introduced a number of economic reforms during its current phase of developing commodity production and exchange and the opening of the economy to the outside world. The approach has been towards establishing correct relations and modernising industry, agriculture, defence and science and technology. This new development strategy has opened up avenues for the inflow of foreign capital and foreign technology into socialist China from capitalist countries.*

*This paper makes an attempt to capture the increasing size of foreign investment and technology and to reflect upon its compatibility with the avowed objective of self-reliance in technology policy.*

THE economic historiography of New China is marked by different developmental phases. Ma Hong[1] has identified four broad phases, *viz*, (1) socialist transformation until 1956, (2) socialist construction between 1956-66, (3) cultural revolution between 1966-76, and (4) socialist modernisation thereafter. It has also been argued that "left errors" of extreme egalitarianism within, and closed-door approach to the outside world during the periods of the Great Leap Forward and the Cultural Revolution led to imbalances between the relations of production and the development of forces of production. Consequently, technological backwardness and low productivity were the characteristic features of those periods. Also there was no improvement in the material living conditions of the people.

A number of economic reforms have been introduced during the current phase towards developing commodity production and exchange and opening the economy to the outside world, based on the integration of the law of value and the role of the market with socialist planning. The approach has been towards establishing "correct relations" and modernising industry, agriculture, defence and science and technology. The new development strategy, with a thrust on what is called "Four Modernisations", has opened up avenues for the inflow of foreign capital and foreign technology into socialist China from capitalist countries. This paper makes an attempt to capture the increasing size of foreign investment and technology in the Four Modernisations and to reflect upon its compatibility with the avowed objective of self-reliance in technology policy.

## OPEN-DOOR POLICY

Needless to say, the "closed-door policy" followed during the earlier periods has been discarded in favour of "an open-door policy" for importing modern technology and expanding economic and technological exchanges with the capitalist countries. The change in the policy is absolved by taking a leaf out of the "Three Foundations" of Mao's Thoughts and citing Mao's often stated argument, "Chinese modernisation cannot take place in isolation from external technological development".[2] Whatever be the rationale for the policy change, the Four Modernisations favoured inflow of foreign capital and foreign technology on an unprecedented scale within the multi-layer structure of technology policy.

With the adoption of the open-door policy a trend was set for increasing import of foreign technology since the late 1970s, as reflected in the data on foreign investment approvals[3] (see Table 1).

At first, the indiscriminate imports began to tell upon budgetary and trade deficits and also upon the limit of indigenous capacity to assimilate foreign technology. A readjustment was soon introduced to correct the imbalance by emphasising expansion and renovation of existing plants in preference to setting-up of new plants, import of key technology instead of turn-key contracts for complete plants, and integration of imports with exports. Foreign business however, misread the readjustment as a retreat from the open-door policy and so the inflow of foreign investment declined in pace. The government hastened to initiate a number of legislative measures, strengthen the organisational set-up, and extend tax-concessions and other incentives to foreign business. Foreign investment picked up momentum again. Today, China is witnessing a wave of economic legislations and is providing liberal and preferential treatment (with regard to taxes, prices, domestic sales, wages, credit, etc) to improve upon the climate for attracting foreign investment and technology-transfer.

## INCENTIVES FOR 'FOREIGN INVESTMENT'

The legislative measures introduced so far are a long list of more than 40 laws and decrees,[4] such as, Law on Chinese-Foreign Joint-Ventures, Income Tax Law concerning Joint-Ventures, and the Foreign Enterprise Tax Law. In more recent years, the government has enacted the Patent and Trade Mark Law and has taken the decision to join the Paris Convention of Industrial Property and the Madrid Agreement on International Registration of Trade Marks. Attempts are on for the codification and publication of commercial laws and practices concerning foreign investment, technology-import and trade. Along with the legislative measures, efforts have also been made to simplify administrative procedures and to decentralise administrative powers by granting autonomy to the Governments of provinces and city municipalities in matters related to external economic transactions.[5]

The illustrative listing of incentives made in Table 2 underscores the flexible policy framework and liberal incentives being provided to attract foreign investment and to induce transfer of technology. China is now overtly seeking collaboration and expanding external economic rela-

TABLE 1: FOREIGN INVESTMENT APPROVALS IN CHINA

| Year | No of Equity Joint-Ventures | Per Cent | Value of Foreign Investors Share (US $ 10,000) | Per Cent |
|---|---|---|---|---|
| 1979 | 10 | 5.3 | 1437 | 4.4 |
| 1980 | 24 | 12.6 | 7629 | 23.1 |
| 1981 | 29 | 15.3 | 2576 | 7.8 |
| 1982 | 20 | 10.5 | 2419 | 7.4 |
| 1983 | 107 | 56.3 | 18837 | 57.3 |
| Total | 190 | 100.0 | 32898 | 100.0 |

*Source:* "Statistical Year Book", Statistical Bureau, Beijing, 1984.

tions with developed market-economy countries with a view to get access to foreign technology for carrying out the programme of "Four Modernisations".

### TECHNOLOGY-TRANSFER MECHANISM

Foreign firms can now operate through diverse forms and modalities in China. These include technology-contracts, processing/assembly of imported materials and compensation trade, co-operative production, equity joint-ventures, and wholly-owned independent foreign enterprises. The most preferred mechanism for technology transfer has been compensation trade and co-operative production (see Table 3). In these arrangements the Chinese partner provides land, buildings, materials (in the case of compensation trade only) and labour whereas the foreign collaborator provides machinery and technology, which become Chinese property eventually. The end-product (output) is bought back by the foreign collaborators until the original capital outlay is amortised. The major gain for China is the access to proven assembly/processing technology, though the arrangement also ensures access to foreign exchange resources for buying up machinery. This form of foreign operation, however, opens up a large scope for multinational corporations to indulge in "transfer pricing" and other restrictive practices with the result that the net gain to the Chinese economy is unlikely to be large.

Another important mechanism for technology-transfer has been the Chinese-foreign equity joint-ventures. The policy approach of the government towards foreign ownership and control in equity joint-ventures has been very flexible. China is not only charitable to foreign equity investment but even insists on a foreign share of not less than 25 per cent of the registered capital in any equity joint-venture, irrespective of the nature of technology. Investment can be made in cash, in kind, or in industrial property rights. Foreign majority ownership is sought in substantial numbers. Foreign-controlled investment is typical in light-industry products (see Table 4). Even when the majority ownership lies with the Chinese, there is sometimes a practice of making foreign partners' representative as the Managing Director or the Chairman or these posts are alternatively manned by foreign and Chinese nationals.

TABLE 2: INCENTIVES FOR FOREIGN INVESTMENT IN CHINA: AN ILLUSTRATIVE PICTURE

| Tax Conessions | Tariff Concessions | Other Incentives |
|---|---|---|
| Total income-tax exemption from first profit-making year and 50 per cent in 2nd and 3rd years | Reduction/exemption from customs duty and integrated commercial and industrial tax | Exemption from land charges from one to five years |
| Additional 15-30 per cent tax reduction for low-profit operation | 80-90 per cent tax reduction in respect of raw materials, etc, required for export production | Freedom to recruit staff and workers from open market |
| Additional tax reduction of 15-30 per cent in economically backward areas for 10 years | | |
| Carry forward losses for 5 years | | |
| 40 per cent refund of taxes on reinvested profits | | |

*Source:* Based on 'Comparative Investment Incentives', *China Economy and Trade*, July 31, 1983, pp 3-4.

TABLE 3: FORMS OF FOREIGN INVESTMENT IN CHINA: END 1983

| Forms/Mechanism | No of Units | Per Cent | Amount of Foreign Investment (US$ million) | Per Cent |
|---|---|---|---|---|
| Chinese-foreign co-operative oil exploration projects | 31 | 1.2 | 242 | 23.7 |
| Chinese-foreign co-operative production enterprises | 1129 | 45.7 | 323 | 31.6 |
| Compensation trade/processing and assembly of imported materials and components | 1067 | 43.2 | 86 | 8.4 |
| Chinese-foreign equity joint-venture | 190 | 7.7 | 329 | 32.2 |
| Wholly-owned foreign enterprises (independent ventures) | 53 | 2.2 | 42 | 4.1 |
| Total | 2470 | 100.0 | 1022 | 100.0 |

*Source:* As in Table 1.

On the whole, there is an apparent preference for foreign investment as a mechanism for acquiring technology from developed market economy countries. The observed preference may not be dictated by foreign exchange constraints as is generally the case with the other developing countries seeking foreign capital. For, China has a fairly comfortable foreign exchange position.[6] The logic of the policy-preference for foreign investment as a mechanism for import of technology is beyond easy comprehension.

### FIELDS OF FOREIGN INVESTMENT

As for fields of operation the Chinese policy in principle limits foreign investment and technology-import to preferred areas, where national efforts are inadequately developed. In practice, however, a significant proportion of joint-ventures is approved (or is being contemplated) in light industries and consumer goods (see Table 4). The logic of developing consumer goods may be in conformity with marco-economic reforms, which lay emphasis on consumption rather than capital accumulation. However, indiscriminate import of foreign capital and technology in areas where technology is less sophisticated and where indigenous sources can provide viable alternatives, may not be in conformity with a technology policy with self-reliance as its cardinal point.

It is also significant to note that a large proportion of foreign investment in China has been in the Special Economic Zones (Table 5). Very recently 14 coastal cities and the Hainan Islands were opened for foreign investment, with tax concessions and other incentives as in the Special Economic Zones. These Zones provide attractive terms and comprehensive scope for flexible foreign operations. To illustrate, foreign investment in the Zones are approved, and in fact, encouraged in agriculture and allied activities. A part of the production in the Zone is allowed (in prior approved cases) to be sold in China's domestic market. In some sense, therefore, the Special Economic Zones in China are different from the generally known Export Processing Zones in other developing countries.

### SOURCE OF FOREIGN INVESTMENT

Source-wise, the origin of technology-transfer is more evenly spread than foreign investment. Needless to say, collaboration with the USSR and East European countries has been at a low key during the current phase of development. Also much of the foreign-capital inflow into China is not from the major developed market-economy countries, Hong Kong (probably overseas Chinese) appeared to be the single biggest source of origin of the foreign capital inflow into China (see Table 6). The response of multinational corporations to the liberalisation in the Chinese policy-frame has been rather slow; a relatively cautious "step-up" approach is being adopted by Western business in making long-term commitment in a socialist system. Cultural differences, compounded by the long time taken in reaching a negotiated settlement of contract with Chinese partners, are other plausible explanations.[7]

TABLE 4: INDUSTRY-WISE DISTRIBUTION OF FOREIGN INVESTMENT PROPOSALS IN 1982

| Industry | No of Projects | Total Investment (US $ 10,000) | Value of Foreign Investment (US $ 10,000) | Share of Foreign Investment in Total Projects Total (Per Cent) | No of Projects with Foreign Majority Equity | Col 6 as Per Cent of Col 2 |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Light industry | 29<br>(22.3) | 35702<br>(21.8) | 19161<br>(21.4) | 53.6 | 17 | 58.6 |
| Textile industry | 11<br>(8.5) | 8419<br>(5.1) | 3842<br>(4.3) | 45.6 | 5 | 45.5 |
| Chemical industry | 11<br>(8.5) | 25235<br>(15.4) | 12466<br>(13.9) | 49.4 | 4 | 36.4 |
| Machine building industry | 19<br>(14.6) | 38821<br>(23.7) | 26221<br>(29.3) | 67.5 | 4 | 21.1 |
| Building materials | 21<br>(16.1) | 23001<br>(14.0) | 10363<br>(14.3) | 45.0 | 6 | 28.6 |
| Meters and instruments | 4<br>(3.1) | 1960<br>(1.0) | 610<br>(0.7) | 36.0 | — | — |
| Medical apparatus | 3<br>(2.3) | 660<br>(0.4) | 260<br>(0.3) | 39.3 | — | — |
| Metallurgy | 11<br>(8.5) | 9276<br>(5.6) | 6267<br>(7.0) | 67.5 | 7 | 63.6 |
| Electronics | 18<br>(13.8) | 17758<br>(10.8) | 8620<br>(9.5) | 48.5 | 6 | 33.3 |
| Forestry | 3<br>(2.3) | 3302<br>(2.0) | 1780<br>(2.0) | 53.9 | 2 | 66.7 |
| Total | 130<br>(100.0) | 163864<br>(100.0) | 89590<br>(100.0) | 54.7 | 51 | 39.2 |

*Note:* Data relate to tentative investment project-proposals prepared by the Ministry of Foreign Economic Relations and Trade for negotiation at the Gungzshow Investment Promotion Meeting, June 7-11, 1982.

*Source:* Based on data reproduced in *China Economy and Trade*, Vol I, No 6, July 15, 1983, pp 9-11.

TABLE 5: LOCATION OF CHINESE-FOREIGN EQUITY JOINT-VENTURES: END 1983

| Regions | No of Equity Joint-Ventures | Per Cent | Value of Foreign Share (US $ 10,000) | Per Cent |
|---|---|---|---|---|
| Four special economic zones | 99 | 52.1 | 11479 | 34.9 |
| Beijing and other coastal areas | 81 | 42.6 | 20657 | 62.8 |
| Hinterland | 10 | 5.3 | 769 | 2.3 |
| Total for the whole country | 190 | 100.0 | 32905 | 100.0 |

*Source:* As in Table 1.

### SIZE OF FOREIGN TECHNOLOGY IN CHINA: AN OVERVIEW

Indeed, it is difficult to measure the overall impact of foreign technology in any country merely on the basis of the number of foreign-technology contract approvals or on the value of foreign investment. Apart from the overall size, pattern and general practices, an account of the detailed technology-contents and of operation in individual cases would be needed to delineate the impact. Nevertheless, macro-statistics do sketch out the contours of the problem. Viewed from such a limited angle, the available statistics clearly show China's rapidly raising economic transactions with the developed market economy countries during the current phase of development. Between 1979-1983 around 190 equity joint-ventures have been established and more than 1000 contractual projects under co-operative production (involving over US $ 3 billion of foreign capital) have been in operation. During the same period more than 350 contracts for technology-import (with an investment of US $ 1.8 billion) were reportedly approved by the government. China's foreign trade has grown from US $ 35.5 billion in 1978 to $ 86 billion in 1983. Its share in world export has increased from 0.75 per cent in 1978 to 1.25 per cent in 1983. Evidently, China has been looking increasingly to developed market economy countries for acquiring advanced technology, modern management practices, and investment funds for carrying out its Four Modernisations programme. Does the increasing reliance on foreign technology for Four Modernisations imply a drift away from "self-reliance" as the cardinal point in technology strategy? It will be of academic interest to reflect upon this question.

### SELF-RELIANCE OBJECTIVE IN TECHNOLOGY POLICY

The Chinese word for self-reliance is *ziligengshen*, which literally means "standing on one's own to change to a new life". The concept, which originated from Mao's operational strategy during the revolution, became the cardinal point in the development strategy in the 50s. In connotation self-reliance integrates Mao's nationalism with Lenin's theory of imperialism. In actual policy terms, however, self-reliance has never meant self-imposed autarky in China. At the same time, as an integral part of a multi-layer technology strategy, which gives priority to the use of domestic resources, self-reliance precludes massive foreign investment and unqualified import and assimilation of foreign technological inputs in socialist modernisation. Logically, the increasing recourse to foreign technology under the open-door policy, to meet the needs of Four Modernisations, needs to be evaluated in the above historic framework.

Several arguments can be advanced in defence of the open-door policy. There is no magic figure beyond which foreign capital and technology can be said to release dependence-consequences. Foreign aid and foreign investment constitute a very small proportion of the total investment in China. Foreign trade also accounts for a small share of the national income. With socialist (public) ownership of the means of production the present leadership can also claim to have the ability to avoid the dangers of technological dependence. After all, China did import a large quantum of technological inputs from the Soviet Union and East European countries during its earlier phases of development.

TABLE 6: ORIGIN OF FOREIGN INVESTMENT AND TECHNOLOGY CONTRACTS APPROVED IN 1983

| Country of Origin | Value of Foreign Investment Share (US $ 10,000) | Per Cent | No of Technology Contracts | Per Cent |
|---|---|---|---|---|
| US | 3671 | 19.5 | 46 | 21.7 |
| UK | 3602 | 19.1 | 18 | 8.5 |
| West Germany | — | — | 43 | 20.3 |
| France | 270 | 1.4 | 3 | 1.4 |
| Italy | 99 | 0.5 | 40 | 18.8 |
| Belgium | 3954 | 21.0 | 5 | 2.3 |
| Sweden | — | — | 5 | 2.3 |
| Switzerland | — | — | 2 | 1.0 |
| Canada | — | — | 1 | 0.5 |
| Japan | 989 | 5.2 | 44 | 20.7 |
| Hong Kong | 6000 | 31.9 | 2 | 1.0 |
| Australia | — | — | 2 | 1.0 |
| Newzeland | 40 | 0.2 | 1 | 0.5 |
| Others | 212 | 1.2 | — | — |
| Total | 18837 | 100.0 | 212 | 100.0 |

*Source:* As in Table 1.

TABLE 7: SOME CHARACTERISTICS OF TECHNOLOGY-IMPORT IN CAPITAL GOODS SECTOR IN CHINA

| | Total Sample | Wholly Domestic Firms | Domestic Firms with Foreign Collaboration |
|---|---|---|---|
| No of firms | 19 | 11 | 8 |
| Percentage value of equipment less than 5 years old | 14.7 | 15.6 | 14.3 |
| Output per worker in 1980 (thousand US $) | 4.4 | 3.9 | 4.6 |
| Export as percentage of sales (in 1980) | 2.9 | 6.3 | 1.8 |
| Average no of new products added in 3 years | 9.3 | 10.7 | 5.6 |
| Technical elements in licensing agreements (as per cent of total) | | | |
| a) Basic design | | | 84 |
| b) Detailed design | | | 97 |
| c) Assistance in manufacturing | | | 100 |
| d) Training | | | 100 |
| Age of design (per cent total) | | | |
| a) Upto 5 year old | | | 16 |
| b) 6-9 year old | | | 81 |
| c) More than 9 year old | | | 3 |

*Source:* Adapted from Tables 7, 8 and 10 from UNCTAD, "Technology Issues in the Capital Goods Sector, the Experience of the PRC", United Nations, 1984, UNCTAD/TT/57.

All these are valid arguments. Yet, the qualitative dimension of external transactions cannot be lost sight of. Foreign aid from the Soviet Union in the earlier phases came without any strings. Yet, the Russian withdrawal adversely affected the pace of economic development and exposed the economy to serious stresses and strains. On the other hand, when the country was consequently forced to follow a more self-reliant technology policy, it could strengthen its indigenous technological base and raise productive capacity. The remarkable achievement made by China in steel production and similar capital construction projects illustrate the dynamic strengthening of domestic technological capability nurtured under self-reliance. Modernisation does not *ipso facto* imply indiscriminate import of foreign technology.

Indeed, economic and technological exchanges between China and other countries are carried out at the formal policy level on the principle of equality and mutual benefit. Zhou Enlai's four points (*viz*, "First use, second criticise, third improve and fourth make it our own") require a process of selective importation, local adaptation and improvement of technology whereby it becomes Chinese technology and strengthens the domestic technology-base. Without a detailed analysis of the micro-behaviour it is difficult to say whether or not these principles are in fact being practised by enterprises in a political environment that overtly welcomes foreign investment and technology.

## SOME UNDESIRABLE FEATURES

There are very few studies (available in the Engligh language) which have examined in detail the working of foreign collaborations and joint-ventures in China. A recent study prepared by a Chinese scholar on technological issues in the Chinese capital goods sector *inter alia* underlines certain undesirable features of technology-import in general and joint-ventures in particular. The sample survey carried out for the study revealed the following: (1) technology import through contractual arranagement has been on the increase, (2) the secrecy clause in the contract meant multiplicity of contracts for the same technology leading to "excess" import of technology, (3) technology contracts encompassed mainly detailed designs and assistance in manufacturing and training but very few cases included basic-design transfer, and (4) technology transferred in most cases was not the most modern. The survey further revealed that wholly domestic enterprises and those with foreign collaboration did not suggest any significant differences in the type of technology used (as reflected in the age of machinery and equipment) and in relation to productivity. On the other hand, contribution of enterprises with foreign collaboration to exports and in the addition of new products was found relatively low as compared to wholly domestic enterprises. A summary view of these characteristics (reproduced in Table 7) raises doubts on the effectiveness of Chinese technology policy in making the best use of imported technology and in warding off the consequences of technological dependence.

The impression the author carried from a recent visit to some joint-ventures in China also did not suggest that the foreign-controlled firms made any serious attempt towards unpackaging, adaptation, assimilation and upgradation of imported technology. On the other hand, some wholly domestic firms, which modernised their plants and production processes by piece-meal and outright purchase of key technology—embodying designs, machinery and control equipment, were found successful not only in raising productivity and surplus generation but also in duplicating and improving upon imported technology through local R and D efforts. Such 'successful' cases were not found limited to basic industries (steel) Chinese firms engaged in the production of some consumer goods (e g, watches, motorcycles, etc) were also found to be innovative. The capability demonstrated by the wholly Chinese owned enterprises for modernisation without establishing a "dependence" relationship with multinational corporations was remarkable in many cases. It was not that the Chinese enterprises were innovators matching the American or Japanese firms. After all, the process of industrial innovation as it occurs in a socialist economy should not be judged (or "reformed") in terms of the known dynamics of a capitalist economy. Against such an impressionist background the scant attention in the current "open-door policy" towards foreign ownership control, which could dampen domestic initiatives for indigenous innovation, looked beyond easy comprehension. All facets considered, one could sense a "drift" in the connotation of self-reliance as the cardinal point in Chinese technology policy during the current phase of developement.

## CONCLUSION

In conclusion, China's commitment to fast modernisation and rapid export expansion matching that of industrialised capitalist countries has meant a liberal policy approach to foreign technology. The patterns and modalities of foreign investment and technology-transfer under the "open-door" policy however leave behind some intriguing questions. For instance, will not the Special Economic Zones as a modality for foreign investment and technology-transfer turn China into a "raw material base", "repair and assembly workshop", and "investment centre" for foreign firms and multinational corporations? Will not foreign businesses stand to profit from cheap Chinese labour and raw materials more than what the Chinese stand to gain in terms of the acquisition of 'modern' technology? Will not the casual policy approach to foreign ownership control lead to a situation (at least temporarily) of exploitation by multinational corporations and foreign-capitalists? Will not the open-door policy towards foreign capital and technology inhibit indigenous initiative for technological advance?

Clearly, there are no easy answers. China like any other developing country with a weak technological profile is in a policy dilemma. A closed-door policy implemented in a dogmatic style slackens the pace of modernisation and stalls the development of the forces of production. An up-turn towards an open-door policy, on the other hand, has the potential danger of stifling indigenous learning and of pushing the domestic economy towards technological dependence. Contradictions do arise between technological self-reliance and indiscriminate import of foreign technology. To what extent unity among these opposites can be brought about will *inter alia* depend upon the strength of autonomous forces for adaptation and innovation. It follows that effective regulation for selective import of foreign technology within the framework of "self-reliance" still remains the viable policy-option for developing countries including, China.

## Notes

1 Ma Hong, "New Strategy for Chinese Economy", World Press, Beijing, 1983, pp 12-19.

2 However, it is ignored that Mao had also qualified his support to the idea of learning from the strong points of all nations by saying that 'we must firmly reject and criticise all the decadent bourgeois system, ideology and ways of life of foriegn countries" (see, 'On the Ten Major Relations' in "Selected Works", Vol V, Foreign Language Press, Beijing, 1977).

3 This is also reflected in the trend of machinery import, which as a proportion of the total import bill rose from 15.2 per cent in 1977 to 17 per cent in 1978 and further to 26 per cent in 1979. During the period, large scale turn-key contracts (e g Baoshan Steel Complex and Nanjing Petrochemicals) were signed with 'foreign firms'. In 1978 alone contracts worth US $ 6,400 million were signed with foreign firms.

4 For a detailed listing, see "China's Foreign Economic Legilsation", Foreign Language Press, Beijing, 1984.

5 To illustrate, the organisational back-up such as the Foreign Investment Control Commission, China International Trust and Investment Corporation, Industrial Product Corporation of Ministries, etc, have been added. Provincial governments have been delegated power to directly negotiate with foreign firms and approve cases upto a value of 30 million yuan.

6 Chinese foreign exchange reserves reached the figure of US $ 11.3 billion by 1983 and gold reserves are worth US $ 3.4 billion.

7 For a detailed discussion on the negotiation bottlenecks in China, see A E I Rae, 'Talking Business in China', *China Quarterly*, No 90, June 1982.

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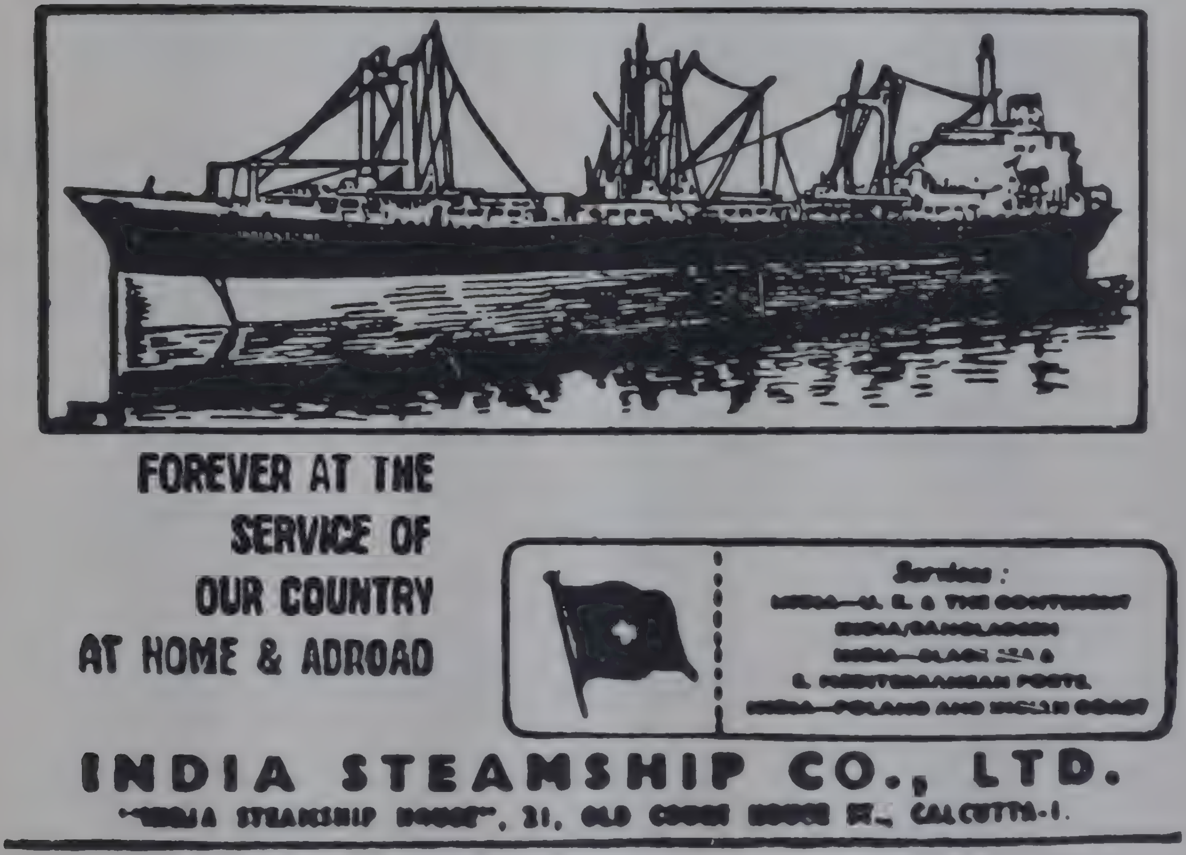
## Volatile Exchange Rates

EXCHANGE rates of heavily traded currencies continued to display marked volatility against the US dollar in April, although changes over the course of the month were small compared with the sharp monthly movements in February and March. Most currencies eased slightly against the dollar during April; the exceptions were the Swiss franc, which was unchanged, and the pound sterling and Canadian dollar, which both firmed slightly. The dollar strengthened in April by 0.45 per cent in effective terms (based on calculations of the IMF's multilateral exchange rate model) and was essentially unchanged from March against the SDR. In the 12 months through April 1985, the dollar was the only major currency to strengthen in effective terms.



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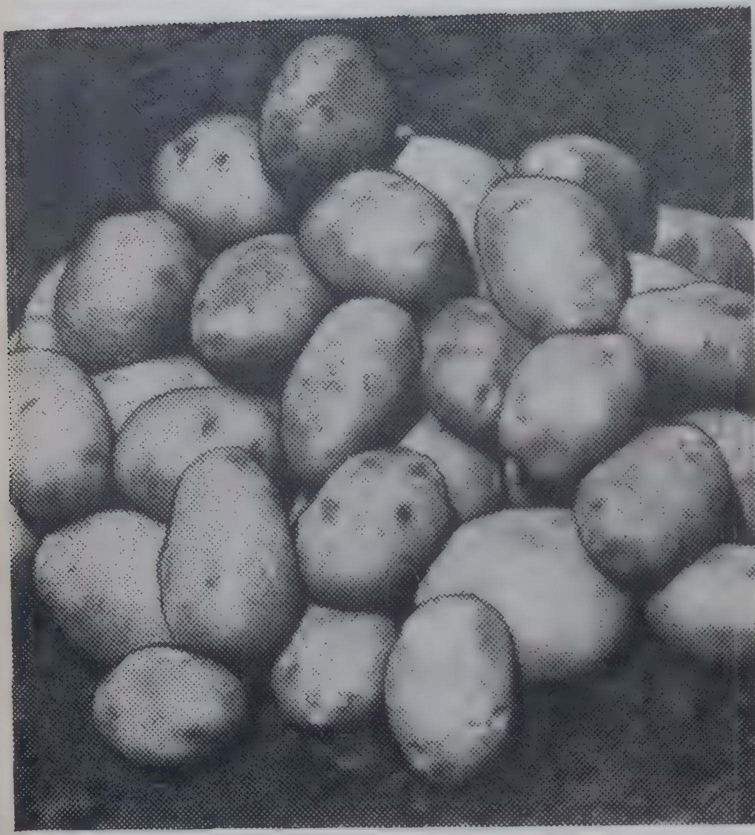

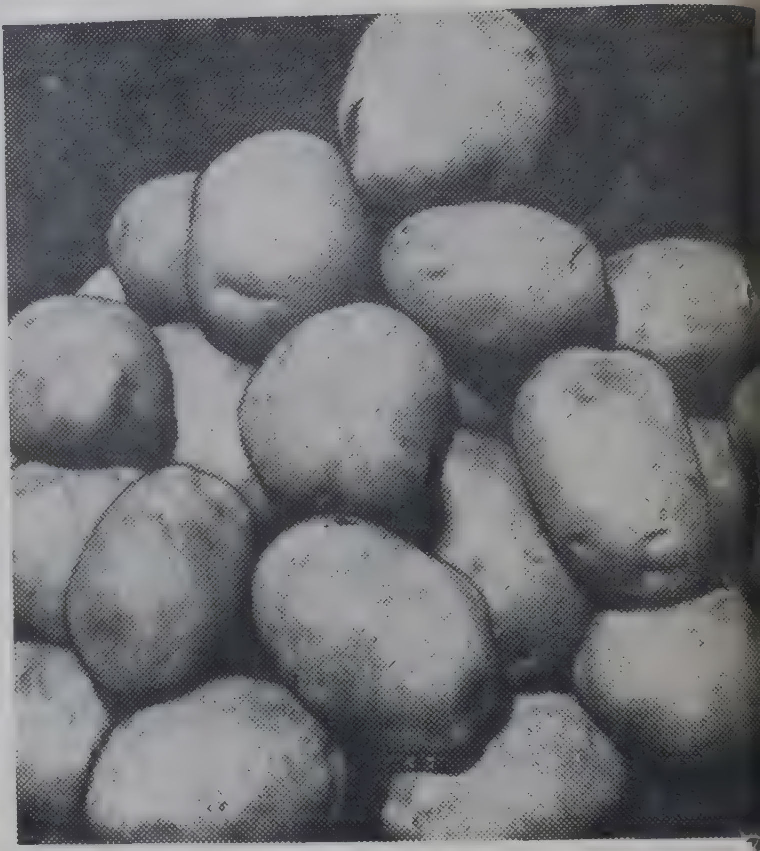

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# Troubled North-East

THE recent clashes on the Assam-Nagaland boundary between the armed police forces of the two states in which officially nearly fifty policemen as well as a dozen or so civilians are known to have died brings to the fore once again perhaps the most bitter of the many boundary disputes in the region. Barring Manipur and Tripura which were independent kingdoms, all the remaining units of the region were once part of a greater Assam whose geographical boundary extended far beyond its cultural frontiers, which properly speaking have always historically been the Brahmaputra valley and some outlying areas to the west, mainly modern Cooch Behar and adjoining areas.

The annexation of Assam in 1826 was followed by the usual British policy of forward consolidation of the borders. In that process, the Naga-inhabited areas broadly corresponding to the western parts of present Nagaland were annexed, after overcoming considerable resistance put up by the Nagas, and a 'Naga Hills District was constituted in 1866. The boundaries of that district, as any maps of the area in British accounts of the annexation of its eastern frontiers will testify to, extended well beyond the present borders of Nagaland and included areas of present-day Nowgong, Jorhat and Karbi Anglong districts of Assam.

However, in the next half a century or so of administrative and political consolidation as well as commercial exploitation of the area, substantial areas of the original Naga Hills District were 'denotified' and included in the Brahmaputra valley districts. The reasons were both administrative and political. The British entrepreneurs in the tea industry had to be granted vast tracts of land under the most generous system of land tenure; and the new railway lines that were soon to be laid to transport the tea had to be secured from Naga depredations.

Leaving aside the historical claims that Nagaland makes of the 'traditiona boundary' dating back to the days of Ahom kings of medieval Assam, Nagaland appears to have a case even if one were to take into consideration more modern times; and the denotification of these areas which as recently as a century ago were officially included in the Naga Hills District, along with the declaration o vast areas on the border as 'reserve forests' (where Assam has either been unable or unwilling to prevent encroachments of various kinds on its side, including, as people on the Assam side themselves acknowledge, of many 'foreign nationals' have always rankled with the Nagaland authorities. These long-nursed grievances have occasionally broken out in clashes, the most serious of them being those in 1972 (when, as now, the police of the two states fought pitched battles), 1979 and now in 1985.

These clashes have also exposed some of the cherished myths about the bourgeois state in general and the north-east in particular. First and foremost is the myth of that variety of national unity as is propounded by the ruling party. Both the states in the dispute are headed by Congress(I) chief ministers, as indeed are al other states and Union territories of the region except Tripura. And yet, barring Tripura, Assam has border problems with every other state and Union territory of the region. Indeed, the meeting of the Congress(I) Co-ordinating Committee of which the Assam chief minister is the chairman, held in Guwahati in the wake of the clashes, could do little but reiterate pietitudes and the briefings, if they can be called that, were apparently done by the participating chief ministers separately Further discussions in Delhi in the presence of the Union Home Minister have made little headway. The Nagaland chief minister has gone back and informed his state assembly that Assam is entirely to blame for the clashes. Hiteswar Saikia who in his turn has summoned a special session of the Assam assembly next month (July 12) may be expected to return the compliment.

It is true that going by the example of other inter-state disputes in the country (the unending bickering over the Maharashtra-Karnataka border or the prolonged disputes over waters of various rivers involving virtually all the states of the Union one sees the same pattern where all the parties to the dispute belong to the same political party. However, it would be taking the easy way out to attribute these inter-state conflicts only to the machinations of the ruling party. In the dispute over the Nagaland-Assam boundary, for instance, organisations which are apparently opposed to the Centre as well as the state governments appear to have been as belligerent and rigid as the state governments themselves. The All Assam Students Union, for instance, which refuses to 'recognise' the Hiteswar Saikia ministry, has blamed it for 'inept handling' of the issue but has not questioned in any manner the state government's version of the boundary dispute. An organisation like the Naga Students Federation which claims to be 'radical' and considers itself to be part of the struggle for achieving 'sovereignty and independence' for Nagaland has backed to the hilt the Congress(I) chief minister of Nagaland on the boundary dispute.

In other words, these border problems which are for the most part inherited from history and imperialist intervention have, instead of being resolved following the achievement of national independence, become more intractable. Further, the mere creation of a 'state', however unnatural its boundaries might be, has meant the intensification of regional and even 'national' loyalties. A positive intervention from the left through democratic struggles could have set matters right or at least helped in the easing of tensions; but the path of Indian politics has been such that mass movements in these times have almost as a rule been led by reactionary and demagogic sections of the bourgeoisie who have, often in league with and with intellectual and material assitance from imperialist agencies, shown great skills in appropriating the genuine grievances of the masses to serve and consolidate their own positions.

## *Congress(I)*

### Homecomers' Dilemma

THE Congress(S) President Sharad Pawar has, not for the first time, 'categorically' ruled out the possibility of his party joining the Congress(I) and, more to the point, of himself deserting the Progressive Democratic Front in Maharashtra and joining the ruling party. The camp of the Congress(S) that is scheduled to meet later this month in Nagpur will only be discussing the 'present political situation' and should not be seen as a platform for self-liquidation.

However, the Congress(S) President cannot complain if there is some lingering sceptism about the viability, or even the continued existence, of the Congress(S) as a separate political party. Even as Sharad Pawar was making these brave noises, the Tripura unit of his party had merged unconditionally with the Congress(I). Further, the drama that is currently on in West Bengal over former chief minister Siddhartha Sankar Ray's step-by-step entry into the ruling party is bound to have its impact on others knocking on the doors of the ruling party. It is remarkable that Siddhartha Sankar Ray has been able to involve himself, clearly against the desire of most of the local leaders of the party who for the present appear to have yielded to the behests of the Centre, in the campaign for the municipal elections in Calcutta on behalf of the Congress(I) though only months ago he had been held responsible for ruining the party candidate's chances in election for the Darjeeling Lok Sabha seat. An even more remarkable achievement has been that his impending entry into the ruling party has brought about unprecedented unity in the ruling party in West Bengal on the question of not allowing him entry. But whatever be the impact of the Ray factor on Congress(I) politics in West Bengal, it is clear that his entry into the Congress(I) is bound to affect all those 'Congress-minded persons', among whom Siddhartha Sankar Ray has modestly counted himself as just one, who too have been waiting in the wings. Surely not even Sharad Pawar will deny that many of his partymen are moved by similar public spiritedness.

It is difficult to fault the plans of the homecomers or to sympathise with their dilemma when the bitter awakening ensues. They have to calculate and time their moves to a nicety, especially in view of the uncertain state of the crisis in the ruling party. For, the break-up of the monstrous Congress(I) parliamentary party—which, despite the anti-defection law and its seeming impregnability, appears unavoidable—offers many more opportunities for those confident of gaining entry than to those who are already within. Extreme aggravation of the numerous crises in the states or an unexpected vacuum in leadership is bound to provide opportunities which can be better exploited by 'Congress-minded men' untainted by the crises that have been created by (and consumed) those already in power and office.

That the ruling party itself welcomes these elements, there can be little doubt. The overtures made at the time of the celebration of the centenary of the Congress, for all the clumsiness and lack of grace, did indicate some anxieties on the part of the leadership to secure the return of some of these 'Congress-minded men' presently outside the fold—at least to ensure that they will in their respective states curb the ambitions of the bosses who seem to be making a return in the states. The developments in Maharashtra are especially relevant and in the context of the state's politics, it can be argued that Rajiv Gandhi needs Sharad Pawar much more than the other way round at present.

## *Politics*

### Mileposts to Disintegration

WHILE Rajiv Gandhi was inaugurating the dazzling Bharat *mela* in the Paris garden to allow the Frenchmen a glimpse into the unity in the midst of diversity that is supposed to be India, India, however, took upon herself, as if perversely, the task of demonstrating to the wide world the reverse side of the medal, that is, hostilities lurking within the Indian unity. Not only did the continuing sectarian brutalities as in Ahmedabad (Gujarat), Hoshiarpur (Punjab), and Tripura assume even grosser forms, a brand new battle front was opened during this time on the Assam-Nagaland border. The exchange of fire between the armed policemen of the two states, in which rocket launchers and mortars were reported to have been used, continued for days together. Scores of lives were lost, with many more reportedly missing, hundreds of homes in the border village of Merapani were burnt down and thousands of villagers fled for their lives. The Assam chief minister was reported as having said that it was "as if a war had broken out between the two states". He does not seem to be far wrong as the cessation of hostilities was achieved only after talks between the chief ministers of the two states had been held on the neutral ground of Imphal, the capital of the neighbouring state of Manipur, through the good offices of General Krishna Rao, governor of Nagaland, Manipur and Tripura. The two chief ministers jointly recommended the induction of 'neutral' central para-military forces for 'peace-keeping' purposes. Even as the ceasefire was coming into effect, about 150 more houses were reported to have been set ablaze.

While the Congress(I) government has rushed through Parliament draconic laws to crush terrorism and quash threats to the unity and integrity of the country, it failed not only to *prevent* the mini-war between the two states ruled directly by it, but even to bring a quick disengagement once it had started, though a Union minister present in Assam during the armed clash tried her hand at peace-making.

It is rather ironic that Rajiv Gandhi was holding detailed discussions with the Egyptian and Algerian statesmen about the ways and means of ending the Gulf war when this small war was raging in his own backyard.

Implied loss of diplomatic face apart, Punjab, Gujarat, Tripura and Assam-Nagaland—all these are successive mileposts to an anarchic disintegration of the country. The Congress(I) government, keen though it is to expand its repressive powers and instruments in the name of fighting the 'forces of disintegration', does not appear to be equally effective in strengthening the real unity of the diverse streams of the Indian people. The Congress(I) Union and state governments demonstrably failed to prevent a civil war between their own units. The Congress(I) is seen to go even further in fomenting similar crises under certain circumstances. The Bhindranwale episode which played no small part in raising the Khalistan frankenstein is well known. The latest events in Tripura—another sensitive area on the international frontier—are no less pertinent in this context.

Here the Union government's actions have been guided by the narrow party-political objective of discrediting the Left

Front government headed by Nripen Chakravarty. The Tripura government has consistently held that it is not necessary to deploy the army to deal with the tribal insurgency in the state; that in fact it may prove counterproductive to do so since operations by the army would further provoke and alienate the tribals. It is also true, of course, that the CPI(M) chief minister fears that once the state passes largely under army control, the likelihood of the Centre imposing President's rule would be strengthened. Nripen Chakravarty has been trying instead to deal with the situation by using the para-military forces while at the same time working for a political solution of the tribals' grievances. The Centre while it has been on the one hand pressing upon the state government the need to use the army to contain the insurgency, on the other hand it has been prevaricating over the state's request for two battalions of the BSF. It is difficult to see what conclusion can be drawn from the Centre's attitude other than that it wants to discredit the Left Front government on grounds of its failure to contain the tribal insurgency.

Given such motivations, dazzling, even if highly expensive, displays of India's art and culture in Paris and Washington may help Rajiv Gandhi momentarily to brighten his image at home and abroad; would they, however, make any real contribution to the exercise of strengthening the fabric of Indian polity or even his own administration in the long run?

## *Sri Lanka*

### Fragile Ceasefire

*M S S Pandian writes:*

THE June 18 ceasefire agreement between the Sri Lankan government and the Tamil militants is no doubt a great relief to the civilian population in the northern and eastern provinces of Sri Lanka. However, whether a solution will be hammered out during the period of ceasefire or whether the ceasefire itself will last for the proposed period of eighteen weeks is doubtful. Already there are sufficient signs indicating that the hopes raised by the ceasefire may turn out to be short-lived.

As of now, the Sri Lankan government has not proposed sufficient concrete steps towards resolving the Tamil question. The only suggestion that has been spelt out so far by the government is that greater autonomy will be given to the Tamils at the district councils level. But the Tamils are demanding more power at the provincial level and that too by treating both the northern and eastern provinces as one unit. The refusal of the All Party Conference convened by the government, to consider this demand of the Tamil United Liberation Front (TULF) led to breakdown of negotiations in the past. In fact, the National Security Minister Lalit Athulatmudali has reiterated that the northern and eastern provinces will not be treated as a single unit of administration. Hence, it is doubtful whether any meaningful negotiations can be resumed.

The statements made by Athulatmudali following the ceasefire also give rise to doubts about the real intentions of the Sri Lankan government. Describing the Tamil militants as "some foolish young men who had decided to take up arms", he stated that the Liberation Tigers of Tamil Eelam (LTTE), the largest of the Tamil militant groups, had agreed to the ceasefire because of the military setbacks suffered by it of late. This has been strongly contested by the LTTE. One does not know whether the uncalled-for remarks of the National Security Minister are an indication that the militants will not be granted political status by the government and ignored as partners in the proposed negotiations. The issue is complicated because the TULF is categorical that it will not participate in any negotiation unless the militants are also invited. Further, Athulatmudali has claimed that there are 35 militant groups operating in the island and if any group violates the ceasefire, the troops will take counteraction. But only five of the groups are party to the ceasefire agreement. Given the ability of the Sri Lankan army to brew trouble and blame the Tamils for it (as they did in Karaitivu in April 1985) one has to wait and watch if the ceasefire will last for the agreed period.

More importantly, the powerful Buddhist clergy in Sri Lanka is unlikely to cooperate in the search for a meaningful solution to the Tamil problem. It is demanding that in any negotiation on decentralisation of power, powers relating to land colonisation and education must rest with Colombo. In fact these two are the very issues which led to discontent among the Tamils. The Tamils feel that the present admission system at the level of higher education is loaded against them. Also, the efforts by the government to settle Sinhalese in Tamil-dominated areas have been violently resented by the Tamils. One may recall that in November 1984, the Tamil militants raided the Kent and Dollar farms, kiling a number of newly settled Sinhala ex-convicts. The opposition of the Buddhist clergy to any change in the educational and colonisation policy of the government may prove to be a major stumbling block in finding a solution.

One factor that may force the Sri Lankan government to meet some of the demands of the Tamils, at least temporarily, is the deplorable state of its economy at present. The defence budget in 1985 is estimated at SL Rs 5.6 billion or as much as over seven times the amount spent in 1977. This rocketting expenditure, used essentially to fund the escalating battle against the Tamil militants, is severely straining the govrnment's resources. Then again, the decline in the international tea price is already telling on Sri Lanka's foreign exchange inflow. The island's tourism industry, another important avenue of foreign exchange earning, has been severely crippled by the conflict. It is forecast that the current year's trade deficit will be twice last year's which itself was $ 65 million. Thus Sri Lanka needs increased aid from western donor countries. Unless convincing progress is made by the government in solving the island's internal strife, the donor countries seem unwilling to respond positively to its financial needs. It is worthwhile to note here that on June 19, i e, a day after the ceasefire was enforced, Sri Lanka asked the donour countries to step up foreign aid on the strength of the ceasefire agreement.

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# Running Wild

THE stock markets in India are making history. Never before in living memory have they been known to have moved so fast in a bull or bear campaign. The rise in quite a large number of scrips in the 'specified' as well as 'other securities' list could well be described as spectacular and staggering. The current upswing started about the middle of November and by June 21, the *Financial Express* equity price index for Bombay had risen by 82 per cent and the all-India index by 75 per cent. This rise far exceeds the total rise recorded during the past four years—1981 low to 1984 high—the Bombay index having moved up by 64.7 per cent and the all-India index by 47.7 per cent.

The markets have come a long way since the middle of November but still they show no signs of weariness. Despite the phenomenal rise that has already taken place, the upward trend have got considerably accelerated over the past few weeks. Since the beginning of June alone, the Bombay index has gone up by 18.6 per cent (against 18.96 per cent in the whole of 1984) and the all-India index by 17 per cent.

There has thus been no let-up in the bullish fervour which has, in fact, acquired a new dimension with the bullish mania spreading to non-specified securities. Rigorous margins enforced by the stock exchange authorities at the instance of the Union Finance Ministry have failed to produce the desired impact of restraining speculative activity or checking the runaway boom in equity prices. Speculators have diverted their attention to 'other securities'. While the code of conduct prescribes that transactions in these shares are to be strictly on the basis of actual delivery, an overwhelmingly large proportion of the business is being currently transacted on a speculative basis. The stockbroking community has its own ingenious ways of recording transactions which, though speculative in nature, can pass as conforming to the rules of the game. One can scarcely find fault with the trading community when the government itself has permitted carry-forward facilities in respect of the 'specified' group of shares, reducing the official ban on forward trading to a complete farce.

The stock market's unbounded optimism reflects essentially its firm conviction about the dawn of a new era for the private sector. The policies initiated and implemented by the government headed by Rajiv Gandhi have infused a lot of confidence among the investing classes. Captains of industry are inclined to the view that the policies pursued by the government will lead to a substantial transformation of the country's economy. Rajiv Gandhi's recent foreign tour has raised high hopes about the massive inflow of foreign capital and technology in course of time which is expected to help accelerate the economic tempo.

New Delhi can have no sound reason for feeling unduly concerned over the runaway boom in equity prices. All it has to do is to abolish the capital gains tax which is coming in the way of financial institutions, as also other big investors, unloading their shareholdings in bigger volumes in the market. The proportion of institutional holdings has been increasing year after year. Despite the spectacular rise in equity prices which has lifted the prices of several shares far above their book value, institutions are reluctant to sell their holdings because of the incidence of capital gains tax. The sale of shares at the current high prices would not only strengthen the resources position of the financial institutions but also help broad-base shareholding which has much to commend it.

The unprecedented boom on the stock exchange has made a strong impact on the capital market. The new issues market has turned remarkably buoyant. Instances abound where new issues start commanding premiums immediately after their announcements and not unoften a fairly large volume of business is transacted unofficially before the shares are listed on the stock exchange. While investors have shown marked preference for new issues by the existing companies with a proven track record, issues even by new entrepreneurs have evoked fairly good response. With the shares of listed companies quoted substantially above their book value, let alone face value, it is quite natural that investors should respond to new issues by these companies in a big way when these are offered at par or at modest premium.

Most of the issues promoted by established companies of repute have evoked overwhelming response and all the issues are currently commanding fancy premiums. The recent issue of 34 lakh equity shares of Kinetic Honda Motors has set a new record, the issue to the Indian public having been oversubscribed by 150 times and that to non-resident Indian by over 50 times. The share of the face value of Rs 10 is unofficially commanding a premium of over Rs 100. The overwhelming response to new issues, especially of existing companies, is a measure of the volume of investible funds with the public as also of the prospect of making quick and sure money.

## *New Issues*

### Questionable Ways

THe success of issues (equity or debenture) by well-managed companies has never been in doubt even when the capital market was not in very good form. Considering the unprecedented boom the stock market and the capital market are currently enjoying, it is rather surprising that even highly reputed companies should deem it necessary to make exaggerated claims in their advertisement/publicity campaigns or resort to questionable methods in marketing their new issues. Two instances merit attention—the non-convertible issue by Reliance Textile Industries and the equity-linked debenture issue by 20th Century Leasing.

Reliance is offering 15 per cent Rights secured redeemable non-convertibe debentures of Rs 100 each at par aggregating Rs 100 crore. Under the present guidelines, the company can retain upto Rs 150 crore collected by way of subscriptions to the issue. Reliance has made corporate history in that no other company has achieved the kind of phenomenal growth it has. Currently, it ranks number three amongst all Indian companies in terms of sales turnover, capital employed and gross profit. No other company has rewarded its shareholders, deposit holders and debenture holders the way Reliance has done. The success of the proposed debenture issue is a foregone conclusion. Even so, the company has deemed it necessary to issue private placement application forms. This is understandable enough. The management has apparently no intention of going in for additional investment in debentures accruing by way of rights. Also, the public is being given the opportunity of joining the Reliance family by subscribing to debentures. But what is one to make of the circular issued by a stockbroker handling the private placement of the Reliance debentures which states "we shall pay you sub-brokerage at the rate of 1.5 per cent of the face value of debentures applied by you irrespective of allotment which means whether you get the allotment or not you are entitled for sub-brokerage. The sub-brokerage will be paid as soon as we receive the statement from the company." The circular further states that "an investor who is investing in debentures now is entitled for 15 per cent per annum, i e, 1.25 per cent interest per month and 1.5 per cent sub-brokerage. If refund is made within two months your return will be four per cent for two months investment and if you get allotment you will get some premium in the market." The company cannot be unaware of the kind of canvassing the brokers are doing to promote investment in its debentures. Should not a company of RTI's repute discourage such unethical practices? RTI debentures do not require any additional incentives.

Take again, the equity-linked debenture issue by 20th Century Leasing—simultaneous allotment of two equity shares of Rs 10 each at a premium of Rs eight for each debenture of Rs 100 carrying an interest of 13.5 per cent per annum. Managed by a team of well-qualified competent and dedicated professionals, the company has achieved highly impressive growth over the past three years— gross assets leased up from Rs 7.41 crore to Rs 21.45 crore, revenue up from Rs 1.63 crore to Rs 5.56 crore and gross profit up from Rs 1.16 crore to Rs 3.56 crore. The company enjoys unquestioned leadership in the leasing industry. With the company's share quoted at around Rs 68 ex-bonus (the only leasing company in India to make a two-for-five bonus issue after going public), there can be no question whatsoever about the rights-cum-public equity-linked bonus issue evoking excellent response. Why does a company of such high repute have to advertise that the proposed issue offers "infinite" return on the altogether specious plea that the holder of one debenture and two equity shares whould have recovered his full money (Rs 136) by the sale of two equity shares immediately after allotment, though he would still be getting a return on his debenture. The return without any "net investment"—the money originally invested has been fully recovered from the sale of two equity shares—has been termed as "infinite". This is a statistical absurdity. What has been termed as "infinite" by the company is very finite. The debentures are redeemable in five equal instalments after the expiry of the fifth year. The total money that will accrue to the investor who takes up one debenture and two equity shares under the stipulated option (sale of two shares on allotment) will be Rs 136 plus Rs 100 (being the value of the debenture) plus interest on this debenture which will be less and less as the debenture gets redeemed. It does little credit to a professionally managed company to promote concepts which cannot stand close scrutiny. That the company's equity-linked debenture issue is indeed very attractive will be readily conceded.

## *Steel*

### Unpretty Picture

EVEN the most optimistic official projections show that the domestic output of steel will continue to fall short of demand in the Seventh Plan and beyond. According to the annual report of the Ministry of Steel, Mines and Coal for 1984-85 the output of saleable steel in the country is expected to increase by 45 per cent from 9.19 million tonnes in 1984-85 to 13.02 million tonnes in 1989-90. This will fall short of the likely demand of 13.86 million tonnes in 1989-90 worked out by the Seventh Plan working group on the iron and steel industry.

What is worse, looking at the trend so far, even the projected output of 13.02 million tonnes may not materialise by 1989-90. The achievement of the targeted level of output would largely depend on the performance of the public sector steel plants under SAIL which account for 80 per cent of the output of steel by the integrated steel plants in the country. The production of steel by SAIL plants dropped from 5.65 million tonnes in 1981-82 to 4.77 million tonnes in 1983-84. It increased to 5.41 million tonnes in 1984-85, but still failed to catch up with the previous best level achieved in 1981-82.

The measures mentioned to achieve the target are expansion of the Bhilai and Bokaro steel plants to four million tonnes capacity each, setting up of the 3.25 million tonne capacity Visakhapatnam steel project, modernisation of the Durgapur and Rourkela plants and creation of captive power capacities at Bokaro, Durgapur, Rourkela and Bhilai. These schemes are not, however, backed up by adequate financial allocations to ensure their timely implementation. For instance, funds are yet to be provided for the modernisation programmes of the Rourkela and Durgapur plants. For the Visakhapatnam steel project, only a meagre sum of Rs 215 crore has been approved for the current year. At this rate, the project is not likely to be commissioned by the end of the Seventh Plan period. Bhilai steel's 3×60 MW captive power plant still continues to be at the planning stage only.

Recently, the government has decided to reduce the allocation for steel in the Seventh Plan to Rs 8,500 crore from the Rs 13,141 crore recommended by the working group on steel in view of the acute scarcity of resources. Within this revised overall outlay of Rs 8,500 crore, the plants under SAIL are expected to receive a share of about Rs 4,500 crore, if ther is no further cut in the allocation for the steel sector.

Even the immediate outlook is no better. With a pick up in the demand for steel, not matched by adequate increase in output, the demand-supply gap is expected to widen in the current fiscal year, necessitating huge imports. While the demand for steel had declined by nine per cent to 9.01 million tonnes in 1984-85, it is expected to spurt by 26 per cent to 11.35 million tonnes in 1985-86, according to official projections. Thus while the demand for steel is expected to increase by 2.34 million tonnes in 1985-86 over the previous year, domestic production is projected to rise by only 1.07 million tonnes to 10.26 million tonnes.

The pick up in the demand for steel is evident from the depleting stocks with the main producers (SAIL and TISCO). Stocks, including those of imported steel, declined to 6.41 lakh tonnes as on April 1 from 9.35 lakh tonnes a year ago. The stocks with the main producers had increased by 45.5 per cent to 16.65 lakh tonnes as on April 1, 1983 from the level of 11.77 lakh tonnes a year earlier.

Sometime back the Joint Plant Committee and SAIL had estimated that the country may have to import about 1.2 million tonnes of steel in 1985-86 at a cost of Rs 1,000 crore at current domestic prices. However, to avoid a situation of scarcity, the government has recently decided to import 1.7 million tonnes of steel during the current fiscal year. This decision was taken by an inter-ministerial committee which has been specially constituted to closely monitor and authorise steel imports. The foreign exchange outgo on steel import of 1.7 million tonnes is expected to be around Rs 1,400 crore.

Thus the situation is changing from one of glut two years ago to that of scarcity, notwithstanding the recent hikes in steel prices effected by the JPC. To improve supplies, there is an imperative need to create new capacities expeditiously apart from making optimum use of the existing capacities of SAIL plants. Though the overall capacity utilisation of SAIL plants improved to 76 per cent in 1984-85 from 68 per cent in 1983-84, it was still less than the 81 per cent achieved in 1982-83.

# STATISTICS

| **Index Numbers of Wholesale Prices** (1970-71 = 100) | Weights | Latest Week (8-6-85) | Variation (Per Cent) Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85++ | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| All Commodities | 1000 | 355.2 | 1.5 | 6.7 | 2.8 | 7.0 | 9.5 | 2.6 | 9.3 |
| Primary Articles | 417 | 332.4 | 1.9 | 3.4 | 3.2 | 4.8 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 313.7 | 3.4 | 6.3 | 5.5 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 305.9 | −1.3 | −2.6 | −1.5 | 2.3 | 15.1 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 562.5 | 1.2 | 9.1 | 1.4 | 2.6 | 7.6 | 7.5 | 20.7 |
| Manufactured Products | 499 | 339.0 | 1.1 | 8.9 | 2.9 | 6.0 | 8.7 | 0.6 | 5.2 |

| **Cost of Living Index** | Base | Latest Month | Variation (Per Cent) Over Last Month | Over Last Year | Over March 1985 | In 84-85 | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| For Industrial Workers | 1960 = 100 | $594^{4}$ | 1.4 | 6.3 | 1.4 | 6.4 | 12.6 | 7.8 | 12.5 |
| For Urban Non-Manual Employees | 1960 = 100 | $540^{3}$ | 0.7 | 6.9 | — | 8.1 | 10.3 | 8.0 | 11.9 |
| For Agricultural Labourers | July 60 to June 61 = 100 | $518^{4}$ | 0.2 | 1.6 | 0.2 | 0.2 | 11.4 | 5.2 | 12.4 |

| **Money and Banking** | Unit | Latest Week (7-6-85) | Variation Rs Crore (Per Cent in Brackets) Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85++ | In 83-84++ | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| Money Supply ($M_3$) | Rs Crore | 1,04,618 | 1,292<br>(1.3) | 15,006<br>(16.7) | 3,276<br>(3.2) | 15,443<br>(18.0) | 13,031<br>(17.9) | 10,115<br>(16.1) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 53,454 | 1,519 | 9,983 | 4,489 | 8,460 | 5,757 | 4,748 | 4,965 |
| Bank Credit to Commercial Sector | Rs Crore | 70,658 | 326 | 9,701 | 1,219 | 9,447 | 8,830 | 8,247 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 2,819 | −507 | 1,589 | −180 | 1,419 | −104 | −977 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 73,419 | 891<br>(1.2) | 11,422<br>(18.4) | 2,233<br>(3.1) | 10,590<br>(17.5) | 8,550<br>(16.4) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets** | Rs Crore | 6,739 | −508 | 1,412 | −222 | 1,463<br>(26.6) | 943<br>(20.7) | 911<br>(27.2) | −1,468<br>(−30.4) |

| **Index Numbers of Industrial Production** (1970 = 100) | Weights | Latest Month | Average of Months* 1985 | Average of Months* 1984 | Variation (Per Cent) In 1985++ | In 1984++ | In 1983 | In 1982 | In 1981 |
|---|---|---|---|---|---|---|---|---|---|
| General Index | 100.00 | $213.1^{3}$ | 207.1 | 200.3 | 3.4 | 6.6 | 4.5 | 4.5 | 9.3 |
| Basic Industries | 32.28 | $267.5^{1}$ | 267.5 | 247.1 | 8.3 | 11.7 | 5.5 | 8.0 | 14.5 |
| Capital Goods Industries | 15.25 | $217.4^{1}$ | 217.4 | 223.7 | −2.8 | 9.2 | 4.3 | −0.9 | 8.1 |
| Intermediate Goods Industries | 20.95 | $172.1^{1}$ | 172.1 | 162.0 | 6.2 | 1.7 | 7.9 | 1.9 | 3.7 |
| Consumer Goods Industries | 31.52 | $174.5^{1}$ | 174.5 | 172.4 | 1.2 | 1.3 | 0.4 | 5.8 | 8.2 |
| Durable Goods | 3.41 | $209.2^{1}$ | 209.2 | 178.7 | 17.1 | 13.0 | 0.1 | 3.6 | −0.1 |
| Non-Durable Goods | 28.11 | $170.3^{1}$ | 170.3 | 171.6 | −0.8 | 0.5 | 0.5 | 6.5 | 9.3 |

| **Foreign Trade** | Unit | Latest Month (March 85) | Cumulative for* 1984-85+ | Cumulative for* 1983-84+ | 1984-85 | 1983-84 | 1982-83 | 1981-82 | 1980-81 |
|---|---|---|---|---|---|---|---|---|---|
| Exports | Rs Crore | 951 | 11,297 | 9,872 | 11,297<br>(14.4) | 9,872<br>(10.8) | 8,908<br>(14.2) | 7,803<br>(16.3) | 6,711<br>( 3.9) |
| Imports | Rs Crore | 1,414 | 16,485 | 15,763 | 16,485<br>(4.6) | 15,763<br>( 9.8) | 14,356<br>(5.0) | 13,671<br>( 9.2) | 12,524<br>(40.6) |
| Balances of Trade | Rs Crore | −463 | −5,188 | −5,891 | −5,188 | −5,891 | −5,448 | −5,868 | −5,813 |

| **Employment Exchange Statistics** | Unit | Latest Month (March 85) | Cumulative for* 1985 | Cumulative for* 1984 | 1984 | 1983 | 1982 | 1981 | 1980 |
|---|---|---|---|---|---|---|---|---|---|
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,744 | 23,744 | 22,603 | 23,696<br>(7.9) | 21,953<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) |
| Number of Registrations | Thousand | 454 | 1,362 | 1,681 | 6,439<br>(−1.8) | 6,555<br>(11.8) | 5,862<br>(−6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) |
| Number of Vacancies Notified | Thousand | 49 | 150 | 162 | 734<br>(−11.4) | 828<br>(1.0) | 820<br>(−8.4) | 895<br>(6.6) | 840<br>(−4.1) |
| Number of Placements | Thousand | 29 | 86 | 101 | 406<br>(−16.5) | 486<br>(2.5) | 474<br>(−6.1) | 505<br>(5.2) | 480<br>(2.6) |

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* For current year upto latest month for which data are available and for corresponding period of last year.

** Excluding gold and SDRs.

+ Variation in current year upto latest month for which data are available over corresponding period of last year.

+ + Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript$^{1}$ indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

# Dimensions for External Activity

**Romesh Thapar**

WHEN Rajiv Gandhi suddenly makes up his mind to play at being Chairperson of the non-aligned and declares his intention to do something about the never-ending Iran-Iraq war, and his country's relations with neighbours, a lot of people in the region imagine that a bright new era is opening. Very soon, however, the whole exercise dissolves into its PR dimensions. No scenarios exist for action on the ground—not even after the latest diplomatic tour.

Whatever the situation, there is a patriotic symphony for ever playing the theme that Pakistan is going to invade India in 1985, nuclear bomb *et al*, something to punctuate the dull refrain about 'foreign hands' dabbling in our problems and the growing threats to national security. There are our Tamilian *netas* calling on India to send the army to save their brethren in Sri Lanka, with lesser fry burning copies of journals which expose our involvements in terrorist activity and training. And there is none other than the experienced Atal Behari Vajpayee getting excited sometime ago about the defence of the fence of barbed wire that Indira Gandhi was busy erecting on the Bangladesh border. Then there is Hinduist Karan Singh for ever moaning the absence of mythical heroes to defend Bharat from her enemies.

This picture in India is matched by the prancings and posturings of the rulers of Pakistan, Bangladesh and Sri Lanka—melodramatics from the weak which are punctuated by offers of co-operation, collaboration and consensus. Pakistan is vivid in its offers of no-war pacts, mutual inspection of military establishments along the border, and force reduction. Bangladesh tries to convince itself that such hate campaigns compel concessions. And Sri Lanka mixes ethnic threats and genocide with love calls. India needs to take the positive offers at their face value, but tends to dismiss them as tactics aimed at playing for time.

Rajiv Gandhi, back from the red-carpet receptions in foreign lands, may now realise that there are dangers in the situation because the rulers of this southern part of Asia are part of a wide democratic turmoil—yes, a turmoil embracing even the military dictatorships. The tendency to exploit neighbourhood suspicions and tensions is strong, because the surge of popular emotion diverts attention, creating and consolidating supportive voting. We should not push these dangers aside because, in a strange kind of way, a number of 'situations' in South Asia are beginning to coincide. And South Asia is a strategic sphere of influence.

In a sense, it is India that has the most to gain from border tensions—and it is India again that has to take the initiative to defuse the trend towards verbal and physical confrontation. This is the meaning of being a responsible 'major power', and not what the scribblers ('experts and non-experts) supporting the arms bazaar would have us believe. It is taking a long time for any organised section of our political life to challenge the bally-hoo that parades as defence expertise in this country.

It is necessary, again and again, to stress the basic foreign policy objective for this country—to move towards viable *detentes* with our neighbours, assuring them by thought and action that the size of India and its present power will never be used against them. Only then will we be able to insulate the region from the international arms bazaar, and begin an overdue demilitarisation. The cost of our defence budgets must be cut if we are serious about our economic problems and our political stability. This may sound irrelevant just when Rajiv Gandhi has been active in the arms bazaar, but he too will realise that apparently plentiful resources can soon disappear in seeking military muscle.

The gentlemen in our Foreign Office are far from such an understanding. Their thinking is very, very short-term, designed to please the political order of the moment, and totally oblivious of perspectives. The newspaper commentaries are equally childish, for they represent by and large the *gup-shup* picked up over coffee sessions in the quiet retreats of the Foreign Office. An unfair judgment? I really don't think so. And I have reason to say so.

If our policy planners see *detentism* as defeatism and are committed to an India that is determined to assert a significant presence in the region, a presence linked to the global spheres of influence which represent a balance of awesome power, then a proper structuring of thought and action in the Persian Gulf area, and in the strategic region of the Indian Ocean, is urgently called for—together with contingency planning for precise interventions in certain situations or crises. At the moment, we are even uncertain about responses over a Pakistani nuclear gadget, a possible Bangladeshi deployment of naval craft received from China, a Sri Lanka blockade of free movement on the seas and a host of other minor manoeuvrings by our neighbours. In a sense, we have been diplomatically defeated, despite the offical prattle.

These matters cannot be left to dubious 'defence experts', journalistic hawks, lobbyists of arms manufacturers and a bunch of retired military and civilian officers who are always present at so-called seminars to air their views with a kind of know-howism that is becoming very suspect. Our neighbours do take fright at the sentiments which dominate these rather repetitive meetings, and nothing can assure them of the irrelevance of this activity.

Basically, whatever the posturings at the level of ruling coterie, or among those publicists who desire to be recognised by the coterie, the country remains largely interested in finding realistic solutions to the problems that act as irritants and tensions-makers in our relations with our neighbours. This is not to say that India lacks the capacity to break the back of any aggression, but to stress that the problems of development and the search for the weapons to dissolve poverty are assuming greater importance in the consciousness of the people. They should in Rajiv Gandhi's mind too.

We speak of many gulfs that have developed during these 38 years of freedom, but few refer to the gulf in perceptions between the rulers and the ruled. Bankrupted and corrupt politicians naturally try to rouse emotions on issues which spark patriotic fervour, but it is possible at last to blunt these tactics and to return the national debate to more vital priorities. When the proper dimensions of our external activity are spelled out, and acted upon, many strange tangles and phobias will lift from the minds of the people of the region.

To this extent, India's role is crucial. We have to see the continuities of our foreign policy, and even as Chairperson of the Non-Aligned Movement open our options to them. To do otherwise would be a commentary on how the commitment to national interests has been submerged by the obsession with image-building, dynasty-making and diplomatic horse-trading. India is not taken seriously any more because the perspectives are not clear. When will we see the facts as they are?

*June 21.*

# Making Third World Pay for Overvalued Dollar

ISG

IF dollar has to stay overvalued, let us impose an import surcharge. That is the conclusion of the Morgan Guaranty economists. The US Congress has already passed a non-binding resolution urging the President to consider imposing a surcharge on Japanese imports.

This shows that even those who are convinced about the substantial overvaluation of the dollar have more or less reconciled themsleves to the view that a major rectification, however desirable, is not practical. Not in the near future, in any case.

Those who talk of practicality have generally in mind the Reagan Administration's stance strongly disapproving of intervention in the foreign exchange market to bring down the dollar. This is the stand the US took at the Bonn Summit.

Of course, the public stand against intervention is no doubt couched in ideological terms. The free market always is the best judge. Really, however, the present stand of the US Administration can easily be shown to be in support of its domestic economic policy. But first let it be made clear that its ideological commitment to free market is as deep or strong as US domestic interests permit. This becomes fairly obvious in the area of foreign trade. The proportion of US imports covered by various non-tariff restrictions, including voluntary restraints informally agreed to by exporting countries, has increased during the five years of the Reagan Administration and will probably increase further in the remaining three years.

But one must also not lose sight of the more important compulsion under which the present US Administration operates and which almost compels it to keep the dollar overvalued. When George Shultz, the US Secretary of State, told his audience at Princeton University that the strong dollar was "altering the character of the American economy in a basic and undesirable way" and that "we cannot count on attracting adequate funds [from abroad] indefinitely" to finance the huge US trade and budget deficits, he was probably distancing himself from the Administration's economic policies. At the same time, one cannot escape noting that the overvalued dollar is the principal instrument of economic policy being employed for covering the country's massive budgetary and trade deficits. In fact I personally subscribe to the view that whatever its public stance, the US is, in reality, deliberately manipulating, and, in that sense, intervening indirectly in, the foreign exchange market and for this purpose the US is making frequent use of its interest rate policy very effectively. I am, therefore, not at all certain that the present US Administration will stand on its so-called ideological grounds with regard to direct intervention in the foreign exchange market, should such intervention become necessary.

This brings me to the other aspect of practicality I started with. Although it is true that the US economy has, in recent years, performed better in terms of both growth and employment than the economies of Western Europe, it is often overlooked that even in the US employment in manufacturing has not been expanding and that it has lately started declining. This phenomenon is attributed principally to the loss of US competitiveness and consequential expansion of imports on the one hand and contraction of exports on the other.

There is today no segment of US industry which does not complain bitterly of the loss of domestic as well as foreign markets to foreigners, thanks to the overvalued dollar. George Shultz was only reflecting the growth of this sentiment, just as did the US Senate when, the other day, it tagged on a rider to the foreign aid appropriations bill—which, incidentally, carries further the Reagan Administration's tilt towards security assistance as distinct from economic assistance—urging the President "to take steps to help reduce the dollar's value" in the foreign exchange market.

Still, given the Regan Administration's commitment to high defence spending on the one hand and no enhancement of tax burden on the other—note the revenue neutrality of the Administration's tax reform package unveiled a few weeks ago—it does make practical sense when someone suggests that as an alternative to devaluation of the dollar—and this will have to be substantial in order to have an impact on the US competitive position—let there be an import surcharge. The point is not whether in theory import surcharge is preferable to devaluation but that, given the situation in which the US is placed today, it appears to be a distinct possibility that the present Administration will opt for the import surcharge.

If this happens, the burden of this surcharge will, I strongly suspect, fall more on Third World exports to the US—for precisely the reasons that the developed countries in general have, in the past, clamped down most heavily on Third World exports in order to protect their industries. While three-fourths of developed country imports of textile and garments emanate from within the developed countries, all non-tariff restrictions apply to imports from the developing countries. Even with regard to the US import surcharge, it is not unlikely that arrangements will be worked out to exempt, partially if not totally, imports from countries with power to retaliate. Only the Third World countries will have to contend with one further handicap.

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# Right to Invite Foreign Scholars

### A G Noorani

THE curbs on the visits to India of foreign scholars is now a decade and a half old. Its absurdities are known to all who are concerned with the matter. The lay public knew little of the petty curbs, pettily executed. They did the name of India no good. Devsagar Singh's report in *Indian Express* of June 7, ought to bestir our civil liberties bodies and indeed citizens who take an informed interest in civil liberties: "The Government of India has put new restrictions on the appointment of foreign nationals in Indian universities, their research programme and movement into sensitive areas. All the universities have been asked to keep a strict vigil on their activities and implement the guidelines of the government strictly."

He amplified: "Appointments of foreign nationals could be made only in very exceptional circumstances after obtaining prior clearance of the government . . . Even for inviting a foreign scholar as visiting professor, universities will now be required to obtain prior permission of the government."

Nor is this all. "In case a university proposes to organise an international seminar or symposium, it will have to furnish to the government a detailed note on the theme of the conference, level of participation, name of the countries and their scholars as also the source of funding. The government will have the right to refuse permission."

Subjects like defence, "themes which are politically sensitive" and the like are barred as subjects for research. If foreigners come on a tourist visa they must not conduct research. Lastly, "foreign scholars have also been debarred from delivering any lecture or talk on topics of controversial nature".

Let us take this last directive to begin with. Presumably a Judge of the US Supreme Court visiting India will not be allowed to deliver a talk explaining the Bakke case, on positive discrimination in favour of the Blacks and its aftermath because it might have a bearing on the "politically sensitive" issue of reservations. Nor may he speak on Federal-State relations—also a "politically sensitive" issue.

So much for the casual solitary lecture—what to speak of a series of lectures sponsored by an endowment or a university. Rise further in this ladder of state control of knowledge and you find curbs on seminars, or invitation to or appointment of foreign scholars which make a mockery of the autonomy of universities, flout the country's democratic values and expose the hypocrisy of those who ceaselessly quote Gandhi and Tagore on letting winds from all sides blow freely over our land, trusting one people freely and wisely to choose by themselves, what they think is good for them.

Of course, a CIA which has misused students and academics and academics who have lent their services to the CIA will continue their nefarious activities. There are alas no such exposures of the KGB's ways in the Russian press. That Russian journalists and academics are state propagandists needs little emphasis. The cause of civil liberties is not promoted by denying realities. It is not espoused by the ignorant or the naive. It is best espoused by grappling with the harsh facts of life and yet standing firm by the values of freedom. Our intelligence agencies' failures should not be visited on Indian institutions or the Indian citizen. India should not opt for a closed society. It should ginger up the intelligence services competently to perform their task should any visitor abuse the country's hospitality and indulge in espionage or resort to disruptive activity. It is an equally notorious fact of life that our authorities' definition of 'disruptive activity' is any activity which does not accord with its policies as distinct from the interests of the country—for instance, a lecture on Centre-State relations the world over which exposes New Delhi's usurpation of power by contrast.

Any number of foreigners are allowed the use of the place and even granted government hospitality at the tax-payers' expense—provided they applauded the regime of the day or traduced its domestic opponents. The idiots in the British Labour Party who came here as state guests and applauded the emergency are good examples. Indira Gandhi would not have minded that prize idiot of them all, Michael Foot, going all over the country freely. The authors of that trash "Freedom at Midnight", Collins and Lapierre, were given all facilities. Indira Gandhi's close advisers helped Seymour Hersh who libelled Morarji Desai. But, but, what reception would be accorded a jurist who comes to study the collapse of the country's constitutional system during the emergency?

It is pointless to lament inequity. It is important to stress the legalities—the citizen's right to know, to receive knowledge and information. It is an integral part of his fundamental right to freedom of speech and expression, Article 19(1)(a) and of his right to personal liberty (Article 21). The state has no more right to impose a blanket ban on foreign scholars than it has to impose a blanket ban on foreign literature—books, magazines, newspapers, the lot. The right belongs not to the foreign scholar. It belongs to the Indian citizen. Of course, India will be internationally accountable for these curbs to the International Committee which considers reports of states like India which are parties to the UN's Covenants on Human Rights. The Attorney-General, K Parsaran, received quite a grilling last year. He should be prepared for more next time.

The case of Kleindienst *vs* Mandel decided by the US Supreme Court ought to serve as a warning to the Government of India. Richard G Kliendienst, the Attorney-General, refused to grant a waiver under the Immigration and Nationality Act, 1952—as is required for advocates of communist doctrine—to make Earnest Mandel eligible for a visa to the US. A Belgian citizen, Mandel is a scholar, a professional journalist and an avowed Marxist revolutionary. The government claimed that he had abused opportunities afforded to him during an earlier visit. Mandel and several American academics sued the Attorney-General alleging violation of their right to hear him and engage him in a free and open academic exchange. The court ruled against them by a 6-3 majority.

It turned, however, on the special facts of the case—the Attorney-General's charge of past abuse. The majority held this was bona fide exercise of discretion and did not consider the other issues. Imagine its reaction to a blanket ban. Even so Justices Douglas, Marshall and Brennan dissented.

And even the majority rejected the government's plea that Mandel's books were available, after all. "This argument overlooks what may be particular qualities inherent in sustained face-to-face debate, discussion and questioning", the majority opined. Turn to the opinions of Justice Douglas and of Justices Marshall and Brennan and the arguments and the illustrations they cite—as against the majority's narrow ruling on the special facts—and you realise that curbs of the kind which the Government of India has imposed have not the slightest chance of passing muster even in the Burger Court. It is unlikely that our Supreme Court would uphold them and a crying shame if it ever did.

# Captive Power Will Better Results

**Hansavivek**

*GUJARAT STATE FERTILISERS COMPANY (GSFC)* is expanding and diversifying its activities. Its applications for enhancement of capacity of the ammonia plant to the tune of 1,000 tonnes per day as well as of caprolactum capacity by 30,000 tonnes to 50,000 tonnes per annum are in advanced stage of consideration by the Central government. The company has also approached the government for setting up a nylon spinning unit with a capacity of 3,300 tonnes per annum. Meanwhile, it has made rapid strides in implementing a coastal DAP complex of a capacity of 1.5 lakh tonnes of $P_2O_5$ per annum, as sanctioned by the government. Considering various techno-economic reasons, it has been decided with the approval of the authorities to locate this complex around Sikkaport in Jamnagar district. The site consists mostly of government waste lands, a major part of which has been acquired by the company. The contract for the main DAP process plant has been awarded to Hindustan Dorr Oliver, Bombay, and the work of selection of other major consultants/contractors is in progress and expected to be finalised soon. Setting up of all the necessary infrastructural facilities for development of Sikka port for handling imported raw materials, namely, ammonia and phosphoric acid is being organised jointly by the company and the state government. The scheme of amalgamation of Polymers Corporation of Gujarat (PCG) with the company with effect from January 1, 1983 has been approved by the Gujarat High Court. Attendant formalities for final approval of the Specified Authority under the provisions of Section 72 A of the Income-tax Act and consent of the Controller of Capital Issues for issue and allotment of shares as per the exchange ratio as also the bonus shares, are being completed. The accounts of the erstwhile PCG are incorporated in the accounts of GSFC for 1984. Assets and liabilities as on January 1, 1983 of the erstwhile PCG have been taken over at book value and further, as per stipulation in the scheme of amalgamation, the shares of GSFC will be issued. The excess of liabilities over assets as also the value of shares to be issued have been treated as goodwill.

With a view to mitigating the constraints of power and the consequent interruptions in production, a joint captive power plant of IX 120 MV capacity of Utran in the vicinity of the GEB station is proposed to be put up through efforts of major industries in and around Baroda and Bharuch districts such as GSFC, GNFC, GACL, Petrofils, Heavy Water Project and in collaboration with the GEB and Government of Gujarat. A new company under the name 'Gujarat Industries Power Company' is being set up and financial tie up with IDBI as the lead financial institution is being firmed up towards speedy implementation of this project in which GSFC leads the consortium of participating industries. The estimated contribution by GSFC would be around Rs eight crore.

GSFC has achieved impressive performance during 1984 with fertiliser production at 6.42 lakh tonnes, an all time peak. The company won the Fertiliser Association of India's award for the second time in succession in 1983 in recognition of its performance in phosphatic fertilisers. Melamine production of 3,333 tonnes was also an all time high. The company was able to stabilise caprolactum operations and achieved production of 16,252 tonnes. Production of other products like argon gas, nylon-6 chips, oxo syn gas, san copolymer, etc, are showing a rising trend. These achievements were possible despite stresses and strains on account of a 19-day strike in May 1984, certain major failures of equipment, particularly the failure of the reformer gas boiler of the ammonia plant, failure of the conveyor belt of the AS plant, power disturbances and other problems of ageing plants adversely affecting steady operations. The financial results have also been good with gross profit amounting to Rs 35.81 crore against the previous year's Rs 30.76 crore following an increase in turnover from Rs 193.60 crore to Rs 219.72 crore. These figures also show enhanced margins. With tax liability claiming as much as Rs 12.65 crore (nil), net profit has declined from Rs 23.53 crore to Rs 14.20 crore. A dividend of 24 per

**The Week's Companies** *(Rs Lakh)*

| | | GSFC | | Camphor & Allied | | Atlas Copco | |
|---|---|---|---|---|---|---|---|
| | | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 30-12-84 | Last Year 30-12-83 |
| Paid-up Capital | | 2083 | 1600 | 210 | 210 | 484 | 484 |
| Reserves | | 11854 | 11335 | 402 | 377 | 738 | 633 |
| Borrowings | | 4503 | 3378 | 710 | 507 | 96 | 333 |
| *of which* Term borrowings | | 2042 | 1013 | 228 | 221 | 66 | 26 |
| Gross fixed assets | | 18774 | 16444 | 1090 | 954 | 674 | 554 |
| Net fixed assets | | 7618 | 6303 | 686 | 609 | 292 | 254 |
| Investments | | 2324 | 2311 | 35 | 35 | — | — |
| Current liabilities | | 7454 | 5209 | 423 | 343 | 608 | 483 |
| Current assets | | 15961 | 12908 | 1024 | 794 | 1631 | 1676 |
| Stocks | | 4939 | 4144 | 490 | 291 | 584 | 629 |
| Book debts | | 3785 | 4084 | 129 | 167 | 734 | 750 |
| Net sales | | 21972 | 19360 | 1172 | 1047 | 2547 | 2538 |
| Other income | | 1116 | 490 | 53 | 40 | 57 | 45 |
| Raw material costs | | 7682 | 6619 | 606 | 462 | 811 | 658 |
| Wages | | 1359 | 1173 | 139 | 132 | 312 | 295 |
| Interest | | 515 | 477 | 97 | 78 | 37 | 17 |
| Gross profit (+)/loss (−) | | 3581 | 3076 | 167 | 133 | 422 | 476 |
| Depreciation provision | | 896 | 723 | 62 | 57 | 77 | 65 |
| Tax provision | | 1265 | — | 47 | 32 | 185 | 233 |
| Net profit (+)/loss (−) | | 1420 | 2353 | 58 | 44 | 160 | 178 |
| Investment allowance reserve | | 50 | 315 | 13 | 2 | 20 | 10 |
| Transfer to reserves | | 869 | 1636 | 11 | 8 | 82 | 120 |
| **Dividend** | | | | | | | |
| **Amount** | P | 4 | 4 | — | — | — | — |
| | E | 497 | 398 | 34 | 34 | 58 | 48 |
| **Rate** (per cent) | P | 11 | 11 | — | — | — | — |
| | E | 24 | 24 | 16 | 16 | 12 | 10 |
| Cover (times) | | 2.85 | 5.90 | 1.70 | 1.30 | 2.75 | 3.71 |
| *Ratios* (per cent) | | | | | | | |
| Gross profit/sales | | 16.29 | 15.58 | 14.25 | 12.70 | 16.56 | 18.75 |
| Net profit/capital employed | | 10.18 | 18.19 | 9.48 | 7.48 | 13.09 | 15.93 |
| Inventories/sales | | 22.48 | 21.40 | 41.81 | 25.88 | 22.93 | 24.78 |
| Wages/sales | | 6.18 | 6.06 | 11.86 | 12.60 | 12.25 | 11.62 |

cent is being repeated on the enlarged capital. The distribution is covered 2.85 times by earnings as against 5.90 times previously.

Committed to promotional and extension activities through its various schemes like Leap Forward Project, Intensive Research on Bio-Fertilisers, trials and demonstrations on farmers' fields, soil and water testing facilities, etc, GSFC aims at re-orientation and rejuvenation in the field of agricultural productivity and development of the country as a whole in general and Gujarat state in particular. Adopting a single window concept of serving through its Farm Information Centres (FICs), the company has succeeded in achieving a larger sale of pesticides besides assisting in the construction of about 700 gobar gas plants in the villages of Gujarat. Yet another landmark in its efforts in this direction is the commercial production of bio-fertilisers which provide an extremely economical supplement to chemical fertilisers. A modest beginning was made towards the end of 1984 when a large number of packets of bio-fertilisers were sold/distributed for seeding purposes. Similarly, for the first time in Gujarat, the GSFC has started hy-jowar seed production in fallow lands alongwith hy-castor and maize. Achievement of the highest yield of 6,680 kg/hectare on the rice garden of its R and D farm (against an all India average of rice yield of 2,000 kg/hectare) is indeed gratifying and will provide further impetus to agricultural research and development. There is also a tie up with the Unit Trust of India for sale of units in its efforts in mobilising and mopping up rural savings through its marketing network. Jaykrishna Harivallabhdas, who has been Chairman since the company's inception, resigned as Chairman and Director with effect from March 25 last. The board of directors feels that he was a source of inspiration and the leadership provided by him resulted in all round progress and growth of the company.

*CAMPHOR AND ALLIED PRODUCTS* proposes to manufacture special types of cyanoacrylate and anaeobic adhesives and has entered into a collaboration agreement with Sumitomo Chemical Company of Japan for this purpose. Effective steps are being taken to implement the project. The company has received registration from the DGTD for manufacture of 500 tonnes per annum of butachlor, an important weedicide used on rice. Orders for major equipment required for the project have been placed and the management expects to commence trial production in December next. The company almost completed the implementation of the fenvalerate project by December 1984 but could not commence production for want of registration of product with the Central Insecticide Board. The registration has now been received. Capital expenditure on all these three projects, estimated at around Rs two crore, is intended to be financed by additional borrowings. Accordingly, the borrowing powers of the board of directors are proposed to be increased to Rs 10 crore.

The company has turned in good working results for 1984 with an increase in turnover from the previous year's Rs 10.47 crore to Rs 11.72 crore, followed by a gross profit of Rs 1.67 crore against Rs 1.33 crore. These figures reflect an increase in profit margins. Net profit is Rs 58 lakh (Rs 44 lakh). Dividend is being repeated at 16 per cent and is covered 1.70 times by earnings as against 1.30 times. The increase in turnover was mainly due to better price realisation on sales of menthol, polyterpene resins and other by-products. This, however, was more or less eroded by the sizeable increase in the cost of key raw materials. During the current year, workmen at the factory resorted to an "illegal" strike to get reinstatement of one employee who was dismissed on disciplinary grounds. In order to justify their action they have submitted a charter of demands making certain demands which are already settled under the long-term agreement that is valid upto June 1986. The striking workmen have also resorted to certain destructive activities which have compelled the management to declare a partial lock-out in respect of some workmen. In spite of the strike, the company is running the main plant with the help of some loyal workers and supervisory staff During the period of strike, more than 100 tonnes of camphor was produced.

*ATLAS COPCO (INDIA)* has successfully introduced the screw compressor technology into the country and has now received the necessary approvals to extend this technique to cover the full range of compressors manufactured in India. The project envisages expansion in the manufacturing capacity of air and gas compressors from 720 to 1,720. The company has shown poor results for 1984 with a lower gross profit of Rs 4.22 crore against Rs 4.76 crore in the previous year despite a slight increase in turnover from Rs 25.38 crore to Rs 25.47 crore. Net profit is also lower at Rs 1.60 crore compared to Rs 1.78 crore of 1983. Dividend has been raised by two points to 12 per cent which is covered 2.75 times by earnings as against 3.71 times previously. The turnover did not increase as expected due to a lock-out for three months in the factory of the company's supplier of drill steels. Exports were also lower at Rs six lakh against Rs nine lakh previously due to the market situation abroad. The company produced during the year 562 numbers air compressors against 567 previously. Production of other products was also lower—rock drills and pusher legs 1,818 (2,429), lubricators and grinders 1,951 (3,054), mechanised drilling equipment (sub-products) 287 (398) and couplings 16,857 (19,672). Only output of aqua rigs (sub-products) was higher at 412 (321). Theo Dietz was appointed a director to fill a casual vacancy caused by the resignation of Iwan Akerman. Dietz is presently working as Senior Executive Vice President of Atlas Copco Airpower, the Group's largest compressor factory in Belgium. Considering his knowledge and experience in the development and marketing of screw compressors, the directors consider that his appointment will be of great value to the company. The board of directors has also reappointed Bent Kidegaard as the managing director for a further period of two years, subject to the approval of the Central government.

*BBDO INTERNATIONAL INC*, the world's fifth largest advertising agency, based in New York, has teamed up with R K Swamy Advertising Associates. Announcing this agreement at Madras, Willi Schalk, President, BBDO (Batten, Barton, Durstine and Osborn) International Group, and Geoffrey C Wild, Chairman, ASATSU/BBDO/CLEMENGER Ltd, expressed satisfaction that they had found a partner in India compatible with their thinking and creative philosophy of work. BBDO has over 100 offices in 34 countries and is represented virtually in all the major markets in the world. In 1984, BBDO's worldwide billing exceeded US $ 2.3 billion. *Advertising Age*, the world's foremost magazine of the advertising industry, chose BBDO as the Advertising Agency of the Year for 1984 for its creative excellence. R K Swamy Advertising Associates, which commenced its operation in 1973, has had an impressive growth record and is the sixth largest advertising agency in India. This agreement gives SAA a ready access to markets worldwide for its clients in India and will enable BBDO to service its clients in this part of the world.

# The New Textile Policy

### Mridul Eapen

EVER since the crisis of the mid-sixties which became very severe around late 1974 leading to large-scale sickness among textile mills, there has been a trend both in government and industry circles to emphasise the need for a comprehensive and integrated textile policy which could solve the problems of the industry. A textile policy was announced in 1978, followed by one in 1981 on the plea that the earlier policy had several drawbacks and did not provide for a steady and harmonious growth of the industry.

However, the industry continued to be crisis-ridden, and was worst affected in its oldest citadels; 13 mills were taken over in Bombay following the more than year-long strike by mill workers in 1982-83; in Gujarat 24 mills were closed in 1984 and several others were in a precarious position. Recent figures show that almost 25 per cent of weaving capacity and 15 per cent of spinning capacity in the organised mill sector is characterised as sick. Late in 1984 therefore (preceded, of course, by a number of seminars, *ad hoc* committees and sub-groups on various aspects of the industry) yet another committee was constituted under the chairmanship of the Secretary, Department of Textiles, on October 15, to review the present situation in the textile industry and suggest measures for its development in a long term perspective.

The much awaited policy was finally announced on June 6 (much awaited since it was to have been presented during the last Parliament session). It emphasised the need to increase production of cloth of acceptable quality at reasonable prices to meet the clothing requirements of the population. This, it was felt, had also been outlined in the policy statement of 1981 but had not been achieved: per capita consumption of cloth continued to remain at a low level and sickness had become very widespread. But what is interesting to note is that the policy of 1985 is in no fundamental way different from the earlier policies; it is in a sense the logical culmination of the processes initiated in the last decade, the underlying assumption all along being that the ills of the industry, *viz*, lack of demand and widespread sickness, were mainly due to the absence of freer play of market forces. The process of liberalisation having been given an added impetus by the recent general economic liberalisations, the new textile policy which completely removes all constraints on the textile industry is not therefore, entirely unexpected. However, its measures in respect of sickness, on which a decision was eagerly awaited, allowing mills to contract capacities including by closure of units or parts thereof (and presumably by shifting of units or parts thereof) surpasses all expectations of the industry itself.

The policy has removed all curbs on expansion or creation of new capacity in the mill sector. It may be noted that this process had already started when the 1981 statement made a provision for marginal expansion of capacity in the mill sector oriented for exports. Similarly, constraints on powerlom units which have grown phenomenally (in particular, unauthorised units) have also been removed; the new units have merely to be registered. Despite overwhelming evidence to show that these powerloom units pose a serious threat to handlooms and are not primarily a gradual technological upgradation of the latter, the 1981 textile policy chose to look at this phenomenon within a 'realistic' framework. The decision to authorise all existing powerlooms had been already taken while preparing the Fifth Plan. However, while the latter categorically laid down that no further powerloom units would be allowed to come up, the policy statement of 1981 announced that this sector would be allowed to grow but at a regulated pace so that by the end of 1984-85 the expansion would not be more than 5 per cent over the base year. The latest policy removes even this limited constraint and though it also removes all preferential treatment granted to powerloom units, sufficient data exist on the ability of the latter primarily through low wage costs *vis-a-vis* mills and technical superiority *vis-a-vis* handlooms to compete with the two even without the concessions. Of course *vis-a-vis* the mills their role is more often complementary. However, even amidst all these liberalisations, the policy still clings to the government's avowed objective of preserving the distinct and unique role of handlooms, based on a measure which raises serious doubts about its intentions: all controlled cloth is to be produced by the handlooms.

The policy with respect to controlled cloth production is a fulfilment of what was envisaged in the 1978 textile policy statement. Yielding to the pressures from the stronger sections within the textile industry, the government at that time had reduced the controlled cloth obligation of the private mill sector virtually to zero by transferring it to the mills under the National Textile Corporation; to be ultimately taken over by the decentralised sector, especially handlooms. This in fact is going to be the major plank of support for the handlooms in the present policy. A review of the chequered career of the controlled cloth scheme since its inception in 1964, the failure of the official machinery to cajole or coerce the mill sector into fulfilling its social obligation, exemption granted initially to weaker mills, the continuous reduction in the quantum of production, its intermittent cessation and subsequent revival with the 1981 policy (the quota prescribed now, 650 million metres, was the quota laid down in the 1981 policy)—all these make one skeptical about the ability of the handlooms to fulfil this obligation without a substantial step up in subsidies. (No doubt, exempting the NTC mills now from fulfilling this obligation must have been prompted by the large amounts of subsidies absorbed by these mills.) Added to this is the distributional problem. Recent reports indicate that the limited amount of controlled cloth that does get produced does not become available to the poorer sections of the population but finds its way to the wholesale cloth market and is sold much above the controlled prices.

The policy emphasises that, unlike in the past, it will view the textile industry not in terms of various sectors—handlooms, powerlooms and mills—but in terms of the stages of the manufacturing process—spinning, weaving and processing. This is in fact a corollary to the removal of all curbs on the mill and powerloom sectors. Since each sector is now allowed to grow on the basis of its inherent strength and not by any design or purpose, one automatically refrains from classifying the industry into sectors with the exception of handlooms which could now possibly be identified with the controlled cloth sector.

In respect of fibre mix, the policy affirms the increasing trend towards non-cotton fibre use. In keeping with the removal of all constraints on the mill sector, the constraints on fibre use—mills cannot produce pure man-made fibre fabrics—are also done away with. In this sphere one may expect to witness fierce competition between the larger well known names in the powerloom sector and the larger well-known mills.

It is envisaged that the increased use of man-made fibres through a reduction in excise duties would lead to a rise in the demand for textiles as there is evidence of large unsatisfied demand for durable synthetic and blended fabrics at cheaper prices. This together with the production of controlled cloth is expected to raise per capita consumption of textiles to higher levels. The problem with controlled cloth has been mentioned earlier—the possibility of actual achievement being far short of targets. In the case of man-made fibre cloth, it must be noted that the pent up demand is really for the synthetic fibre fabrics—whose prices would have to register a very sharp fall (or in other words excise duties would have to be reduced very drastically) to enable even the lowest income groups to purchase these fabrics. This implies not only reduction in government revenues, but would also adversely affect the cotton economy besides facing stiff resistance from the better off sections in the industry, reaping high profits in the production of such fabrics.

Lastly, the policy by granting complete freedom to mills in closing/shifting units has, needless to say, severe implications for the working class. The recent Delhi Cloth Mills episode is a case in point. There is no guarantee that the interest of the workers would be protected if a mill is closed; even if the mill contemplates a shift, obviously with plans of modernisation, given the recent trends in the latter, the new requirement of workers could very easily be less than one-third of the original numbers. Hence workers' interest would only be protected through workers' struggles, as the DCM case has demonstrated though what impact this new policy would have on this particular company's move remains to be seen.

Hence one is not sure how far this complete liberalisation in textile policy would help in achieving the basic objectives. It would certainly enable the fittest to survive and perform even better.

## ANDHRA PRADESH

# More Police Killings

**M Shatrugna**

THOUGH police killing of political activists and common people has become a 'normal' feature in the country, the Andhra Pradesh police is far ahead in this sordid activity. In a span of 20 weeks the police have killed 33 persons due to "various reasons". Of those dead, 17 have died in "encounters", 12 in police custody and four in police firings. Last year, 24 persons including three naxalites, had died in police custody after prolonged torture. Of the 33 killed in the first five months of this year, 13 are naxalites, four their sympathisers and two student activists connected with the Left movement. The rest include one stone-mason, one bangle vendor, one tailor, one petty trader, one municipal employee, two petty thieves, three peasants, one Congress(I) Upa Sarpanch and four others.

Generally when a killing takes place, the police adopt two methods to suppress the details of the incident. Firstly, they suppress the background information about the deaths and prevent civil rights activists and organisations from collecting the data. Secondly, they suppress evidence by disposing of the bodies of those killed under police supervision. In this macabre drama, post-mortem is conducted on the spot by the government doctor and the body cremated. The body is not handed over to the relatives of the victim. In 20 out of the 33 cases, the bodies were not handed over to the relatives of the deceased. In many cases, the relatives were not even informed of the death.

When a magisterial enquiry is ordered, the witnesses deposing on behalf of the deceased are intimidated. In the Kondapur case, in which five had died, the key witness was illegally detained until the enquiry was over. In the Bommireddypalli encounter, the wife of the victim (Rajalingu) was forced to give a flase deposition before the Msgistrate. In all the cases, a large contingent of policemen is positioned near the site of the enquiry to scare away the people wishing to depose. At Chirala and Baswapur, the enquiry proceedings were held 'in camera'. Pressmen and civil liberties activists were barred from entering the area. When a civil rights team led by the Janata leader George Fernandes complained to N T Rama Rao about the encounter deaths at a meeting with him on June 11, the Chief Minister innocently 'assured' the delegation that such killings would not be permitted in future and that peasant organisations like the Ryothu Cooli Sanghams would be allowed to function without state interference.

The Andhra Pradesh Civil Liberties Committee which enquired into the 33 cases of police killing has prepared the following list of the dead:

| Sr No | Date of Killing | Name | Place | Background of the Victim | Brief Description of the Manner of Killing |
|---|---|---|---|---|---|
| (1) | 21.1.85 | Sarangapani (18) | Warangal town | Youth activist | Chased from his house, caught at the outskirts of the town and beaten to death. |
| (2) | 21.1.85 | Khairi Gangaram (40) | Pembatla, Jagtial tq Karimnagar dt | Peasant activist | Police surrounded the house where he was sitting, climbed onto the roof, removed some tiles and shot at him. |
| (3) | 10.2.85 | Venkatesh | Himayatsagar, Ranga Reddy dt | Stone-mason (Waddera) | Police were chasing a man named Guravaiah. He escaped but they fired upon some labourers coming in the opposite direction and killed Venkatesh. |
| (4) | 17.3.85 | Maram Yellaiah (50) | Lakshettippet, Adilabad dt | Peasant | Yelliah went to the police station to lodge a complaint. The SI was not there and the sentry asked him to go away. When he insisted on waiting, the sentry fired at him and killed him. |
| (5) | 28.3.85 | A Venkateswara Rao (28) | Veerabhadraram, Bhadrachalam tq, Khammam dt | Peasant activist | Police raided the hut where he was resting and as he got up and ran, they chased him and shot him dead. |
| (6) | 6.4.85 | Bhukya Kishan (40) | Ghanpur Tanda, Kamareddy tq, Nizamabad dt | Lambada peasant (tribal) | He was chased three kilometres from his house and shot dead as his family watched. |
| (7) | 10.4.85 | G Appa Rao (25) | Narsapur, West Godavari dt | Suspect in a theft case | Beaten to death in police lock-up. |

*(Table continued on next page)*

| Sr No | Date of Killing | Name | Place | Background of the Victim | Brief Description of the Manner of Killing |
|---|---|---|---|---|---|
| (8) | 11.4.85 | Gotte Raghupati (25)<br>Pani Sathaiah (23)<br>Banda Gangiah (25)<br>Tadu Rajaiah (25)<br>Vuppala Lakshmirajam (24) | Venkatraopet, Vemulawada tq, Karimnagar | Peasant activist<br>Peasant activist<br>Peasant activist<br>Peasant<br>Peasant | These five persons and one other were sleeping in the village fields at night when the police came, woke them up and tied their hands behind their backs and fired at them point-blank. A sixth person escaped. |
| (9) | 14.4.85 | Parvath Hoth (75) | Nakrekal, Nalgonda dt | Itinerant bangle-vendor | Arrested along with a large group of vendors on a theft charge. Died during interrogation. |
| (10) | 17.4.85 | Pamu Hanumanthu (45) | Yeldurthi, Medak dt | Peasant | Arrested on arson charge, and kept in illegal detention for ten days during which period he died. |
| (11) | 25.4.85 | Namdev (54) | Rudraram, Medak dt | Samll trader | Police raided an assembly of villagers who were discussing the problem of a sorcerer in the village, called out Namdev, and killed him. |
| (12) | 27.4.85 | A Prabhakar Rao | Chirala, Prakasam dt | — | Suspect in a case. Tortured to death in police lock-up. |
| (13) | 30.4.85 | D Narsinga Rao (30) | Uppuguda, Santhoshnagar PS, Hyderabad | Employee of Hyderabad Municipal Corporation | He was involved in a quarrel with the proprietor of an illegal liquor shop owner, who beat him up and handed him over to the police who beat him further and killed him. |
| (14) | 1.5.85 | Rajanarsu (25)<br>R Babu (24) | Baswapur, Domakonda tq, Nizamabad dt | Peasant activists | Five activists were resting on the outskirts of the village. Police came and fired, injuring Babu. As the others ran, police fired and killed Rajanarsu. Injured Babu was killed later. |
| (15) | 1.5.85 | Ganeswar (22) | Moinabad, Ranga Reddy dt | Tailor | Arrested on suspicion of having murdered his younger sister, and kept in illegal custody for 24 days and tortured to death |
| (16) | 6.5.85 | Rajab Ali (30) | Harbour PS, Visakhapatnam | Allegedly a habitual offender | Arrested in a theft case and beaten to death in lock-up. |
| (17) | 7.5.85 | P Rajalingu (30)<br>Siddaiah (25) | Bommireddypalli, Sultanabad tq, Karimnagar dt | Peasant<br>Peasant activist | Siddaiah had gone to Rajalingu's house on May 6 night, taken food and slept there. Police came in the night, woke them up, took them to the fields and shot them. |
| (18) | 13.5.85 | P Madhunaiah<br>A Ramesh | Lodvelli, Kagazahnagar tq, Adilabad dt | Peasant activists | Police raided the village and fired upon activists sitting in a hut and killed them. |
| (19) | 15.5.85 | I Amarender Reddy (19) | Kamareddy town, Nizamabad dt | Student activist | Caught in the street while enforcing a bandh in the town, was beaten to death at the road junction. |
| (20) | 16.5.85 | — | One person died in police lock-up at Khamam. | | No details available. |
| (21) | 23.5.85 | Kamal Peeran (65) | Yellanur, Tadipatri tq, Anantapur dt | Cong (I) Upa Sarpanch of Yellanur | Arrested on gambling and other charges and beaten to death in the lock-up. |
| (22) | 26.5.85 | G Narayana | Chinnanakkalappalli, Jagtial tq, Karimnagar dt | Peasant activist | Police raided a Panchayat (arbitration) being conducted by Narayana and another activist and chased and killed him. |
| (23) | 27.5.85 | P Bhupati Reddy<br>K Saraiah | Narsapur, Mulug tq, Warangal dt | Peasant activists | They were arrested at 10.30 P M from the house of their advocate at Warangal town, taken to Narsapur and killed. |
| (24) | 28.5.85 | Govinda Reddy | Jagtial, Karimnagar dt | Peasant activist | He was arrested from a house on the outskirts of Jagtial town and taken out of the town and killed. |
| (25) | 4.6.85 | Shankaraiah (13) | Marikal, Amarchinta tq, Mahbub nagar dt | Youth | The villagers were agitating for Mandal status for their village. The police fired upon them and killed him. |

UNITED KINGDOM

# Immigration Controls and Racism

**Michael Jacobs**

LAST month's judgment by the European Court of Human Rights that Britain's immigration rules are unlawful because they discriminate against women comes at a time when the Conservative government's immigration and race policies in general are under increasing attack. A recent report by the (government-financed) Commission for Racial Equality declared that the immigration rules were "racist in operation"; while the disclosure that queues of applicants to enter Britain in the Indian sub-continent were being maintained deliberately to control the numbers of Black immigrants has led to legal action being initiated against the government by the National Council for Civil Liberties.

But the government's response to the European court's ruling, as to previous criticisms, will be to tighten, not liberalise, the regulations. Its hardline attitude has been demonstrated again in the last few weeks with the imposition of visa requirements on Tamils seeking refuge in the UK from communal violence in Sri Lanka, and the deportation of those already arrived.

Following the court's judgment that it breaches the European Convention on Human Rights, the government will be forced to change the rule which allows non-British resident men to be joined by their foreign wives or fiancees, but not women by their husbands. But the government is likely to make the rules tougher for all immigrants rather than easier for women. In particular, it may seek to extend the controversial 'primary purpose' test. Under this rule, husbands must prove that they have not married for the 'primary purpose' of admission to Britain. The rule is widely felt to be racist, since it is applied only to immigrants from India, Pakistan and Bangladesh, where arranged marriages are customary. From its introduction in January 1983 to last September there were 3,900 applications from husbands and fiances of British women from the sub-continent. Of these, 1,850 were refused, over 60 per cent of which on the grounds of the primary purpose test. In all the cases, the 'Entry Clearance Officers' accpeted that the arranged marriages were genuine, and that the couple intended to live together permanently; but the man was disqualified solely because he could not prove to the officer's satisfaction that his primary purpose in marrying was not entry to Britain. The burden of proof lies with the husband not with the officer. The UK Immigrants Advisory Service has already begun proceedings against this rule in the European court, on grounds of both racial discrimination and its attack on the right to marry according to choice and to live in the country of citizenship. Hundreds of families have been divided by its operation.

The rule is just one aspect of immigration policy criticised in the Commission for Racial Equality's report, the result of a four-year investigation. The Commission found that the "excessive emphasis" placed by the government on restricting and controlling immigration threatens the legal rights and harms the interests and welfare of those with a legitimate claim to come to the UK. Restriction is applied almost exclusively to Black people: at UK ports of entry one in 140 visitors from the New Commonwealth is refused entry compared to 1 in 4,100 from the Old Commonwealth (Australia, New Zealand, Canada). The report published confidential Home Office memoranda and files showing that crude racial stereotypes were used by immigration officers, and racist comments made about individual immigrants: the Home Office acknowledged that these "might indicate a less than objective approach". (The office in fact tried to stop the CRE's enquiry, asking the High Court to declare immigration policy outside the Commission's powers, and then withholding publication of the report for a year after is completion.)

The internal Whitehall briefing on immigration procedures leaked last month confirmed the racial discrimination in British government policy. It revealed that the number of Entry Clearance Officers dealing with applications from the Indian sub-continent (but not elsewhere) is "the primary regulator" of Black immigrant numbers. The briefing described the system as "a policy of deliberate delay without legislation, giving powers to impose quotas". It warned that if the policy were acknowledged publicly by the government as a quota system it would be illegal under British law and the European Convention on Human Rights.

The queues are long: for dependents the waiting time is now 22 months in Bangladesh, 11 months in Pakistan and Delhi. Even then 42 per cent of applications are turned down; 50 per cent of elderly parents wanting to live with children in Britain are refused. They have no right to be present at their own appeals. For UK citizens in India—those *already* holding British passports—there is an even longer delay in obtaining the "special quota voucher" giving the right to come to Britain, now upto eight years. (By contrast, the White South African athlete Zola Budd was made a British citizen in just six weeks last year.)

The delays cause great hardship for the people involved. On arrival in Britain immigrants are frequently detained for months in poor conditions in remand centres pending investigation of their cases; six years ago it was revealed that women coming to marry in Britain were subjected to humiliating 'virginity tests' at Heathrow Airport to ascertain whether they were 'genuine'. Deportations of 'illegal immigrants' are common, even though in many cases the families have lived and worked in Britain for years. In several well publicised cases, long-standing residents have been declared 'illegal immigrants' and deported or threatened with deportation because many years before they had not disclosed information for which they were not asked and which they did not realise was required. In others, British children of deportees have been forced to choose between remaining in Britain, their only home, and being separated from their parents, or leaving with them to resettle in countries they have never even visited.

Several of these cases result from the Conservative government's 1981 Nationality Act, which in creating new categories of UK citizenship has removed the automatic right of residence in Britain from thousands of East African and Asian passport holders, including many already settled in Britain. The Act has caused understandable insecurity amongst Black communities. A particularly disturbing effect has been the increasing tendency for Black people to be subjected to passport checks at social security offices and in the National Health Service to prove their citizenship. Frequent examples of welfare benefits being wrongfully denied have shown up the intimidatory as well as degrading discrimination in this practice.

The government argues that immigration controls—which have been applied in the past with equal rigour by both Labour and Tory administrations, though the Labour Party is now pledged to repeal both the 1981 Nationality Act and the 1971 Immigration Act—are necessary to maintain good race relations in Britain. It claims that 'excessive' immigration cannot be supported at a time of high unemployment. But this is disingenuous at best, since the rate of *emigration* from Britain is considerably higher than that of immigration. Primary immigration from the New Commonwealth and Pakistan effectively ended in the mid-1970s; it is now almost entirely a small number of dependents the government seeks to exclude. And these are almost all Black people. While many Asian British passport holders are barred, an anomalous provision in the rules has been retained to allow non-UK passport holders with one British grandparent—i e, White nationals of the Old Commonwealth—indefinite entry.

Indeed Black organisations in Britain argue that the government's obsession with numbers, 'illegal immigrants' and control directly fosters racial discrimination and tension. They point to Margaret Thatcher's notorious remark a few years ago about Britain being "swamped" by Black immigrants. The constant questioning of the rights and status of Black Britons—who now number about 2 mn, or four per cent of the population—feeds the racism which continues to flourish in British society.

Having been brought to the UK as a reserve labour force to fill an economic gap in the booming 1950s and 60s, Black people, of both West Indian and Asian origin, have always been at the lower end of both occupational class and income scales. Now, in the recession, they have been first on to the dole queues. Unemployment rates for Black people are substantially higher than for Whites: in certain inner-city areas frequently surpassing 50 per cent. Black people live in generally worse housing, often due to local Councils' deliberately discriminatory policies. West Indian children, in particular, have lower educational attainments. A recent Government Committee of Enquiry found that this was mainly due to socio-economic deprivation, itself caused by racism in society at large. The report also condemned the "institutionalised racism" of the education system, which they described as being geared to White children, frequently failing to meet the needs of Black pupils.

In the last few years, with the growth of unemployment and inner-city decay, racism has taken particularly nasty forms. There has been a major upsurge in racist harassment and attacks against Black people in several English cities, including (East) London. The neo-fascist National Front has been behind many of them. Excrement has been put through Bengali families' letterboxes, windows smashed and abusive graffiti written on walls; individuals have been attacked. In many areas Asian residents have complained that they receive no protection or redress from the police, and have set up their own 'vigilante' groups to patrol the streets. In other areas, such as Brixton in South London, it is the police themselves who are accused of harassment, using 'stop and search', detention and entry powers to intimidate young West Indians on the streets and in their homes and clubs. It was against the police that the 'race riots' of 1981, in Brixton and elsewhere, were principally directed.

The riots were effective in exposing the poverty of the inner city areas, and small amounts of government money were subsequently directed towards their 'regeneration'. In particular efforts have been made to create a 'Black bourgeoisie' of shopkeepers and small businessmen, divided off from the majority of Black people still regarded as a reserve manual labour force. There is a strong business tradition amongst some of the Asian communities. But young Blacks have by and large refused to join either class. They have noticeably failed to take up the government's 'entrepreneurial' inducements, and they have been increasingly unwilling to participate in 'training' schemes which 'discipline' them only for the dole.

Black organisations have become correspondingly militant, determined to gain political representation and influence on their own terms, not merely through the 'race relations' lobby identified with White efforts at appeasement. At a local level, they have pushed the labour-controlled Greater London Council into policies positively discriminating in favour of Black people, and attacking racism; other local councils have followed suit. The Labour Party itself is under pressure to allow the formation of 'Black sections', in which Black people can find an effective voice: there are still no Black MPs in Parliament, and very few Black local councillors. And there has been a major growth of Black cultural activity, in books, plays, music and dance—much of it overtly political.

These developments will inevitably make their mark in British society. In many ways they are the backlash of that society's own past. For Britain built its wealth on colonialism, and enjoyed a temporary post-war boom on the back of colonial immigration.. It is now being forced to face up to its own history. Immigration controls and racial harassment against Black people in Britain are traditional defences. But they are unlikely to be accepted as peacefully as they have been in the past.

## Bank of India

BANK OF INDIA showed steady progress and good performance in all key areas of business during 1984. It opened 80 new branches in India (36 rural, 6 semi-urban, 28 urban and 10 matropolitan) taking the total number to 1,764. The Bank's global deposits expanded by Rs 1,087.05 crore to Rs 6,0281.83 crore. The aggregate deposits in India expanded by 19.7 per cent against the previous year's growth of 17.8 per cent. Global credit portfolio expanded by Rs 551.91 crore to the year-end outstanding figure of Rs 3,779.20 crore. The outstanding credit within India recorded an increase of Rs 417 crore, inclusive of Rs 73 crore in food procurement. The Bank's advances to priority sectors increased by Rs 157 crore and reached the outstanding level of Rs 964.30 crore, which worked out to 38.8 per cent of total credit. As many as 1.2 lakh accounts were added during the year taking the total number of priority sector accounts to 9.8 lakh. Identified weaker sections within priority sectors *viz* beneficiaries of the Integrated Rural Development Programme (IRDP) and of Differential Rate of Interest Scheme (DRI), small/marginal farmers, scheduled castes/tribes and village artisans, craftsmen and cottage industries were extended assistance totalling Rs 181.32 crore which represented 18.7 per cent of priority sector credit and 7.3 per cent of total credit.

The Bank sponsored five new Regional Rural Banks raising the number of RRBs to 16. The new banks sponsored during the year are: Solapur Gramin Bank and Bhandara Gramin Bank in Maharashtra, Giridih Kshetriya Gramin Bank and Hazaribagh Kshetriya Gramin Bank in Bihar and Indore-Ujjain Kshetriya Gramin Bank in MP. These 16 RRBs opened 207 new branches taking the total number of their branches to 610. The combined deposits of these banks expanded by Rs 19.78 crore to Rs 54.49 crore and their credit portfolio rose by Rs 13.36 crore to Rs 42.42 crore. The Bank's Merchant Banking Department processed 22 merchant banking assignments during the year. Of these four each were for syndication of loans and management of public issues. The Bank earned a net profit of Rs 5.30 crore.

# Agrarian Reforms: A Nostalgic View

**V M Rao**

**Agrarian Reform in Contemporary Developing Countries** edited by Ajit Kumar Ghose; (An ILO-WEP Study), Croom Helm, London, 1983; pp 364.

THERE was a time in India in the immediate post-Independence years when agrarian reform was the cynosure of all eyes. Politicians dreamed about agrarian reform, governments drafted and implemented impressive legislation and researchers were eager to document the revolutionary changes which everybody expected to occur. But, even before the first decade of planning was over, the emerging food crisis compelled the policy-maker to turn to strategies—like the package programme—which were lukewarm in their attitude towards any structural reform of rural society. Later, the euphoria over the 'green revolution' raised visions of agricultural prosperity breaking through all institutional barriers and making modernisation a painless—and even a pleasant—process. No euphoria lasts for long but in the Indian case the waking up does not quite appear to have restored the old mood of reformist zeal. Currently, the theme of agrarian reform seems to evoke a host of nostalgic memories but little genuine enthusiasm as a development strategy for the future.

The agrarian reform scenarios presented in the book under review seem to follow rather closely the Indian experience, *viz*, exaggerated expectations leading to seemingly sweeping reform proposals but followed by achievements too modest to sustain the credibility of agrarian reforms as a development strategy. The book covers six developing countries—India, Ethiopia, Peru, Chile, Nicaragua and Iran. The reader will notice that some of these countries are currently in the news for the wrong reasons—Ethiopia for the famine, Iran for a protracted war and Nicaragua for a brave confrontation with the superpower in its neighbourhood. The reforms covered are those implemented during the last about three decades. A period as recent as this has both advantages and disadvantages in analysis. The legislative and implementational processes become easy to observe in detail. But, on the other hand, the structural changes brought about by the reforms are more difficult to evaluate when the reforms are too close to us in time and major disturbances intervene to disturb and distract the changes set in motion. This is a particularly severe handicap for the book under review. The cases it selects belong to what may be regarded as the 'radical' end of the reforms spectrum; Ethiopia, Peru, Chile and Nicaragua are selected as developing countries moving 'on the road to collectivism' while Iran is chosen for a reform strategy focused on instant 'modernism'. In all these cases, the crucial point to know is the extent of genuine structural change in rural society achieved by the reform, but it is precisely this point which remains clouded in guesswork owing to the recentness of the reforms and, also, owing to the reliance of the studies on official documents and statistics with limited information content.

The book includes two studies on the Indian experience—Kerala and West Bengal. The Indian reforms are viewed in the book as working towards strengthening 'peasant economy systems' and, apparently, they have been included as representing a reforms approach based on gradualism as compared to the sharper break with the past visualised in the other cases covered in the book. Incidentally, the regional diversity in the changing agrarian structure in India suggests an alternative way of looking at the role of reforms in bringing about agrarian change. There are well-marked areas in India, like Punjab, characterised by vigorous agricultural growth and modernisation. It would be interesting to ask how this process came about and what were its interactions with the agrarian structure. The book has identified, categorised and selected cases on the basis of the characteristic features of the reform situations and legislations. This is a tricky procedure relying in part on the formal objectives and goals of legislations which, as the studies in the book themselves show, are often at variance with the implicit goals motivating the groups implementing the reforms. As an alternative, one could proceed to identify areas on the basis of broadly known trends and changes in the agrarian structure and, then, investigate the role played by reforms in these changes. This is not a procedure without drawbacks but it occurs to us that it might be useful as a complement to the procedure adopted in the book.

The studies presented in the book are rich in details which could be of particular interest to economic historians and researchers working on socio-economic structures in the developing world. We find it practicable to confine the review to a single question: Do the developing countries have agrarian structures which are 'reformable' enough through agrarian reforms? Let us see how the authors of the studies themsleves respond to this question.

*Kerala*: "It should be evident from [our] analysis that nothing definitive can be said about the impact of agrarian reforms on poverty in Kerala . . . the scale of poverty is likely to have gone down significantly between 1956-57 and 1972-73, both on account of the redistributional effects of land reform and the relatively high rate of growth of agricultural output during this period; and that, if the gains of this period have been subsequently maintained, it could only have been due to other extraneous factors such as improvement in the terms of trade of Kerala and the considerable inflow of remittances from migrants . . . This cannot last very long, unless the opportunity is used for strengthening the technological basis for more rapid agricultural growth in the future; the land reforms that have been implemented provide a sound institutional framework for such strengthening but cannot obviously be a substitute for it."

*West Bengal*: "The agrarian reform programmes does address itself to the fundamental problems facing the agrarian economy. It aims to curb landlordism, and thereby aims to promote a repeasantisation of the economy. It aims to improve the lot of the rural poor through such measures as a reduction in landlessness, an expansion of employment opportunities and an increase in rural wage rates. It aims to free the small cultivators from the clutches of usurious money-lenders through the creation of special credit facilities . . . The concrete achievements so far, though considerable, have been inadequate . . . If the benefits of the current measures are to be consolidated and built upon in the longer run, conscious efforts must be made to develop co-operative or joint farming at the next stage. This is necessary not only for pre-empting a renewed process of polarisation of income and wealth, but also for facilitating the adoption of modern technology which is essential for growth."

*Ethiopia*: "The proclamation [issued in 1975 after the 1974 revolution] sought to eliminate the most fundamental problem of Ethiopian society once and for all, by means of reforms leading to egalitarian distribution. Land was not only to be distributed to those who actually tilled it, but the concentration of land in a few hands was also effectively barred: a ceiling was established on landholding, and the enlargement of holdings through purchase or lease was prohibited. Not only was tenancy abolished, but so also was the use of hired labour by individuals, thus firmly closing the door for any possibility of exploitation of the many by the few . . .

The provisions of the proclamation were to be implemented by peasant associations to be organised with a minimum command area of 800 hectares. [It is envisaged that eventually the cultivators will be covered by the producers' co-operatives.] . . . the agrarian reform has indeed greatly benefited the peasantry; a survey shows that out of a random sample of 295 peasants from eight peasant associations interviewed, a vast majority indicated that they were materially better off than before. It must, however, be said that a systematic assessment of the impact of agrarian reform has yet to be undertaken; and, again, it is not only the immediate effects but also the long-term impact on national and rural development that will prove its success."

*Peru*: "Peru's agrarian reform remains to date one of the boldest experiments of its kind in Latin America. It effectively destroyed the hitherto existing oligarchical order and created a new institutional framework which, in spite of its weaknesses, was eminently suitable for pursuing simultaneous growth and equity . . . [however], in retrospect, it would seem that the failure to rally the peasants and workers around its central goals has proved to be one of the basic weaknesses of the whole reform programme. In the absence of a genuine mass participation, the collective-cooperative model had to be imposed from above and was perceived as a constraint by the very people it was supposed to benefit. The reforms have undoubtedly dismantled the old order in the countryside and have gone some way towards creating an environment in which growth and equity are compatible objectives. But there is no denying that they have so far largely failed either to stimulate production or eradicate rural poverty . . . General economic policies of the state must bear a major responsibility for the poor performance of the post-reform agrarian economy . . . the 'import substitution industrialisation strategy' discriminated against the agricultural sector. The foreign exchange policy favoured agricultural imports even more than before and penalised agricultural exports . . . The government's cheap food policy not only negatively affected rural incomes but also, by reducing agriculture's profitability, indirectly affected investment, production and employment in this sector . . . The agrarian reform [statist-cooperativist type] by itself could not overcome the negative effects of these economic policies."

*Chile*: The reform in Chile consisted of a programme for redistribution of land inspired by the 'structuralist position' that "agricultural stagnation" (and economic stagnation in general), as well as the inflationary process, could be reversed by a redistribution of land. The precise form or mechanism of redistribution, and above all the precise or even the broad outlines of the institutions of production to follow upon such a reform were, significantly, not considered in detail. [It was hoped that] agrarian reform would transfer land from those who used it extensively to those who used it intensively. This would, at the same time, expand the internal market for manufacture through raising the incomes of the new property holders. Growth of production and market expansion would fuel economic growth in general and reduce inflation." The Chile study observes that "seen from the vantage point of 1980, [these assumptions] seem naively optimistic but they express well the climate of opinion of the time in Chile". According to the study, "the distributional consequences of the reforms over the period 1965-73 can perhaps be summed up as follows. The major losers were the *hacienda* owners and the major beneficiaries were the permanent workers. The temporary workers and small holders were unlikely to have benefited much. Thus, although the overall distribution of income in rural areas improved, the distribution among rural workers may well have worsened . . . the medium-sized farms [constituting] the most dynamic element in Chilean agriculture have been the real beneficiaries of the tortuous reform process which began in 1965." The major change in the agrarian structure, as judged by the study, was "a transformation from a system dominated by huge *haciendas* based on large contingents of tied labour to a system dominated by medium-sized capital-intensive farm units based on wage labour".

*Nicaragua*: "The Nicaragua agrarian reform programme (initiated after the Sandinist Victory of July, 1979) involves a process of transition from private farming to state-owned and co-operative farming . . . [our] analysis only covers the first two initial years of a land reform programme that is still in progress . . . the measures to control the agricultural surplus enabled a redistribution of rural incomes, but mainly to the small-scale farmers. Landless workers, comprising one-third of the rural labour force, very likely experienced a decline in their real incomes. Food production expanded substantially reaching historically unprecedented levels, while agro-export production, particularly that of cotton, did not attain the targeted level of the 1980 Economic Plan. This has been one of the reasons why the foreign exchange balance has worsened considerably."

*Iran*: "Initially [in 1962] the land reforms in Iran had intended to reduce the size of large holdings, distribute land and institute rural co-operatives among the peasants who had traditionally cultivated the land without always owning it . . . [But] Shah—being both worried about the immediate reaction of large land-owners and conservative religious leaders and, more importantly, afraid of the success of the reformist government for his own position and power—decided to take over the idea and present it as a part of a wider 'modernising programme'. The immediate consequence of this was to dilute the terms of the Land Reform Law in favour of large land-owners, and turn its second stage into a tenancy reform programme as opposed to a land redistribution programme . . . In line with purely bureaucratic and technological blueprints for 'modernising' the whole of the economy, it was decided to impose a system of 'farm corporations', that is, joint-stock agricultural companies sometimes consisting of several villages, and then to promote agri-business complexes—i e, extensive farms based on foreign and domestic capital and wage labour . . . The parallel strategy of rapid urban 'industrialisation' generally discriminated against agricultural development. Of the funds allocated to the agricultural sector, direct state investment was channelled primarily into agri-business companies, while most of the state credit and loans were granted to farm corporations. The peasants, constituting 55 per cent of the country's population and operating 82 per cent of the cultivable area, were left to obtain what credit they could through the complex bureaucratic network of co-operative units or, more often, from the local usurers and merchants."

The study describes the performance of the agri-business complexes and of farm corporations as disappointing. Further, "the extension of the central bureaucracy to the villages, and the official contempt for the peasantry which was amply reflected in the attitude and behaviour of local officials, created social instability, economic insecurity and psychological resentment among the peasants. An important consequence was the disappearance of the *Buneh*, the traditional production commune, with its indispensable functions of putting small and fragmented holdings under the same crop, maintaining and extending the artificial irrigation networks and distributing water among the cultivators . . . Meantime, the explosion of the oil revenue was raising urban living standards [providing] a strong incentive for peasant migration into towns. However, the ultra-modern technology applied to modern manufacturing and service production, even road construction, left little employment opportunity for purely manual labour, migrant peasants had no capital of their own and they were completely alien to the urban culture. The rapid rise of urban food and dwelling prices resulted in hunger and homelessness of the immigrant peasants. Thus, both in villages and in towns the scales were drastically turned against the Iranian peasantry, resulting in extensive undernourishment in a country with a per capita income of US $ 1,700 per annum. This was the context in which the revolution of 1979 took place."

The brief scenarios sketched above in the authors' own words are only intended as curtain-raisers on the complex reform processes analysed in the book. As may be expected, each country has its own distinctive features with regard to the historical setting and social structure, the turn of events leading to agrarian reforms and the dominant groups planning and implementing reforms. The book is likely to place the reader in an unenviable position—sorely tempted to generalise but seeing many hazards in doing so. But, yielding to the temptation and undeterred by the hazards, we would like to share with the reader one disquieting—and thoroughly unrevolutionary—thought: the developing countries seem to have a fairly low ceiling on the changes in social structure achievable through agrarian reforms. Reforms with a small r—like those in West Bengal and Kerala—appear to remain below the ceiling and get implemented without much disturbance and with some achievements to their credit. Reforms, with a capital R—thorough-going redistribution of land, collectivisation or its variants, modernisation at a forced pace—tell a different story. They try to break through the ceiling and, in the process, generate tensions along a number of critical divides in the society—rural *versus* urban, agriculture *versus* industry, rural poor *versus* rural and urban elite. These tensions are difficult to manage and the groups implementing the reforms, often, do not even care to adopt economic policies supportive of reform objectives. Hence, the reforms with a capital R do not work to the blueprint with which they start and, as illustrated by the unfortunate case of Iran, can have an agonisingly frustrating outcome.

It occurs to us that it would be very relevant to have a theory which could correlate the features of a developing country with the kind of reforms it could achieve. In his elegant introduction, the editor reaches the cautious—almost pessimistic—assessment that the impact of reforms "while beneficial for growth, is likely to affect unfavourably the poorer beneficiaries of reform and lead to a renewed, *albeit* different, process of generation of inequalities. Although such a process need not necessarily generate poverty in all situations, in the context of the regions studied this seems a distinct possibility". But the overall perspective and mood of the book derive from what was described at the beginning of this review as the nostalgic view of agrarian reforms. Nostalgia is no crime but, for researchers, it could be a handicap in making a realistic assessment of what agrarian reforms can and cannot achieve in the developing countries. Interestingly, the elaborate analyses of reforms contained in the book offer few clues to what a realistic agenda for reforms might include given the socio-economic and political environments of the countries covered in the studies.

# State as Private Property

**Nita Sanghvi**

**Corruption as the 'Fifth' Factor of Production in the Sudan** by El-Wathig Kamier and Ibrahim Kursany; Research Report No 72 of the Scandinavian Institute of African Studies, Uppsala, 1985; pp 33.

THE ouster of President Jafar Nimeiri of Sudan in the first week of April 1985 put an end to a 16-year old government which had been riddled with serious economic problems. Sudan had been the recepient of the most American foreign aid in Africa (after Egypt)—receiving about $ 200 m annually in economic and military aid. In recent months, however, the aid was being withheld by the US government because of the failure of Sudan to put "certain economic changes" into effect. The external debt of $ 9 billion, drought, political repression and rampant corruption had alienated the civilian elite—doctors, lawyers, engineers and other middle class professionals—who successfully organised a general strike before overthrowing the government.

The stories of blatant and sordid corruption are reported to have embarrassed even the Sudanese, used to the corrupt practices of government officials. It is perhaps more than a coincidence that the Scandinavian Institute of African Studies published its 72nd research report in April 1985 which describes corruption as the fifth factor of production in Sudan. The number of millionaires in rural as well as urban areas was incredibly high for a country considered 'least developed' by the UN. Since their numbers had increased in less than two decades, the report states that in the Sudanese context, corruption could be considered as the fifth factor determining the production and, more importantly, the distribution of national product.

The forms of corruption documented in the report are not new to observers of developing countries: embezzlement of public funds through the banking industry, sale of state assets, sale of government lands, operations of government undertakings (in areas like mining, agriculture, trading) and smuggling. What is perhaps new is that the state had taken action against corruption—legal proceedings had started in 1975 in some 800 cases of which, by 1982, 51 cases had been concluded. On the basis of the evidence available from these cases, the report presents the class background of those who indulged in corruption and arrives at the conclusion that this "parasitic capitalist class" lacks a homogenous base. It is composed of high ranking officers, top civil servants, lawyers, managers, doctors and even academicians. Perhaps the very nature of the formal education system, which this class goes through, develops certain aspirations quite unrelated to the resources available in their society. These aspirations, sought to be fulfilled in financial terms on an individual basis, lead them to opt for quick-rewarding projects—mercantile rather than industrial—through a continuous use of the state apparatus, since the state is the axis for such activities. In such a situation proximity to political power replaces productive investment as the major source of income.

The report shows that the state farm at Habila was sold off under the 'New Schemes' programme to private owners who were related to senior officials in government. For example, the managing director of the Mechanised Farming Corporation and his deputy managed to provide four schemes for members of their own families. The list of other beneficiaries includes a regional minister for agriculture, a regional minister for finance, an army officer, an ex-commissioner, and a deputy speaker of a regional assembly.

The ownership of the Islamic Development Company, set up in 1983 for investment in agriculture, industry, housing, mineral exploration and banking, follows a similar pattern. Among its founder members, who owned shares valued over US $100,000, were the President and Vice-President of Sudan, the Minister of Finance and Economic Planning, the Director of Military Economic Corporation and some leading figures in Muslim Brothers movement.

Although corruption as a problem faced by most developing countries has been sought to be justified in a variety of ways by theorists like A M Hoogvelt and others who maintain that pelty corruption presents no threat to the democratic process since it allows the general public to manipulate some rules and regulations, thereby mitigating some of the stresses in the social system. To this extent corruption is an alternative to violence.

Developments in Sudan, however, disprove such theories which ignore other crucial dimensions of the problem. The continued existence of corruption as a mode of capital accumulation requires that the state is powerful enough to protect the material interests of the parasitic class. This repressive machinery pre-empts a large portion of the economic surplus that would otherwise be available for development projects. Secondly, the strengthening of the repressive machinery of the state results in further erosion of democratic processes. And when the size of the cake is no longer adequate for even the elite, a section of it revolts.

# Sundaram Finance Limited

Registered Office: 180 Mount Road
Madras-600 006

**Speech delivered by Shri T S Santhanam, Chairman, at the Thirty First Annual General Meeting of the Company held on 14th June, 1985, at Madras.**

I have great pleasure in welcoming you all to the 31st Annual General Meeting of your Company.

At the outset, may I request you to observe silence for a minute as a mark of respect to our late Prime Minister Smt Indira Gandhi.

The Directors' Report and the Audited Accounts for the year ended 31st December 1984 are with you, and with your permission, I shall take them as read.

## WORKING RESULTS

The payments against Hire Purchase documents made by the Company during the year were marginally lower at Rs. 45.17 crores as compared to Rs. 45.34 crores in the previous year. The stock-on-hire under Hire Purchase contracts as on 31st December, 1984 rose to Rs. 95.49 crores from Rs. 91.39 crores as at the end of the previous year. In the Equipment Leasing Division, the Company wrote leases amounting to Rs. 6.61 crores making a growth of about 50% over the previous year.

## DIVIDEND

Your Directors have recommended a final dividend of 12% which together with the interim dividend of 8% paid in January, 1985, makes a total of 20% for the year 1984.

## DEPOSITS

The net accretion to deposits in 1984, amounted to Rs. 12.53 crores. The Company reached the ceiling of Rs. 72.22 crores in October, 1984, when further acceptance was suspended. After the finalisation of the accounts for the year 1984, the Company resumed acceptance of deposits from last month. I am happy to inform you that the inflow of deposits is encouraging.

## GENERAL

Consequent to the increase in the prices of motor vehicles, spare parts, tyres and petroleum products, road transport operations have become economically unviable. The Government should seriously consider taking effective steps to make the road transport industry economically viable, since road transport is a vital infrastructure for economic development and has a high employment potential. The condition of existing roads has been steadily deteriorating due to poor maintenance. The expenditure on roads as a percentage of the total revenue from the Road Transport Industry has been steadily falling during the successive plan periods. I appeal to the Government to allocate sufficient funds for the laying of more roads, better surfacing of roads and the proper maintenance of roads. It is estimated that bad road conditions cost more than Rs. 500 crores a year by way of extra expenditure on fuel, besides considerable increase in expenditure on tyres and spare parts. It is essential that the Central and State Governments bestow serious attention on improving our road system to subserve the needs of our economy.

The reduction in Direct taxes effected by the Finance Act, 1985, is a welcome measure that will encourage greater internal generation of funds and will accelerate industrial growth. The proposed tax reform suggests a phased withdrawal of Investment Allowance. I would request the Finance Minister to consider retention of Investment Allowance to encourage modernisation and expansion of the industry.

The wide disparity in the rates of Sales-tax levied by several States has led to diversion of trade from one State to another. The State Governments should consider a ceiling on the rate of Sales-tax and narrow down disparities.

The 46th amendment of the Constitution has enabled the State Governments to levy Sales-tax on Hire Purchase and Leasing transactions. In the interests of capital formation in Industry, it would be necessary to treat Leasing transactions on par with Hire Purchase transactions. However, in case the Governments do not accept this proposition, they may consider charging Sales-tax only on the original purchase price of the equipment instead of on the total lease rentals paid.

## OUTLOOK FOR 1985

Hire Purchase business in the five months of this year has been higher than that of the corresponding period last year. However, there is stagnation in the purchase of medium and heavy duty commercial vehicles. The Company hopes to achieve a higher volume of business during the current year.

The Company's Order Book in the field of Equipment Leasing is satisfactory and the Company is hopeful of making reasonable progress under this portfolio.

The Governmental clearance for setting up a subsidiary Leasing Company in collaboration with the State Bank of India and the International Finance Corporation (Washington) has now been obtained and we are proceeding with the requisite formalities.

## ACKNOWLEDGEMENT

On behalf of the Board of Directors and on my own behalf, I take this opportunity to thank our customers, depositors, bankers and shareholders for the co-operation extended to and confidence reposed in the Company, and look forward to receiving their continued support. I also place on record my appreciation of the good work done by the staff both in the field and in the office.

This does not purport to be a record of the proceedings of the Annual General Meeting.

# Social History: Predicaments and Possibilities

**Sumit Sarkar**

*Research on modern Indian social history, here or abroad, cuts a sorry figure. A considerable gap remains between our understanding of the basic structures and tendencies of the colonial economy and the much-explored history of political movements in late colonial India. This area of silence relates to the vast and virtually unexplored terrain of forms of popular consciousness and culture. The gap is related to lack of fruitful dialogue between history, sociology and social anthropology.*

*The failure of grapple seriously with problems of consciousness and culture leads repeatedly to inadequate or even trite explanations, in particular the two related poles of economic reductionism and mobilisation by great leaders/ideologies or skilful manipulators of patron-client linkages.*

*There is need to move towards both 'a materialist and relational concept of culture' and 'a more culturally embedded analysis of the material world'. A social history developing through a fruitful, because critical, dialogue with anthropology can help "in locating new problems, in seeing old problems in new ways, in an emphasis upon norms and value systems and upon rituals, in attention to expressive functions of forms of riot and disturbance, and upon symbolic expressions of authority, control and hegemony".*

OVER the past generation, the focus of interest in modern Indian history has shifted decisively from viceregal policies, external relations and administrative developments towards an increasingly sophisticated economic history on the one hand, and studies of the national movement, now being broadened rapidly to include various forms of popular protest, on the other hand. But even a passing glimpse of current historiographical tendencies elsewhere brings a painful awareness of the relative poverty so far of researches on modern Indian social history.

In an influential article published in 1971, E J Hobsbawm noted that social history "as an academic specialisation" was "quite new", but commented on "the remarkably flourishing state of the field. It is a good moment to be a social historian. Even those of us who never set out to call ourselves by this name will not want to disclaim it today".[1] The growing importance, respectability, and even predominance, of the genre would be evident to any reader of the stimulating British historical periodicals of the 1970s and early 80s: *Past and Present, History Workshop* and *Social History* can claim pre-eminence here. The *Annales* of course had acted as the pioneer, while in the USA "social history has gradually come to supplant political history as the dominant concern of the academy."[2] It is symptomatic of changing historiographical moods or fashions that a volume published in 1982 in honour of E J Hobsbawm did not have a single article on specialised economic history, even though that had been his original field of expertise".[3]

The social history boom in the West has gone alongside of shifts in the meaning of that convenient but vague label. Already in 1971, Hobsbawm dismissed what he described as the "residual view of social history"—Trevelyan's "history with the politics left out"—as something requiring "no comment". He distinguished two other earlier connotations—lower class, labour or peasant protest, conventionally often labelled as "social movements", and the social as (an usually secondary) adjunct of the economic—till the growth of a specialised, quantitative, 'hard', economic history enforced a rupture between cliometricians and lesser folk. The real burden of Hobsbawm's paper, however, had been a call to broaden "social history" into "the history of society". The debt here to Marc Bloch and Lucien Febvre's programme for 'integral', 'global' or 'total' history was obvious and acknowledged. The two leading features of the recent boom in social history have been in fact a tremendous broadening in the scope of historical research to cover multifarious aspects of the lived experience of the past, bringing within its scope numerous dimensions and themes left only yesterday to antiquarians, folklorists and anthropologists, and an openness towards the concepts and methods of other social sciences. Among these, social anthropology today can claim something like a primacy so far as the current debts of historians are concerned.[4] The shifts have been extensive and rapid, so that even an article like Keith Thomas 'History and Anthropology' published in 1963, conveys a curiously dated flavour today: anthropology then was still being identified by this British historian with structural functionalism with no reference at all to Levi-Strauss or structural linguistics, and education, family and the history of mentalities were described as subjects hardly explored so far in Britain.

The expansion, as one would expect, has been not without tensions, debates, and sharp antinomies, some of which I intend to touch upon and try to relate to our own historiographical problems a little later. For the moment it might be convenient to remind ourselves that 'total' history has been used in a number of different senses, not all of them of equal potential value, relevance or practicality in the context of existing source material and resources in India. It can imply efforts to define entire epochs and/or their succession over time: civilisations, 'traditional' as distinct from 'modernising' societies (a sociological-cum-political scientist vogue now happily somewhat in decline), modes of production and social formations. The latter, Marxian tradition, despite repeated vulgarisations to an almost equivalent extent by believers and traducers alike, has retained a coherence and heuristic power unequalled by its rivals. Fruitful when related imaginatively and effectively to specific empirical contexts, such a conception of totality can degenerate into scholastic labelling exercises in lesser hands. The most effective Marxist interventions in academic history-writing have usually been at a somewhat lower level of abstraction and ambition. We may admire (with qualification) Perry Anderson, but would have been really impoverished without Thompson, Hill, Hilton or Hobsbawm.

With the partial exception of Marc Bloch's "Feudal Society",[6] the bulk of the classic work of the *Annales* school operated with a somewhat different concept of *l'histoire integrale*: the study of a region over the *longue duree*, hopefully 'total' in scope, proceeding systematically through the various 'times', 'geographical', 'social', and 'individual' relevant for the historian.[7] Braudel on the Mediterranean, and LeRoy Ladurie on Languedoc have been the two outstanding exemplars of this mode of history-writing, which became associated for a time in the 1950s and 60s with a denigration of political, narrative or episodic (*evenementielle*) history. Event, agency, and process tended to be marginalised in the quest for long-term structures, ecological and demographic, and Ladurie even talked of a 'history that stands still' till the 18th-19th century break, coming surprisingly and perilously close to modernisation theorists.[8] It may be doubted whether such works have really been as 'total' as they had set out to be[9] and in any case we sadly lack in India the necessary infrastructure of "a prodigious body of articles, papers, books, publications, surveys, some purely historical, others no less interesting, written by specialists in neighbouring disciplines" which Braudel used to write about "the Mediterranean and the lands illumined by its glow".[10]

It is 'total' history in a third sense, however, which I feel might prove the most fruitful and realisable in the Indian context: focused on a fairly well-defined theme, problem, or even the once-abused 'event' or 'episode', but trying to study it in depth, and looking at its various dimensions. Many of the more recent works in the *Annales* tradition have themselves moved in this direction, including Ladurie's two best-sellers, "Montaillou" and "Carnival at Romans". The currently very fashionable history of *mentalite* still often seeks the *longue duree*, but chooses for intensive study one aspect of human sensibility in its bid to explore the "ideas concerning childhood, sexuality, family and death ... the attitudes of ordinary people towards everyday life ...".[11] It thus seeks to implement a programme outlined by Lucien Febvre more than a generation back.[12] Independent of each other, contemporary feminism and new techniques of demographic research have led to a vast and extremely fruitful expansion of the field of family history and women's studies in Western Europe and America: once again anthropology has become a major influence here.[13] The partial rehabilitation of *l'histoire evenementielle*—what Lawrence Stone recently described as the "revival of narrative"[14] has had as one of its significant consequences a new mode of writing political history, no longer an outcaste from total history but transformed into a "history in depth by becoming the history of power", with a new focus on the "semiology of power", investigating signs, symbols, and a variety of non-written documentation.[15] A study of ruling groups, of changing patterns and symbols of domination, or even of diplomacy, it needs to be emphasised, can be as genuine and valuable a work of social history as research on popular movements or popular culture. The identification of lower-class protest as 'social', as distinguished from the history of elites to which the term 'political' has to be confined, is an unfortunately deep-seated historical habit which is unhelpful and indeed illogical.[16] 'Social history' cannot really have a separate domain, marked off from 'economic' or 'political'; the differentia must consist in approach and methods, not necessarily subject matter.

In the hands of the best practitioners of social history today, practically any event or aspect of past experience can be made to yield far-reaching insights. The testimony before the Inquisition of a totally obscure 16th century Italian miller, rituals and festivals of inversion, the French *Charivari* and the English 'rough music', serve as starting points for fascinating reconstructions of the world of popular culture.[17] Food riots become indicators of a partially autonomous 'moral economy' of the crowd.[18] The 'black act' of 1723 and studies of crime and law provide pivots for a major reconstruction of 18th century English history which turns Namierism on its head.[19] The diaries of A J Munby and Hannah Cullwick, minor Victorian poet and his servant-cum-mistress, illuminate intricate nuances of gender and class relations.[20] The prints of Hogarth, or New Year festivities in remote Newfoundland villages, lead on to major theoretical discussions of concepts of culture and class.[21]

## II

Research on modern Indian social history, here or abroad, cuts a rather sorry figure if set besides such abundance. Recently an applicant for a college job in Delhi, asked to name a single good general work on the social history of modern India, replied that there is no such book. The selection committee, I am told, was dissatisfied with the answer: as sometimes happens, here the experts were wrong and the candidate right. The 'residual' approach, dismissed so cavalierly by Hobsbawm, still flourishes among us. A survey of 18th century social life published in 1976 hailed G M Trevelyan's "Social History" as a "brilliant example", and went on to give scattered details about religious sects, education, caste, family life, the position of women, and various "social evils" before embarking on a more congenial summary of economic conditions.[22] For the 19th century, there has often been a more surprising, indeed possibly unique, redefinition: social history is tacitly equated with the history of 'social reform' initiated by and confined overwhelmingly to educated 'middle class' groups, set against the background of British educational and 'social' policies. Thus V A Narain's "Social History of Modern India" (1972) deals successively with Company "social policy", missionaries and "humanitarianism" and English education, followed by nine chapters on social reform movements.[23] R C Majumdar's "History of Modern Bengal" (1978) seems to promise a little more, with its long chapters on Religion and Society based on extracts from contemporary journals collected by Benoy Ghosh. The absence of any theoretical framework, however, leaves us in the end with bits and pieces of scattered information.[24] The most eminent of historians thus seem curiously uncertain in the domain of social history when they venture out of the safe confines of *sati*, widow-remarriage, Brahmoism or 'Hindu revival'. Similar assumptions, confusing a not-unimportant but undeniably limited sector with a potentially vast field, underlie many University syllabi on 'social history'—including that of my own, though fortunately this has been ignored in practice and is now under revision.

Prospects appear somewhat brighter as regards the two other sub-types of traditional social history distinguished by Hobsbawm: the social as an adjunct of the economic, and studies of popular protest. A number of historians have tried to work outwards from analysis of economic structures of particular regions to changing social and political relationships: Ravinder Kumar's study of Western India and some of the articles in his recently-published "Essays on the Social History of Modern India" can serve as good examples of this genre.[25] Numerous and varied attempts have been made to relate nationalism to its social and economic 'basis': educated 'middle class' grievances, bourgeois upthrust, elite competition, material interests of local patron-client networks, the contrasting implications of wet and dry farming and the emergence in certain areas of rich peasant groups.[26] In recent years there has also been a notable effort to develop a distinct sub-discipline of urban history.[27] And 'history from below' flourishes today, with a large number of publications or research in progress on protest movements of tribals, peasants, and (to a lesser extent) industrial workers.[28] Attempts at 'total' histories of whole regions over longish time-spans remain inhibited by inadequate source materials and lack of a necessary infrastructure of micro-studies, but a

*Continued after Review of Agriculture*

**June 1985**

Crop Insurance in India
A Review, 1976-77 to 1984-85
V M Dandekar

Transition from Subsistence to Commercialised Agriculture
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REVIEW OF AGRICULTURE

# Crop Insurance in India
## A Review, 1976-77 to 1984-85

**V M Dandekar**

*In 1979-80 the General Insurance Corporation, in collaboration with the state governments, introduced a crop insurance scheme in 26 areas of Gujarat, 23 areas of West Bengal, and 17 areas of Tamil Nadu. Since then, the scheme has been extended to more areas of more states. The purpose of this paper is to trace the methodological modifications made from time to time in the original scheme, to identify certain outstanding problems and to suggest provisional solutions.*

AT the instance of the General Insurance Corporation of India, the Indian School of Political Economy prepared a report on the feasibility of introducing crop insurance in India. The report was submitted to the GIC in May 1976 and subsequently published in *Economic and Political Weekly*, Review of Agriculture, June 26, 1976. In 1979-80 the GIC, in collaboration with the state governments, introduced a crop insurance scheme in 26 areas of Gujarat, 23 areas of West Bengal, and 17 areas of Tamil Nadu. Since then, the scheme has been extended to more areas of more states. In Appendix A is given year by year progress of the scheme. The purpose of this review is to trace the methodological modifications made from time to time in the original scheme, identify certain outstanding problems and suggest provisional solutions.

It will be useful to begin with a summary of the original scheme proposed in the report mentioned above. We quote from the last section of the report, titled Summary and Recommendations:

> Though the Individual Approach to crop insurance, in which the assessment of the indemnity is done separately for each individual and is based on the actual crop-output of the concerned farmer each year compared to his normal output, would be the most appropriate and in a sense an ideal approach to the crop insurance, any scheme based on this approach proves impracticable because the process of assessing the indemnity separately for each individual is administratively expensive, liable to interminable dispute and frought with grave dangers of moral hazard.
>
> The alternative to an insurance scheme based on the Individual Approach is an insurance scheme in which the assessment of indemnity is not done separately for each insured farmer but is done together for all farmers in a given area. The indemnity paid is determined by comparing each year the actual average crop-outturn over the whole area with the normal crop-outturn of the area. Thus the crop-output of any individual farmer does not enter into the assessment of indemnity. All farmers are paid indemnity at the same uniform rate and it is based on the year-to-year fluctuations of the average crop-output over the whole area. We may distinguish this approach from the Individual Approach and call it the Area Approach.
>
> The Area Approach obviates the main difficulties of the Individual Approach. It does not require ascertaining the crop-outputs of individual farmers. All that it needs is estimates of average annual yields of the crop over the whole area. These can be ascertained objectively from the crop-cutting experiments conducted by the state governments for purposes of crop estimation. Being objectively determined, they are much less open to dispute and much less liable to moral hazard.
>
> From the standpoint of a farmer, for the scheme to serve the purpose of crop insurance, the years when the average output of the area is below the normal should also be years when his own crop-output is below his own normal and *vice versa*. If the area is small enough and is agro-climatically homogeneous, the crop-outputs of a majority of farmers therein would be highly correlated, that is to say, they would move together above or below their respective normals. In such a case, they would also move together with the average crop-output of the area and hence the scheme would be meaningful as a crop insurance scheme. For this reason, it is suggested that, in a crop insurance scheme based on the Area Approach, the area in which all farmers would pay the premium at the same rate and would receive indemnity at the same rate should be a homogeneous area.
>
> For this purpose all that is needed is delineation of agro-climatic regions small enough to be homogeneous, in the sense that the annual crop experience of a majority of the farmers in the area accords and coincides with the average experience of the area, and large enough to have an adequate data-base of annual crop-cutting experiments to enable the determination of the normal yields and estimation of annual average yields with reasonably small statistical error.
>
> The principal actuarial aspect of a crop insurance scheme is the year-to-year variation in crop yields. This, together with the terms and conditions on which indemnity becomes payable, determines the rate of premium. Larger the year-to-year variation, higher is the premium rate for a given level of indemnity. Similarly, for a given level of year-to-year variation, higher has to be the premium for a more liberal indemnity.
>
> In crop insurance based on the Area Approach, there is no advantage in having a separate crop insurance scheme for each specific crop. On the other hand, there is distinct advantage in having a crop insurance scheme for all major crops of the area taken together. From the standpoint of the farmer such a scheme is more relevant. Administratively, it is greatly simpler. Most of all, because the coefficient of variation of the overall productivity of all crops taken together is much smaller than the yield variability of individual crops, it will be possible, in general, either to reduce the rate of premium or offer more liberal indemnity; it means that it will be possible to prepare a feasible and worthwhile crop insurance scheme for practically all areas of the country.
>
> Collection of premium regularly on a voluntary basis is not feasible and hence an element of compulsion seems necessary. Making crop insurance compulsory for all farmers of an area will also not make collection of premium easy. Hence, it is suggested that crop insurance may be linked to short-term agricultural credit. The crop insurance scheme thus becomes a crop-loan insurance scheme. All loans should be compulsorily insured. Premium should be deducted from the loan advance. Indemnities should be adjusted against recovery. Thus integrated with agricultural credit, the crop insurance will involve hardly any additional administration costs.
>
> The linking of crop insurance to crop loans is suggested not merely as an expediency. The entire agricultural credit structure is in urgent need of protection from the hazards of agriculture and this can be done only by means of an appropriate crop insurance scheme suitably linked to the agricultural credit structure.
>
> From the actuarial standpoint, in a crop insurance scheme based on the Area Approach, the unit of insurance is a homogeneous area and not an individual farmer. Therefore, for purposes of a desirable horizontal spread of risk, it is necessary to begin with a large number of homogeneous areas. Hence, it seems necessary and desirable to begin with a large number of homogeneous areas and with all crops in the

areas taken together. Phasing is desirable to gather and learn from experience. For that purpose, it will be appropriate to make a beginning with small farmers, defined by their total credit eligibility, and gradually extend the scheme to all farmers.

We have so far proceeded on the assumption that the crop loan insurance scheme would be self-supporting, except for the costs of administration which we have kept to the minimum, in all areas and for all categories of cultivators. This should be so as far as possible. But there are legitimate grounds for a certain amount of subsidy which need not be ruled out. The following may be considered in due course:

(i) Areas with comparatively secure agriculture, that is areas with relatively low coefficient of variation, may be charged slightly higher, but only slightly higher, premium than warranted and the same may be used to subsidise lower than warranted premium in areas with high coefficient of variation.

(ii) Areas with high coefficient of variation may be directly subsidised. If there is a choice between subsidising a lower rate of interest and a lower rate of premium, the latter is important for areas with highly insecure agriculture.

(iii) Small and marginal farmers may be charged a lower rate of premium by direct subsidy. Here again, if there is a choice of subsidising a lower rate of interest and a lower rate of premium, the case for the latter is stronger.

The GIC accepted the above scheme with certain modifications. The Area Approach was accepted but the stipulation that for each area there should be a single scheme for all crops taken together (on the basis of a composite index of agricultural production) was not accepted. Instead it was decided to have separate schemes for different crops. This was done on the ground that a composite scheme for all crops together may not be intelligible to the farmers.

TABLE 1: YEARWISE INDEMNITIES PAYABLE AND PREMIA RECEIVABLE
STATE: ANDHRA PRADESH *(in Rs millions)*

| Year | Considering the Cases with Premium 5 Per Cent or Less | | Considering All the Cases | |
|---|---|---|---|---|
| | Indemnities Payable | Premia Receivable | Indemnities Payable | Premia Receivable |
| (1) | (2) | (3) | (4) | (5) |
| 1966-67 | 1098.40 | 1133.69 | 1780.39 | 2064.19 |
| 1967-68 | 619.11 | 1133.69 | 1115.01 | 2064.19 |
| 1968-69 | 1848.79 | 1133.69 | 2956.39 | 2064.19 |
| 1969-70 | 1300.37 | 1133.69 | 2048.38 | 2064.19 |
| 1970-71 | 1476.77 | 1133.69 | 2378.08 | 2064.19 |
| 1971-72 | 909.27 | 1133.69 | 2062.45 | 2064.19 |
| 1972-73* | 889.62 | 506.00 | 2001.22 | 1211.00 |
| 1973-74 | 275.21 | 1133.69 | 1231.76 | 2064.19 |
| 1974-75 | 197.12 | 1133.69 | 565.25 | 2064.19 |
| 1975-76 | 1265.86 | 1133.69 | 2506.36 | 2064.19 |
| Total | 9880.52 | 10709.21 | 18645.29 | 19788.71 |

*Note:* For 1972-73, data was not available for a number of areas.

The stipulation that, in order to spread the risk horizontally, the scheme should be extended to as many areas as possible was not accepted or was not followed. Instead, the scheme was introduced on a so-called 'Pilot' basis in a few blocks of a few districts in the states where the state governments were willing. In consequence, though by 1983-84, the scheme was accepted by 12 state governments, it remained confined to only about 600 blocks in the country.

The suggestion that the crop insurance scheme should be linked to the short-term agricultural credit was accepted. But the stipulation that it should be made compulsory for all borrowing members was not accepted; probably because it would not be politically acceptable or because of the fear that it would involve the GIC into very large liability. The suggestion that, while the scheme was extended to as many areas as possible and made compulsory to all borrowing members, in order to keep the total liability within given limits, the scheme should be applied in the first instance to small farmers defined by their credit eligibility, was also not accepted. The scheme was applied to a few selected areas and was offered to all borrowing members but on a voluntary basis. In consequence, even in 1983-84, the scheme covered only about 60,000 farmers all over the country. The scheme is thus not as yet fully integrated with agricultural credit.

With these modifications, the GIC accepted the scheme as originally proposed and entrusted the technical work of pre-

TABLE 2: TOTAL INDEMNITIES PAYABLE AND PREMIUM RECEIVABLE IN A TEN-YEAR PERIOD *(in Rupees)*

| Sr No | State | Period | Premium 5 Per Cent or Less | | No of Years with Ind> Premium | All Cases | | No of Years with Ind> Premium |
|---|---|---|---|---|---|---|---|---|
| | | | Indemnities Payable | Premium Receivable | | Indemnities Payable | Premium Receivable | |
| 1 | Andhra Pradesh | 1966-76 | 9880.52 | 10709.21 | 4 | 18645.29 | 10788.71 | 4 |
| 2 | Assam | 1966-76 | 5352.41 | 5725.00 | 4 | 5879.79 | 6245.00 | 3 |
| 3 | Gujarat | 1969-79 | 6237.80 | 6468.94 | 2 | 38978.64 | 39761.24 | 2 |
| 4 | Haryana | 1966-76 | 2419.98 | 2565.00 | 3 | 5467.57 | 5857.50 | 3 |
| 5 | Himachal Pradesh | 1966-76 | 1451.87 | 1595.00 | 3 | 1552.21 | 1700.00 | 3 |
| 6 | Karnataka | 1967-77 | 3126.01 | 3285.00 | 4 | 10854.31 | 11527.50 | 4 |
| 7 | Kerala | 1966-76 | 3702.01 | 3962.50 | 5 | 3702.01 | 3962.50 | 5 |
| 8 | Madhya Pradesh | 1971-77 | 11211.26 | 12091.50 | 2 | 17186.07 | 18132.00 | 3 |
| 9 | Maharashtra | 1969-79 | 6526.81 | 6912.50 | 1 | 25159.27 | 26637.50 | 3 |
| 10 | Orissa | 1966-76 | 9401.86 | 10000.00 | 3 | 13139.71 | 14045.00 | 3 |
| 11 | Rajasthan | 1966-76 | 13037.97 | 13717.50 | 4 | 40599.23 | 41032.50 | 6 |
| 12 | Tamil Nadu | 1969-79 | 2322.60 | 2637.50 | 4 | 3472.87 | 3875.00 | 3 |
| 13 | Uttar Pradesh | 1968-78 | 25208.26 | 27223.20 | 4 | 27394.09 | 29426.70 | 4 |
| 14 | West Bengal | 1969-79 | 8302.20 | 9805.00 | 3 | 8899.02 | 10285.00 | 3 |
| | | | 108181.56 | 116697.85 | 46 | 220930.08 | 232276.15 | 49 |

TABLE 3: YEARWISE INDEMNITIES PAYABLE AND PREMIA RECEIVABLE

| Years | I Premium in Per Cent 5 or Less | | II Premium in Per Cent between 5.25 and 7.50 | | III Premium in Per Cent between 7.75 and 10.00 | | IV Premium in Per Cent Above 10 | | V All Cases | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Ind Pay (a) Rs | Pre Rec (b) Rs | Ind Pay (a) Rs | Pre Rec (b) Rs | Ind Pay (a) Rs | Pre Rec (b) Rs | Ind Pay (a) Rs | Pre Rec (b) Rs | Ind Pay (a) Rs | Pre Rec (b) Rs |
| 1972-73 | 1627.45 | 957.00 | 232.50 | 260.75 | 597.27 | 384.25 | 616.60 | 601.00 | 3073.82 | 2203.00 |
| 1973-74 | 923.99 | 1069.75 | 427.53 | 281.50 | 341.55 | 445.25 | 894.71 | 951.50 | 2587.78 | 2748.00 |
| 1974-75 | 885.51 | 1069.75 | 147.65 | 281.50 | 209.30 | 445.25 | 519.57 | 951.50 | 1762.03 | 2748.00 |
| 1975-76 | 940.57 | 1069.75 | 186.37 | 281.50 | 709.65 | 445.25 | 1318.41 | 951.50 | 3152.00 | 2748.00 |
| 1976-77 | 1599.05 | 1069.75 | 618.14 | 281.50 | 865.59 | 445.25 | 1172.51 | 951.50 | 4255.29 | 2748.00 |
| 1977-78 | 1284.88 | 1069.75 | 414.12 | 281.50 | 383.01 | 445.25 | 297.08 | 951.50 | 2378.09 | 2748.00 |
| 1978-79 | 296.84 | 1069.75 | 75.63 | 281.50 | 288.19 | 445.25 | 328.75 | 951.50 | 989.41 | 2748.00 |
| 1979-80 | 489.23 | 1069.75 | 69.65 | 281.50 | 165.99 | 445.25 | 487.10 | 951.50 | 1211.97 | 2748.00 |
| 1980-81 | 973.00 | 1069.75 | 289.92 | 281.50 | 600.16 | 445.25 | 1185.39 | 951.50 | 3048.47 | 2748.00 |
| 1981-82 | 715.14 | 1069.75 | 98.66 | 281.50 | 105.25 | 445.25 | 343.65 | 951.50 | 1262.69 | 2748.00 |
| Total | 9735.66 | 10584.75 | 2559.17 | 2794.30 | 4262.95 | 4391.50 | 7163.77 | 9164.50 | 23721.55 | 26935.00 |

paring the Premium Tables to the Indian School of Political Economy. The ISPE has been doing this work for the past eight years (1977-1984). Over the years, the methodology has undergone certain important changes. As the main purpose of this review is to trace these changes, it will be useful to explain briefly the methodology envisaged in the original report and adopted in the beginning.

From the standpoint of a farmer, the main elements of a crop insurance scheme are the the following: (i) Suppose the farmer has a crop loan of Rs 1,000. This sum is insured. It is called the 'sum assured'. (ii) To ensure this amount, the farmer pays a certain amount each year. This is called the 'premium' and is expressed as a percentage of the 'sum assured'. (iii) As a benefit of insurance, in a year of crop failure, the farmer is paid a certain amount called the 'indemnity' which again is expressed as a percentage of the 'sum assured'. (iv) In the Area Approach, the fact of a crop failure is judged by comparing the average yield of the crop in the current year with its average over the past few years which we had initially suggested should be ten years; thus supposing the ten-year average yield of a certain crop in a given area is 800 kg, an indemnity would become payable if the current average yield is below 800 kg. (v) This is somewhat qualified by the rule that a shortfall upto a prescribed limit is not considered indemnifiable; this limit is called the 'non-indemnifiable limit' which we shall denote by NIL. Suppose it is 10 per cent. In the present case, it means that unless the current yield is less than 720 kg, no indemnity is payable. Hence, in a sense, 720 kg, which is 90 per cent of 800 kg being the ten-year average yield, is the 'guaranteed yield'. We shall refer to it as the 'guaranteed yield'. If we denote the ten-year average yield by M, the guaranteed yield is given by G = M(1–NIL/100). Only when the current yield is below the 'guaranteed yield', an indemnity becomes payable. (vi) The amount of indemnity as percentage of the 'sum assured' is determined as follows: Suppose the current yield is 640 kg. Then the indemnity payable is

$$\frac{(720-640) \times 100}{800} = 10 \text{ per cent}$$

of sum assured. More generally,

$$\text{Indemnity} = \frac{(G-y) \times 100}{M}$$

per cent of the 'sum assured'; where M is the ten-year average, G is the guaranteed yield, and y is the current yield. In other words, in a given year, if the actual yield y is less than the guaranteed yield G, we express the shortfall as percentage of the ten-year average M; this percentage of the 'sum assured' is the 'indemnity payable'.

In about half or more years, the actual yield is not likely to be below the 'guaranteed yield' so that no indemnity is payable. In other years, the indemnity payable varies from year-to-year depending upon the actual yield that year, small

TABLE 4: TOTAL INDEMNITIES PAYABLE AND PREMIUM RECEIVABLE IN A TEN-YEAR PERIOD

| Sr No | State | Period | Premium in Per Cent 5 or Less | | No of Years with Ind> Premium | Premium in Per Cent between 5.25 and 7.50 | | No of Years with Ind> Premium |
|---|---|---|---|---|---|---|---|---|
| | | | Indemnities Payable | Premium Receivable | | Indemnities Payable | Premium Receivable | |
| 1 | Andhra Pradesh | 1972-83 | 9735.66 | 10584.75 | 3 | 2559.17 | 2794.25 | 4 |
| 2 | Assam | 1970-80 | 4259.37 | 4710.00 | 4 | 496.54 | 550.00 | 4 |
| 3 | Gujarat | 1972-82 | 5185.06 | 5597.00 | 2 | 1157.57 | 1195.00 | 3 |
| 4 | Haryana | 1972-82 | 3706.71 | 3900.00 | 4 | 2327.38 | 2497.50 | 4 |
| 5 | Himachal Pradesh | 1972-82 | 1861.66 | 2039.75 | 3 | — | — | — |
| 6 | Karnataka | 1973-83 | 2173.19 | 2266.25 | 2 | 371.34 | 388.25 | 6 |
| 7 | Kerala | 1973-83 | 2044.97 | 2507.50 | 3 | 9.36 | 55.00 | 1 |
| 8 | Maharashtra | 1972-82 | 6781.59 | 3385.00 | 6 | 6189.55 | 6482.50 | 2 |
| 9 | Orissa | 1972-82 | 8461.02 | 9250.50 | 4 | 2733.94 | 2842.50 | 2 |
| 10 | Tamil Nadu | 1972-82 | 2270.26 | 2634.50 | 1 | 363.84 | 417.50 | 2 |
| 11 | Uttar Pradesh | 1974-83 | 3873.63 | 4204.00 | 2 | 3444.61 | 3758.00 | 1 |
| 12 | West Bengal | 1973-83 | 9233.46 | 10742.50 | 1 | 1063.89 | 1226.50 | 2 |
| | | | 59586.58 | 61821.75 | 35 | 20717.19 | 22207.00 | 31 |

| Sr No | State | Period | Premium in Per Cent between 7.75 and 10.00 | | No of Years with Ind> Premium | Premium in Per Cent Above 10.00 | | No of Years with Ind> Premium | All Cases | | No of Years with Ind> Premium |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Ind Pay | Pre Rec | | Ind Pay | Pre Rec | | Ind Pay | Pre Rec | |
| 1 | Andhra Pradesh | 1972-82 | 4262.95 | 4391.50 | 4 | 7163.77 | 9164.50 | 4 | 23721.55 | 26935.00 | 4 |
| 2 | Assam | 1970-80 | 418.17 | 430.00 | 4 | 301.75 | 550.00 | 3 | 5475.83 | 6250.00 | 3 |
| 3 | Gujarat | 1972-82 | 3851.96 | 3687.50 | 2 | 28515.42 | 30657.00 | 2 | 38710.01 | 41136.50 | 2 |
| 4 | Haryana | 1972-82 | 3324.42 | 3795.00 | 3 | 6715.58 | 7182.50 | 4 | 16074.07 | 17375.00 | 5 |
| 5 | Himachal Pradesh | 1972-82 | — | — | — | — | — | — | 1861.66 | 2039.75 | 3 |
| 6 | Karnataka | 1973-83 | 1824.42 | 1793.75 | 4 | 9176.13 | 10142.25 | 4 | 13545.08 | 14590.50 | 3 |
| 7 | Kerala | 1973-83 | — | — | — | 102.45 | 230.00 | 2 | 2156.79 | 2792.50 | 3 |
| 8 | Maharashtra | 1972-82 | 6739.17 | 6742.50 | 2 | 10975.10 | 12277.50 | 2 | 30685.40 | 28887.50 | 2 |
| 9 | Orissa | 1972-82 | 3610.71 | 3813.00 | 2 | 3585.30 | 3823.50 | 2 | 18390.97 | 19729.50 | 3 |
| 10 | Tamil Nadu | 1972-82 | 110.88 | 170.00 | 2 | 739.71 | 795.00 | 2 | 3484.66 | 4017.00 | 3 |
| 11 | Uttar Pradesh | 1974-83 | 4453.28 | 4656.00 | 2 | 7451.54 | 7738.00 | 2 | 19223.03 | 20356.00 | 2 |
| 12 | West Bengal | 1973-83 | 409.58 | 425.00 | 2 | 146.34 | 196.50 | 3 | 10853.27 | 12590.50 | 2 |
| | | | 29005.54 | 29904.25 | 27 | 74873.09 | 82756.75 | 30 | 184182.32 | 196689.75 | 35 |

in some years, large in other years. On the other hand, the premium as a percentage of the 'sum assured' which the farmer is called upon to pay, remains, in principle, the same from year-to-year. Hence, in some years, the premium may exceed the indemnity payable while in others the premium will be less then the indemnity payable. For an insurance scheme to run on a no-profit-no-loss basis, the total premium receivable must be equal to the total indemnity payable over a long period. The principal statistical problem arises from the fact that just ten observations, such as the ten annual yields, do not provide an adequate statistical basis for estimating the total indemnity which may become payable over a long period. Annual yield data over a longer period are usually not available. Even if they were available, it would not be desirable to use them because substantial changes in annual yields might have occurred over such a long period. Hence, it becomes necessary to pool the annual yield data for a number of crops in a number of areas in order to obtain adequate statistical base for estimating the indemnities which may become payable over a long period and therefrom to derive the annual premium which must be charged.

Data was received from several states regarding annual average yields of different crops in different areas (districts/tehsils/blocks/strata). Henceforward, we shall refer to a given crop in a given area as a 'case'. Thus, each case gave ten observations or data points, namely, the annual average yields for ten years. In order to create the necessary statistical data base, we had the alternative of pooling either (a) all cases of the same crop in all areas in each state, or (b) all cases of all crops (in each state) with year-to-year variability falling within a small range. We choose (b) because presumably that would give more homogeneous groups of cases which may be pooled. Hence, the following procedure was adopted:

(i) For each case were computed the ten-year average M, the standard deviation SD, the SD expressed as percentage of M called the coefficient of variation CV. The CV was taken as an index of year-to-year variability and all cases in each state were classified into 20 groups according to the value of CV as follows:

(1) CV not more than 10;
(2) CV more than 10 but not more than 15; etc;
(19) CV more than 95 but not more than 100; and finally
(20) CV more than 100.

We shall refer to these groups as the CV groups. All cases in each CV group were pooled together. The following procedure was followed for each CV group separately.

(ii) In each case, we have annual yields normally for a period of ten years; in other words, in each case, we have 10 observations. Hence, the total number of observations or data points in a CV group is generally 10 times the number of cases in the group; if there are 20 cases, the number of observations is generally 200. But sometimes a case is not complete; that is, it does not provide annual yields for ten years. In the interest of making full use of available data, one has to admit such cases with less than 10 years' yields, say with only 9 or even 8 years' yields. In such cases, the number of observations or data points in the group is determined by counting the annual yields in the cases being pooled. We shall denote by N the number of observations or data points so counted.

(iii) Before pooling the annual yield data in all the cases in a CV group, they are standardised. Thus, if y is the annual yield, M the ten-year average, SD the standard deviation

$$z = (y-M)/SD$$

gives the annual yield in the standardised form. If z is positive, it means that the yield in the particular year is above the ten-year average. If z is negative, it means that the annual yield in the particular year is below the ten-year average; in fact, negative z gives the shortfall from the ten-year average divided by the standard deviation, that is expressed in units of standard deviation. For further work, we need only the negative z values.

(iv) Arrange all the negative z values in descending order of their absolute values; that is, bring the largest shortfall at the top and the smallest shortfall at the bottom. Number all the observations serially. We shall call these serial numbers n. Hence, the n corresponding to a given z value gives the number of times that is how often a shortfall as large as or larger than the given z occurs.

(v) Cumulate the z values from the top. We shall denote the cumulative series by Z. Then the Z corresponding to a given z value gives the sum-total of all shortfalls as large as or larger than z.

TABLE 5: FREQUENCY (PER CENT) OF YEARS SHOWING EXCESS OF CUMULATED PREMIA OVER CUMULATED INDEMNITIES IN A 1000 YEARS' SERIES CONSTRUCTED BY RANDOMISING PREVIOUS TEN YEARS EXPERIENCE

| Sr No | State | Negative | Upto 5 Per Cent | 5-10 Per Cent | More than 10 Per Cent |
|---|---|---|---|---|---|
| 1 | Andhra Pradesh | 3.80 | 50.20 | 46.00 | 0.00 |
| 2 | Assam | 0.00 | 0.00 | 2.20 | 97.80 |
| 3 | Gujarat | 19.80 | 67.60 | 2.90 | 9.70 |
| 4 | Haryana | 0.50 | 6.40 | 89.00 | 4.10 |
| 5 | Himachal Pradesh | 0.30 | 27.20 | 64.80 | 7.70 |
| 6 | Karnataka | 0.10 | 0.80 | 55.80 | 43.30 |
| 7 | Kerala | 0.00 | 0.00 | 0.10 | 99.90 |
| 8 | Maharashtra | 0.00 | 44.80 | 28.20 | 27.00 |
| 9 | Orissa | 2.90 | 65.90 | 11.60 | 19.60 |
| 10 | Tamil Nadu | 0.30 | 0.10 | 1.50 | 98.10 |
| 11 | Uttar Pradesh | 15.50 | 8.70 | 45.70 | 30.10 |
| 12 | West Bengal | 0.20 | 1.20 | 67.40 | 31.20 |
| 13 | Average | 3.61 | 22.74 | 34.61 | 39.04 |
| 14 | For 12 states together | — | — | 47.25 | 52.75 |

TABLE 6: CLASSIFICATION OF CASES BY RATIO OF RATE OF ANNUAL CHANGE (b) TO 10-YEAR AVERAGE (M)

| (b/M) × 100 | Kharif Rice | Other Rice | Wheat | Millets and Gram | Other Crops | Total |
|---|---|---|---|---|---|---|
| 5 + | 296 | 147 | 163 | 160 | 190 | 956 |
| 4-5 | 111 | 52 | 64 | 36 | 43 | 306 |
| 3-4 | 127 | 64 | 52 | 47 | 45 | 335 |
| 2-3 | 152 | 80 | 36 | 51 | 37 | 356 |
| 1-2 | 157 | 89 | 29 | 43 | 36 | 354 |
| 0-1 | 133 | 66 | 17 | 55 | 26 | 297 |
| Negative | 392 | 221 | 30 | 212 | 231 | 1086 |
|  | 1368 | 719 | 391 | 604 | 608 | 3690 |

(vi) Both z and Z are expressed in units of standard deviation SD. To express them as percentage of the ten-year average M, we should multiply them by the $CV = (SD/M) \times 100$. But the CV for all cases in a CV group is not the same; it lies within a range such as say 10 to 15 per cent. Hence, as an approximation, we take the mid-value of the CV range, 12.5 in the present case, as the average CV for the group. We shall denote this by mCV. Hence, if we multiply z and Z by mCV, we convert them to percentages of the ten-year average yield. Thus, ZmCV gives the sum-total of all shortfalls as large as or larger than zmCV both expressed as percentages of the ten-year average yield.

(vii) zmCV and ZmCV are both expressed as percentages of the ten-year average and both are measured from the average. Hence, if we add 100 to each, we measure both from zero. Further, noting that z and hence Z are both negative quantities, after adding 100 to zmCV and ZmCV, we may write them as $(100 - zmCV)$ and $(100 - ZmCV)$. The first gives a certain yield expressed as percentage of the ten-year average yield. The second gives the sum-total of all yields smaller than the given yield.

(viii) It may be readily seen that $(100 - zmCV)$ is the 'guaranteed yield' corresponding to the non-indemnifiable limit zmCV both expressed as percentages of the ten-year average. We need the sum-total of the shortfall of yields smaller than the 'guaranteed yield' measured from the 'guaranteed yield'. This is given by

$$(100 - ZmCV) - n(100 - zmCV)$$

where n is the frequency with which yields equal to or smaller than the 'guaranteed yield' occur. This may be written as

$$mCV(Z - nz)$$

and it gives the sum-total of the shortfall of all yields smaller than the 'guaranteed yield' measured from the 'guaranteed yield'.

(ix) The above gives the sum-total of the shortfall in the total experience (number of cases × years) pooled in the given CV group; in other words, in the number of observations or data points pooled in the CV group. This number is N. Hence,

$$mCV(Z - nz)/N$$

gives the average that is per annum shortfall from the 'guaranteed yield' expressed as percentage of the ten-year average.

(x) Thus, $mCV(Z - nz)/N$ gives the average indemnity payable per year expressed as percentage of the 'sum assured'. For the scheme to run on a no-profit-no-loss basis, the annual premium expressed as percentage of the 'sum assured' must be equal to this. Hence, we write

$$\text{Premium} = mCV(Z - nz)/N$$

(xi) Thus corresponding to each non-indemnifiable limit there is a premium. In general, larger the NIL, smaller is the premium. Hence a choice is to be made. The principle adopted was to let the NIL be within 10-50 per cent and let the premium not exceed 5 per cent. However, in many cases with large CV, even with NIL 40 per cent, the premium would exceed 5 per cent. It was presumed that these cases were not practicable without a substantial subsidy.

(xii) Fresh Premium Tables are prepared every year with changed data because the earliest year has to be dropped and latest year added. While making the choice of NIL and premium for the new Table, usually the principle is to keep the premium unchanged, as far as possible, from the previous year.

Premium Tables were prepared along these lines for several crops in several areas for 14 states during 1976-77, 1977-78 and 1978-79. These proved to be only practice runs because the scheme actually came into operation only in 1979-80. Before preparing the Premium Tables for 1979-80, two minor methodological modifications were made in the procedure. They are as under:

(a) The first modification was that the standard deviation SD was replaced by the mean deviation from the mean called MD and this expressed as percentage of M was called coefficient of mean deviation and denoted by CMD. This replaced CV. The reason was as follows: As was noted in the original report, the annual yields of crops do not appear to be distributed in the normal distribution. Under the circumstance, the standard deviation SD, as a measure of variability, has no particular merit. On the other hand, the mean deviation, besides being computationally simpler, falls in line with other calculations needed for determining the premium. For instance, the mean deviation MD is twice the average shortfall of the annual yields from the ten-year average and the coefficient of mean deviation CMD is twice the premium corresponding the zero NIL. Hence it was presumed that the classification of the cases by the CMD rather than the CV would produce groups more homogeneous for purposes of Premium Tables.

TABLE 7: CLASSIFICATION OF CASES BY RATIO OF CRMD TO CMD

| $\frac{CRMD}{CMD} \times 100$ | Kharif Rice | Other Rice | Wheat | Millets and Gram | Other Crops | Total |
|---|---|---|---|---|---|---|
| 100 + | 336 | 190 | 46 | 147 | 174 | 893 |
| 90-100 | 566 | 290 | 82 | 269 | 239 | 1446 |
| 80-90 | 232 | 94 | 68 | 105 | 108 | 607 |
| 70-80 | 133 | 67 | 54 | 48 | 41 | 343 |
| 60-70 | 57 | 45 | 41 | 16 | 25 | 184 |
| 50-60 | 29 | 21 | 46 | 14 | 14 | 124 |
| Less than 50. | 15 | 12 | 54 | 5 | 7 | 93 |
|  | 1368 | 719 | 391 | 604 | 608 | 3790 |

(b) In the procedure so far adopted, the indemnity payable in a year bears to the 'sum assured' the same ratio as the shortfall from the guaranteed yield bears to the ten-year average yield. In the illustration it was given by $(720\text{-}640)/800 = 10$ per cent of the 'sum assured' where 800 kg is the ten-year average yield, 720 kg is the guaranteed yield and 640 kg is the current yield. It was suggested by the GIC that the shortfall from the guaranteed yield should be expressed as percentage of the guaranteed yield rather than of the ten-year average yield. In the present case, it would be $(720\text{-}640)/720 = 11.1$ per cent, and hence the indemnity payable would be 11.1 per cent of the 'sum assured'. This would need corresponding modification in the formula for the premium. As given in (x) above,

$$\text{Premium} = \frac{mCV(Z-nz)}{N}$$

the premium is equal to the average annual shortfall from the guaranteed yield expressed as percentage of the ten-year average yield. Now, premium must be equal to the average annual shortfall from the guaranteed yield expressed as percentage of the guaranteed yield. The guaranteed yield as percentage of the ten-year average yield is given by $(1 - NIL/100)$. Hence the revised formula for the premium is given by

$$\text{Premium} = \frac{mCMD\ (Z-nz)}{N\ (1-NIL/100)}$$

where it will be noted that we have also replaced CV in the earlier formula by CMD as explained in (a) above.

The Premium Tables for the year 1979-80 were prepared, by the revised procedure, for several crops and areas of 14 states for which relevant data was received.

In that year a Pilot Crop Insurance Scheme was implemented for the first time in 26 areas of Gujarat, 23 areas of West Bengal, and 17 areas of Tamil Nadu. In April 1980, the GIC requested us to "undertake statistical exercises in respect of the 14 states to furnish us with details of indemnities payable and premia receivable during the past 10 years as if the Pilot Crop Insurance Scheme was implemented during the period". The exercise was done on the assumption that the Pilot Crop Insurance Scheme was implemented in the 14 states in all the areas of each crop for which Premium Tables were prepared. The 'sum assured' in each case was assumed to be Rs 100. The GIC also desired that the results should be furnished separately (a) considering cases with premium of five per cent or less, and (b) considering all cases. The results of the exercise were submitted to the GIC during April-December 1980. As typical, we give in Table 1 the results for Andhra Pradesh.

The amount of indemnity payable naturally varies from year to year. It will be noticed that in four out of the 10 years, the amount of indemnity payable exceeds the amount of premia receivable. For the ten years together, the total amount of premia receivable exceeds the total amount of indemnities payable by 8.4 per cent in cases of premium of five per cent and less and by 6.1 per cent in all cases together. This excess was deliberately provided for administrative expenses; in fact, on the advice from the GIC, 0.3 per cent was added on this account to the premia arrived at by the computational procedure outlined above. This constituted a higher proportion in the cases with lower premia than in all cases taken together. Finally, we may note that there is no other essential difference between cases with premium of five per cent or less and all cases. This is to be expected because the non-indemnifiable limits and premia are determined by identical procedure in all cases.

In Table 2, we give an all-India summary of the results. For each of the 14 states are shown the total amounts of indemnities payable and premia receivable during the period of ten years. In each case is also shown the number of years out of 10, when the amount of indemnities exceeded the premia. It will be noticed that, at the all-India level, out of 14 × 10 = 140 years of experience, in about one-third years (46 – 49) the indemnities would exceed the premia. In the totality, the excess of premia over indemnities is about eight per cent in cases of premia of five per cent or less and about five per cent in all cases together. This is due to the extra charge of 0.3 per cent added for administrative expenses which would bear a higher ratio in cases of lower premia than in all cases taken together.

The Premium Tables for 1980-81 were prepared following the same procedure as adopted for 1979-80. As mentioned earlier, in this procedure, all crops in all areas of a state were put together and classified by their CMD and a common set of Premium Tables was prepared for all cases in each CMD group. This was not entirely satisfactory. There were three reasons. First, the nature of the year-to-year variability of different crops could be very different and some of the differences would not be eliminated by our standardising procedure. Hence, as a first step, while preparing Premium Tables for 1981-82, crops were sorted out into those grown during kharif and during rabi seasons and separate sets of Preimum Tables for kharif and rabi crops were prepared using the same procedure as above.

The second reason arose out of the fact that the Pilot Crop Insurance Scheme was applied to only a few crops in a few areas of each state. While preparing the Premium Tables on the basis of all crops in all areas of a state pooled together, the expectation was that the scheme would be introduced for all the crops and for all the areas for which the Premium Tables were prepared. But, because of the rather unscientific notion of a 'pilot scheme' in this context pursued by the GIC and the state governments, the scheme was applied only to a few crops in a few selected areas. The possibility of adverse selection could not therefore be ruled out. The third reason was administrative. Because the procedure adopted needed crop yields of all the crops in all the areas of a state, all the data had to be received from the state governments before the work on Premium Tables could begin. Experience showed that, in spite of much effort, the receipt of crop yield data was not timely. Hence, either the preparation of the Premium Tables was held up or it had to be done on the basis of whatever yield data was received. Both alternatives were of course unsatisfactory. Hence, it was decided to prepare Premium Tables for each crop considered separately. It was also decided to prepare separate tables for the kharif, rabi, and summer varieties of a crop when such were present.

TABLE 8: TOTAL INDEMNITIES PAYABLE AND PREMIUM RECEIVABLE OVER A 7-YEAR PERIOD ON THE BASIS OF NEW FORMULA FOR CASES CLASSIFIED BY RATIO OF RATE OF ANNUAL INCREASE TO 10-YEAR AVERAGE

| (b/M) × 100 | Kharif Rice | Other Rice | Wheat | Millets and Gram | Other Crops | Total |
|---|---|---|---|---|---|---|
| | | | **Indemnity Payable** | | | |
| Negative | 19121.02 | 8348.89 | 1791.52 | 15844.80 | 18161.38 | 63267.61 |
| 5 and less | 20058.42 | 7545.91 | 4373.99 | 10202.56 | 8478.80 | 50659.68 |
| Above 5 | 9091.26 | 1940.30 | 3065.23 | 4861.88 | 7658.88 | 26617.55 |
| Total | 48270.70 | 17835.10 | 9230.74 | 30909.24 | 34299.06 | 140544.84 |
| | | | **Premium Receivable** | | | |
| Negative | 13080.25 | 4542.50 | 1875.75 | 10769.50 | 13435.00 | 43703.00 |
| 5 and less | 19006.50 | 6856.75 | 5642.00 | 10411.85 | 10070.25 | 51987.35 |
| Above 5 | 10779.25 | 3450.25 | 6091.75 | 7750.75 | 13172.75 | 41244.75 |
| Total | 42866.00 | 14849.50 | 13609.50 | 28932.10 | 36678.00 | 136935.10 |

The main problem of course was that if Premium Tables were to be prepared for each crop considered separately, the number of cases falling within a CMD group would be too small to be statistically adequate. After much experimentation, it seemed that a minimum of 20 cases was necessary; this would give about 200 annual yields or data points, about half of which would be below the average. This appeared to be the minimum necessary to give sufficient statistical smoothness for interpolation of premium rates corresponding to each non-indemnifiable limit. Hence the following procedure was adopted. All cases of a given crop in a state are classified by their CMD values so that in each CMD group there are about 20 cases. Naturally, the CMD groups are much broader in range than those indicated above. All the cases in each CMD group are pooled together for the preparation of the Premium Tables.

Subsequent steps except (vi) as modified later remain unchanged. Important change is in step (vi). This relates to conversion of z and Z values which are expressed in units of mean deviation MD into percentages of the ten-year average M. Earlier this was done by multiplying the z and Z values by the mid-value of CMD in each group. This was not so unsatisfactory because the CMD group was narrow with a range of only about five percentage points such as 10 to 15 per cent. With only a single crop and the condition that each CMD group should have about 20 cases, the CMD groups are now much broader and the use of the mid-value of CMD for a group would not be satisfactory. Hence, the conversion of z and Z, which are expressed in units of the mean deviation MD, into percentages of the ten-year average M, is now done separately for each case in the CMD group by multiplying z and Z values by the respective CMD of each case. Subsequent steps remain unchanged. This means that, though a number of cases of a crop are pooled together for the determination of Z corresponding to given z, final Premium Tables are prepared separately for each case. In other words, separate Premium Tables are prepared for each case, that is for each given crop in each given area. The formula for premium is

$$\text{Premium} = \frac{\text{CMD}\ (Z - nz)}{N(1 - \text{NIL}/100)}$$

The new procedure was introduced beginning with 1982-83 and continued in 1983-84.

In the meanwhile, the GIC requested us to repeat the statistical exercise (i to xii above) but now distinguishing cases with premium (a) five per cent or less; (b) 5.25-7.50 per cent; (c) 7.75-10.00 per cent; and (d) more than 10 per cent. The exercise was done for 12 states and results submitted to the GIC. As typical, we present in Table 3, the results relating to Andhra Pradesh. It will be noticed that in the cases with premium of five per cent or less, in three out of 10 years the indemnities payable are in excess of the premia receivable. In the other cases, the indemnities exceed the premia in 4 out of 10 years. The difference between the low premium cases and other cases in this respect seems to be only a chance difference. There are no systematic differences between the several groups of cases with different premia. In all cases, the total premia receivable exceeds by a small margin the total indemnities payable; as explained earlier, the excess was deliberately allowed for covering the administrative expenses. In Table 4 is given the all-India summary of these results.

These exercises are useful to demonstrate the validity of our procedures. They do not show any essential differences between cases of high and low premia because all cases are subject to identical procedures. All Premium Tables equate, over the ten-year period, premium with indemnity plus a small charge for administrative expenses. Small differences in this respect are due to approximations arising out of grouping of cases.

The indemnities payable will of course vary from year-to-year and hence in some years may exceed the premia receivable. The exercises show that this may happen in about one third of the years. This should concern an agency such as the GIC. Of even greater concern to such an agency is how often it may experience a succession of such adverse years. The above exercises are not useful to judge this question because though the basis of the Premium Tables is the experience of the past ten years, and though there is a presumption that this experience will recur in future, there can be no presumption that the ten years' experience will repeat itself in the same order. Hence, to judge the question raised above, one must randomise the ten years' experience over a long series, cumulate the indemnities and premia and find how frequently the cumulated indemnities exceed, and by how much, the cumulated premia. We did this exercise for each state separately. The results are presented in Table 5.

For each of the 12 states, a hypothetical series of 1000 years' yield data was constructed by supposing that the previous ten years' yield experience will recur but in a random order. Applying the Premium Tables to the 1000 years' series, the premium receivable and indemnities payable each year were computed. These were cumulated and the cumulated premia were compared with the cumulated indemnities. Table 5 shows in how many years (in percentage) the cumulated premia were less than the cumulated indemnities, in how many years the cumulated premia exceeded the cumulated indemnities by upto 5 per cent, by 5-10 per cent and by more than 10 per cent. For instance, in Andhra Pradesh, in 3.80 per cent years the cumulated premia would fall short of the cumulated indemnities; in 50.20 per cent years the cumulated premia would exceed the cumulated indemnities but by not more than five per cent so that administrative expenses would not be fully met; in the remaining 46.0 per cent years the cumulated premia would exceed the cumulated indemnities by 5-10 per cent which is more or less adequate to cover the administrative expenses.

There are naturally some differences between the states because the previous ten years' experience is not identical in all the states. But the situation in Gujarat and Uttar Pradesh appears rather widely different from that in the other states. For instance, in Gujarat, in 19.80 per cent years the cumulated premia would fall short of the cumulated indemnities and in another 67.60 per cent years, the cumulated premia would exceed the cumulated indemnities by not more than 5 per cent. In Uttar Pradesh, in 15.50 per cent years, the cumulated premia would fall short of the cumulated indemnities and in another 8.70 per cent years, the cumulated premia would exceed the cumulated indemnities by not more than 5 per cent. In both the states, two of the previous ten years were particularly bad. For instance, in Gujarat, in 1972-73, the indemnities payable amounted to 2.8 times the premia receivable; and in 1974-75, the indemnities payable amounted to 3.14 times the premia receivable. In Uttar Pradesh, for which we have only 9 years' data, in 1974-75, the indemnities payable amounted to 3.04 times the premia receivable; and in 1979-80, the indemnities payable amounted to 4.18 times the premia receivable.

But there is no reason to suppose that this particular experience in Gujarat and Uttar Pradesh is characteristic of these states and that therefore it may recur in future with similar frequency. On the other hand, there is no reason to suppose that, in the other states, because similar experience did not occur in the previous ten years, it may not occur in future. Hence, without denying certain differences between the states, we may take an average of the 12 states series and see what may happen on the average. This is done in the second line from the bottom. It will then be seen that in 3.61 per cent years, the cumulated premia would be short of the cumulated indemnities; in 22.74 per cent years the cumulated premia would be more than the cumulated indemnities by upto five per cent; in 34.61 per cent years the cumulated premia would exceed the cumulated indemnities by 5-10 per cent; and in 39.04 per cent years the cumulated premia would exceed the cumulated indemnities by more than 10 per cent. This may be considered as to what may happen in each state on the average. It may also be considered as to what may happen at the all-India level if the previous ten years' experience in the 12 states is combined in a random manner at the all-India level.

The phenomenon at the all-India level may also be judged in an alternative manner by taking as the basis the previous ten years' experience at the all-India level and constructing a 1000 years' series by randomising that experience as we did for each state. We did this on the basis of the combined experience of the 12 states for the period 1972-73 to 1981-82. The results are given in the last line of Table 5. It will be noticed that in no year the cumulated premia would be short of the cumulated indemnities; also in no year the excess of

TABLE 9: PREMIUM RATES FOR 80 PER CENT OF FIVE-YEAR AVERAGE AS THE GUARANTEED YIELD

| State | Number of Cases with Premium Rates | | | | | | | | Total | Average Premium |
|---|---|---|---|---|---|---|---|---|---|---|
| | 0 | −1 | −2 | −3 | −4 | −5 | −10 | 10+ | | |
| **I Wheat** | | | | | | | | | | |
| Haryana | 25 | 16 | 1 | 1 | 0 | 0 | 0 | 0 | 43 | 0.23 |
| Himachal Pradesh | 3 | 5 | 7 | 3 | 1 | 1 | 3 | 2 | 25 | 2.80 |
| Karnataka | 5 | 7 | 4 | 2 | 2 | 3 | 4 | 13 | 40 | 11.79 |
| Madhya Pradesh | 3 | 21 | 8 | 8 | 10 | 5 | 10 | 7 | 72 | 5.20 |
| Uttar Pradesh | 95 | 99 | 9 | 4 | 2 | 0 | 2 | 0 | 211 | 0.30 |
| **II Rice Kharif** | | | | | | | | | | |
| Andhra Pradesh | 8 | 51 | 18 | 12 | 4 | 7 | 20 | 13 | 133 | 3.55 |
| Bihar | 1 | 13 | 3 | 1 | 2 | 2 | 4 | 3 | 29 | 7.00 |
| Haryana | 0 | 16 | 3 | 1 | 2 | 0 | 2 | 2 | 26 | 6.04 |
| Himachal Pradesh | 0 | 1 | 3 | 1 | 1 | 0 | 1 | 3 | 10 | 6.65 |
| Karnataka | 3 | 23 | 15 | 12 | 8 | 6 | 17 | 18 | 102 | 8.22 |
| Kerala | 23 | 22 | 1 | 2 | 1 | 3 | 0 | 1 | 53 | 0.94 |
| Madhya Pradesh | 0 | 0 | 3 | 5 | 6 | 4 | 15 | 9 | 42 | 7.74 |
| Maharashtra | 10 | 56 | 22 | 15 | 10 | 7 | 22 | 29 | 171 | 5.74 |
| Orissa | 47 | 85 | 27 | 29 | 12 | 16 | 41 | 48 | 305 | 5.04 |
| Tamil Nadu | 6 | 27 | 12 | 4 | 3 | 3 | 18 | 10 | 83 | 4.81 |
| Uttar Pradesh | 7 | 38 | 19 | 23 | 22 | 18 | 37 | 10 | 174 | 3.80 |
| West Bengal | 13 | 60 | 40 | 24 | 18 | 17 | 42 | 26 | 240 | 3.87 |
| **III Rice—Other than Kharif** | | | | | | | | | | |
| Andhra Pradesh | 10 | 25 | 12 | 3 | 3 | 0 | 5 | 3 | 61 | 2.08 |
| Kerala (summer) | 6 | 11 | 10 | 1 | 3 | 2 | 7 | 4 | 44 | 3.32 |
| Kerala (winter) | 12 | 31 | 2 | 2 | 0 | 1 | 2 | 1 | 51 | 1.17 |
| Orissa (summer) | 6 | 6 | 1 | 0 | 0 | 0 | 0 | 0 | 13 | 0.19 |
| Orissa (winter) | 47 | 100 | 36 | 28 | 16 | 16 | 31 | 39 | 313 | 3.93 |
| Tamil Nadu | 3 | 20 | 7 | 9 | 2 | 2 | 8 | 4 | 64 | 2.92 |
| West Bengal (Aus) | 18 | 57 | 12 | 10 | 4 | 4 | 8 | 6 | 119 | 2.27 |
| West Bengal (Boro) | 12 | 27 | 5 | 3 | 1 | 2 | 3 | 1 | 54 | 1.38 |
| **IV Millet** | | | | | | | | | | |
| Andhra Pradesh—jowar (rabi) | 2 | 11 | 3 | 8 | 4 | 3 | 10 | 18 | 59 | 9.30 |
| Andhra Pradesh—jowar (kharif) | 0 | 12 | 5 | 7 | 5 | 4 | 10 | 17 | 60 | 7.79 |
| Haryana—bajra | 0 | 3 | 4 | 2 | 4 | 2 | 7 | 16 | 38 | 15.06 |
| Haryana—barley | 0 | 11 | 5 | 9 | 1 | 1 | 3 | 3 | 33 | 5.39 |
| Haryana—maize | 0 | 1 | 1 | 0 | 2 | 0 | 4 | 11 | 19 | 14.83 |
| Himachal Pradesh—maize | 0 | 6 | 1 | 3 | 0 | 2 | 4 | 2 | 18 | 19.23 |
| Himachal Pradesh—barley | 3 | 2 | 1 | 0 | 1 | 0 | 1 | 5 | 13 | 7.21 |
| Karnataka—jowar (kharif) | 3 | 15 | 6 | 7 | 3 | 5 | 8 | 19 | 66 | 9.09 |
| Karnataka—jowar (rabi) | 1 | 5 | 1 | 1 | 2 | 4 | 7 | 12 | 33 | 9.23 |
| Karnataka—ragi | 3 | 14 | 9 | 8 | 3 | 4 | 10 | 14 | 65 | 6.54 |
| **V Pulses and Oilseeds** | | | | | | | | | | |
| Andhra Pradesh—groundnut (irrigated) | 0 | 6 | 2 | 5 | 2 | 4 | 10 | 21 | 50 | 11.18 |
| Andhra Pradesh—groundnut (unirrigated) | 2 | 7 | 4 | 2 | 0 | 1 | 5 | 0 | 21 | 2.52 |
| Haryana—rabi oilseeds | 2 | 8 | 5 | 1 | 4 | 2 | 7 | 6 | 35 | 5.56 |
| Haryana—gram | 0 | 2 | 3 | 0 | 3 | 1 | 5 | 31 | 45 | 19.87 |
| Karnataka—gram | 0 | 4 | 3 | 1 | 3 | 2 | 7 | 19 | 39 | 12.57 |
| Karnataka—groundnut | 0 | 5 | 6 | 7 | 5 | 1 | 17 | 40 | 81 | 12.50 |
| Karnataka—safflower | 8 | 2 | 3 | 1 | 2 | 1 | 1 | 22 | 40 | 32.96 |
| Maharashtra- -safflower | 7 | 5 | 1 | 0 | 0 | 0 | 0 | 0 | 13 | 0.18 |
| Madhya Pradesh—gram | 0 | 13 | 17 | 13 | 13 | 7 | 26 | 19 | 108 | 6.58 |
| Tamil Nadu—groundnut (irrigated) | 1 | 7 | 1 | 1 | 4 | 1 | 6 | 2 | 23 | 3.91 |
| Tamil Nadu—groundnut (unirrigated) | 1 | 4 | 1 | 5 | 0 | 4 | 6 | 21 | 42 | 14.13 |
| Uttar Pradesh—groundnut | 0 | 0 | 2 | 1 | 0 | 0 | 3 | 3 | 9 | 7.74 |

cumulated premia over the cumulated indemnities would be less than 5 per cent; in 47.25 per cent years the cumulated premia would exceed the cumulated indemnities by 5-10 per cent; and in the remaining 52.75 per cent years the cumulated premia would exceed the cumulated indemnities by more than 10 per cent. It means that judging by the experience of the period 1972-83, if crop insurance scheme is introduced for all crops and areas for which we had prepared the Premium Tables, the chances of the insurance agency going in the red are less than one in thousand.

Next problem to tackle was recognised from the beginning and emphasised by almost all state governments, namely, that the ten-year average, as a basis for determining the guaranteed yield, was unsatisfactory because in many cases the annual yields had increased over the period. It was suggested that the average of the last three years or the average of at most last five years should be taken as the basis for determining the guaranteed yield. After considerable statistical experimentation, the following method was evolved.

The first point to recognise is that, whether we use the five year or the three year average for determining the guaranteed yield, ten years' annual yields will be necessary to determine the year-to-year variability. This is a crucial parameter in the crop insurance scheme and an estimate of it based on fewer than 10 observations will not be satisfactory. Hence, we begin with ten years' annual yields as before.

The major departure now is in the estimate of the year-to-year variability. Earlier, the mean deviation from the ten-year average M, called MD, was taken as an estimate of this variability. Now, if there is in fact a secular change in the annual yields over the ten-year period, a part of the year-to-year variability is not random but is secular or systematic. This must be discounted. For this purpose, we first estimate the secular change in yields by a linear time trend given by

$$Y_t = M + b(t - 5.5)$$

where $Y_t$ is the 'expected' or 'trend' yield in the t-th year; M is the ten-year average yield; b is the estimated annual change in yield, a positive value of b indicating an increase in the yields and a negative value of b indicating a decline in yields; the ten years are given t values from 1, 2, . . . 10 so that 5.5 denotes the middle of the period. The annual change given by b is estimated by the Method of Least Squares. The mean deviation of the annual yields from the corresponding 'expected' or 'trend' yields is called the residual mean deviation. It provides an estimate of the year-to-year variability after allowing for a linear time trend in annual yields. We shall denote it by RMD. This divided by the ten-year average M and multiplied by 100 gives the coefficient of residual mean deviation. We shall denote it by CRMD. The RMD and CRMD replace MD and CMD respectively in the previous procedure. In particular, the standardised yields are now given by

$$z = \frac{(y - Y)}{RMD}$$

where y is the annual yield, Y is the corresponding 'expected' or 'trend' yield, and RMD is the residual mean deviation; negative values of z give the shortfall from the 'expected' or 'trend' yield. The remaining procedure remains unchanged.

Thus the formula for the premium is now modified as

$$\text{Premium} = \frac{\text{CRMD } (Z - nz)}{N(1 - NIL/100)}$$

$$\text{where } z = \frac{(y - Y)}{RMD}$$

With this premium, the guaranteed yield should be based on the yield 'expected' in the current year. For instance, on the basis of the linear trend

$$Y_t = M + b(t - 5.5)$$

the yield expected in the current year (t = 11) is given by

$$Y_{11} = M + 5.5b$$

and the guaranteed yield would be $Y_{11}(1 - NIL/100)$. We did not choose this for two reasons. First, it might be too abstract to be explained to the farmers. Second, as a matter of caution, it is not advisable to use results projected into the future beyond the actual experience. The alternative was to choose the average of the last three years or the average of the last five years as the basis of the guaranteed yield. A three-year average is of course to be preferred because, compared to the five-year average, it makes greater allowance for the time trend in yields. A defect of the three-year average, as compared to the five-year average, is that it would be more variable from year-to-year and to that extent the guaranteed yield will also vary more from year-to-year; this may cause unfavourable response. On balance of considerations, we decided to accept the three-year average as the basis for the guaranteed yield. The guaranteed yield now is $M_3$ (1 − NIL/100) where $M_3$ is the average of the last three years. We may note that in accepting the three-year average instead of the yield 'expected' in the current year as the basis for the guaranteed yield, we are treating unfavourably the cases where the yields have shown an increasing trend; we are giving them a guaranteed yield lower than what we could have or charging them a premium higher than we could have. The reverse is the situation in cases where the yields have shown a declining trend.

The new procedure was introduced for the rabi season of 1983-84 in Uttar Pradesh and extended to all crops and all the 12 states in the year 1984-85. A total of 3690 Premium Tables were prepared. Their distribution according to the crop is as under:

| | |
|---|---|
| Kharif rice | 1368 |
| Other rice | 719 |
| Wheat | 391 |
| Millets and gram | 604 |
| Other crops | 608 |
| Total | 3690 |

In Tables 6 and 7, we present information on two parameters of these cases. One is the annual rate of change as revealed by the linear time trend. We shall express it as percentage of the 10-year average. In other words, we shall give a classification of the cases by the value of (b/M) × 100. We have classified the cases in seven classes as follows: (b/M) × 100 (i) 5 or more; (ii) 4-5; (iii) 3-4; (iv) 2-3; (v) 1-2; (vi) 0-1 and (vii) less than zero, that is a negative rate of change, being the cases of declining yields. The results are shown in Table 6 separately for five groups of crops. For instance, in kharif rice, out of a total of 1,368 cases, only in 296 cases the annual increase in yield was five per cent or more of the 10-year average. On the other hand, in 392 cases, there was a decline in annual yields. Higher the annual increase, the higher is likely to be the 3-year average compared to the 10-year average and hence the higher is likely to be the guaranteed yeild. In the cases of declining yields, the 3-year average is likely to be lower than the 10-year average and hence the guaranteed yield is also likely to be lower than one based on the 10-year average. It will be noticed that cases of declining yields appear in substantial numbers in all the crops though relatively fewer in wheat. In wheat, out of 391 cases, in 163 cases, the annual increase was five per cent or more of the respective 10-year average while in 30 cases, the yields declined.

The other parameter of interest is the ratio of CRMD to CMD. As explained earlier, if there is a secular change in annual yields, a part of the year-to-year variation in yields which we measure by CMD is due to the secular change; and CRMD gives a measure of residual variation after allowing for the secular change.

Hence, in general, CRMD should not exceed CMD. The smaller the CRMD compared to CMD, the smaller would be the new premium compared to the old premium. How much smaller CRMD compared to CMD would be depends upon the statistical realiability of the secular trend. Thus, even a high rate of increase may not be statistically reliable in which case the CRMD might not be much less than the CMD. On the other hand, even a low rate of increase, or for that matter even a decline in yields, may be statistically reliable in which case CRMD might be substantially less than CMD. In fact, the statistical reliability, called the statistical significance, of the secular trend may be judged by the ratio of CRMD to CMD. In Table 7, we give a classification of the cases by the CRMD expressed as percentage of the CMD again separately for the five groups of crops. Like we made seven classes according to the value of (b/M) × 100, we have made seven classes according to the value of (CRMD/CMD) × 100. They are: (CRMD/CMD) × 100, (i) 100 or more; (ii) 90-100; (iii) 80-90, (iv) 70-80; (v) 60-70; (vi) 50-60; and (vii) 0-50. For instance, among 1,368 cases of kharif rice, in 336 cases, the CRMD is not less than the CMD while in 15 cases, the CRMD is less than half of the CMD.

Some explanation is necessary for the cases in which the CRMD exceeds the CMD. We said above that, in general, the CRMD being the coefficient of residual variation should not be greater than the CMD being the coefficient of total variation. However, this is strictly true of the Standard Deviation (SD) and not of the Mean Deviation (MD) as the measure of variation. This is because of the Method of Least Squares by which we estimate the linear trend is connected to the Standard Deviation and not the Mean Deviation. Hence, we do get cases where the CRMD exceeds the CMD. But the excess is usually small and no importance need be attached to it. These cases may be treated as cases in which the CRMD is not substantially less than the CMD.

The advantages of the new procedure in which we take cognisance of possible secular change in yields is two-fold: (a) A high rate of annual increase raises the guaranteed yield; and (b) A CRMD substantially lower than CMD reduces the premium. In cases where the CRMD is not substantially lower than the CMD, not only the premium is not much reduced but it indicates that the time trend is not reliable and hence the 3-year average may fluctuate widely from year to year. For this reason, we thought whether we should make a distinction between cases in which the CRMD is or is not substantially lower than the CMD and apply the new procedure to only the former cases while continuing the earlier procedure in the other cases. We decided against it for two reasons. First, the distinction may not be generally understood. Second, the reliability of the time trend may itself change from year to year. Hence we decided that the new procedure should be applied to all cases uniformly. It is essential to adhere to this. In particular, a suggestion may come that one may take the 10-year average or the 3-year average whichever is higher. This is not admissible because it may cause adverse selection.

As we have already noted, the present formula is biased against cases with high rates of annual increase in yields and is biased in favour of cases with declining yields; it charges higher than the correct premium in the former cases and lower than the correct premium in the latter cases. To judge the extent of this bias, we have classified the cases of each crop or crop-group into three classes: (i) with b/M negative, (ii) with (b/M) × 100, 5 or less; and (iii) with (b/M) × 100, more than 5. For each class of cases, we did a statistical exercise and estimated the total indemnities payable and total premium receivable if the formula was applied over the past 10 years. As the present formula requires the average yield of the previous three years, the estimates of indemnities and premium could be available only beginning with the fourth year. We have thus estimates of total indemnities payable and premium receivable over a 7-year period from the fourth to the tenth year. These are given in Table 8.

If we consider all cases together it will be seen that the total premium receivable (Rs 136,935.10) is slightly less than the total indemnities payable (Rs 140,544.84); in fact the premium receivable is 97.43 per cent of the indemnities payable. The reason is that the above mentioned biases do not compensate mutually. If we take the middle group of cases, where the annual rate of increase in yields is positive but not more than five per cent of the 10-year average, it will be seen that the total premium receivable (Rs 51,987.35) is a little more than the total indemnities payable (Rs 50,6959.68); in fact the premium receivable exceeds the indemnities payable by 2.62 per cent. But if we consider the group of cases with negative annual increase, the total premium receivable (Rs 43,703.00) is only 69.08 per cent of the total indemnities payable (Rs 63,267.61). On the other hand, for the group of cases with annual increase more than five per cent of the 10-year average, the total premium receivable (Rs 41,244.75) is 54.95 per cent in excess of the total indemnities payable (Rs 26,617.55). Clearly, our present formula greatly favours the cases of declining yields against cases of high rates of annual increase. Obviously, the present formula must be soon replaced by the correct formula.

To derive the correct formula for the premium, we note the following: (i) When we take into account the time trend in yields, the z values are defined as

$$z = \frac{(y - Y)}{RMD}$$

namely the deviation of the current yield y from the corresponding 'expected' yield Y expressed in units of the Residual Mean Deviation, RMD. Hence,

$$\frac{(Z - nz)}{N}$$

gives the average of all deviations as large or larger than a given z, measured from the given z, and expressed in units of RMD. (ii) In the present procedure, the guaranteed yield is a certain proportion of the 3-year average which we may write as $G = M_3P$ where $M_3$ is the 3-year average and $P = (1 - NIL/100)$. Let

$$z^* = \frac{(G - Y_{11})}{RMD}$$

where $G = M_3P$ is the guaranteed yield and $Y_{11}$ is the yield 'expected' in the 11th that is the 'current' year. We need to know the average deviations of the actual yields from the expected yield, expressed in units of RMD, as large or larger than $z^*$ and measured from $z^*$. In other words, we need to know

$$\frac{(Z - nz^*)}{N}$$

This is expressed in units of RMD. If we express it as percentage of the guaranteed yield, we get the premium. Hence,

$$\text{Premium} = \frac{(Z - nz^*)}{N} \times \frac{RMD}{M_3P} \times 100$$

To each $P = (1 - NIL/100)$, we get a premium rate. We should choose the P so that the premium does not exceed 5 per cent as has been our policy.

Recently, the Government of India has announced a scheme of crop insurance more or less on the lines developed in the past decade but one in which the guaranteed yield and the premium rate are kept fixed and uniform for all crops in all the states. Reportedly the guaranteed yield will be 80 per cent of the average yield for the previous five years and the premium will be two per cent of the sum assured in the case of rice, wheat, and millets and one per cent in the case of pulses and oilseeds. The scheme has the great advantage that the guaranteed yield and the premium rate are fixed and constant. For that reason, there will be no need to compute and determine these parameters every year. But unlike the schemes we have so far developed, the new scheme will not be self-financing in respect of each crop in each state; there will be losses in some cases and gains in others. Overall, it seems that the government will suffer some loss which of course will be fully justified considering the importance of crop insurance for agriculture. It will be useful to indicate the cases where the government is likely to make some gains and cases where it may suffer some loss; and the extent of overall losses that the government may suffer.

For this purpose, we must compute the correct premium in each case and compare it with the prescribed two per cent or one per cent premium as the case may be. In the above, we have indicated the correct formula for premium in the case where the guaranteed yield was a certain proportion of the three-year average, the particular proportion to be chosen so that the premium rate may not exceed five per cent. In the present case, the guaranteed yield is prescribed to be 80 per cent of the five-year average. In other words, $G = M_5 \times 0.8$ where $M_5$ is the five-year average. To determine the correct premium, we define

$$z^{*} = \frac{(M_5 \times 0.8 - Y_{11})}{\text{RMD}}$$

so that

$$\text{Premium} = \frac{Z - nz^{*}}{N} \times \frac{\text{RMD}}{M_5 \times 0.8} \times 100$$

In Table 9, we give, for each state and for each crop, the distribution of the premium rates and their average. The average premium is to be compared with two per cent of one per cent premium rate proposed in the new scheme. If the average premium is more than the proposed rate, the scheme will make losses; if it is less than the proposed rate, the scheme will make gains. Supposing that the amount insured is more or less evenly spread over all the areas in each state, the difference between the average premium rate and the proposed rate gives the extent of gains or losses expressed as percentage of the sum assured. For instance, if the average of the correct premium is 3.5 per cent and the proposed premium is 2.0 per cent, the government will make a loss of 1.5 per cent of the sum assured. On the other hand, if the average of the correct premium is 1.5 per cent and the proposed premium is 2.0 per cent the government will make a gain of 0.5 per cent of the sum assured. Incidentally, it may be noted, the premium rates as calculated above do not allow for any administrative expenses. These must be duly added to the estimated losses or subtracted from the estimated gains.

The premium rates as computed above are based on the data of the past ten years. These have to be updated every year. Because the premium rates are now fixed uniformly for all areas, the correctly computed premium rates are not needed for operational purposes. Hence their computation every year is likely to be neglected and soon discontinued. This will be undesirable. Every insurance scheme must evaluate its own experience periodically and keep its data updated for the purpose. Hence we emphasise that, even though the correctly computed premium rates may not be needed for operational purposes, the technical work must continue as if these were needed. Further we may note that though the guaranteed yield is based on the five-year average, the determination of the time trend in the annual yields utilises annual data over ten years. The agency in charge of the technical work of the scheme must insist on obtaining these data from the respective state governments regularly; it must subject these data to careful scrutiny particularly its consistency with the data submitted in the previous year; it must annually compute the correct premium and estimate losses or gains that the government is likely to make; and it must compare these estimates with actual experience peridodically. The crop insurance scheme is founded on the annual estimates of crop yields based on crop cutting experiments. Neglect of this base may prove financially disastrous.

The present crop insurance scheme is based on the Area Approach and a taluka/tehsil is generally taken to be the 'area'. The indemnities payable to farmers in the area are assessed on the basis of the average yield for the area and variations in yields within the area are neglected. This is considered unsatisfactory and there is a growing demand that the scheme should be made applicable to smaller areas such as the development blocks.

APPENDIX: GENERAL INSURANCE CORPORPATION OF INDIA—PILOT CROP INSURANCE SCHEME

| State | Crop | Season | No of Areas | No of Farmers | Sum Insured (Rs) | Premium (Rs) | Total of Claims (Rs) | Claim Ratio (Per Cent) |
|---|---|---|---|---|---|---|---|---|
| | | | | **1979-80** | | | | |
| 1 Gujarat | Cotton | Kharif | 13 | 823 | 3,82,645.00 | 19,394.74 | Nil | Nil |
| | Groundnut | Kharif | 9 | 210 | 1,18,940.00 | 9,052.28 | 3,015.04 | 33.31 |
| | Paddy | Kharif | 4 | 24 | 17,746.00 | 960.55 | 4,563.00 | 475.04 |
| 2 Tamil Nadu | Paddy II | Rabi | 17 | 6,965 | 72,34,272.65 | 2,97,674.79 | 4,51,260.19 | 151.59 |
| 3 West Bengal | Aman Paddy | Kharif | 23 | 8,246 | 52,76,262.68 | 2,25,850.85 | 70,397.44 | 31.17 |
| Grand Total | | | 66 | 16,268 | 1,30,29,866.33 | 5,52,933.21 | 5,29,235.67 | 95.71 |
| | | | | **1980-81** | | | | |
| 1 Gujarat | Paddy | Kharif | 3 | 1,169 | 4,75,915.75 | 43,763.21 | Nil | Nil |
| | Groundnut | Kharif | 5 | 131 | 98,660.00 | 6,105.15 | 15,552.91 | 254.75 |
| | Cotton | Kharif | 4 | 56 | 53,666.00 | 2,550.95 | 50.47 | 1.98 |
| | Bajra | Kharif | 4 | 131 | 1,23,494.00 | 6,558.38 | Nil | Nil |
| 2 Tamil Nadu | Paddy I | Kharif | 6 | 2,283 | 21,78,840.79 | 1,13,192.67 | 1,41,882.55 | 125.35 |
| | Paddy II | Rabi | 7 | 1,757 | 19,06,582.84 | 77,109.06 | Nil | Nil |
| 3 West Bengal | Aman Paddy | Kharif | 64 | 15,043 | 84,39,756.81 | 3,55,690.04 | 27,876.62 | 7.84 |
| | Potato | Rabi | 11 | 2,696 | 30,92,691.95 | 78,998.94 | 96,418.93 | 122.05 |
| | Boro Paddy | Summer | 4 | 177 | 2,07,207.00 | 9,324.31 | 44,730.04 | 479.71 |
| Grand Total | | | 108 | 23,442 | 1,65,76,815.14 | 6,93,292.71 | 3,26,511.52 | 47.10 |

### APPENDIX: GENERAL INSURANCE CORPORATION OF INDIA—PILOT CROP INSURANCE SCHEME

| State | Season | No of Areas | No of Farmers | Sum Insured (Rs) | Premium (Rs) | Total of Claims (Rs) | Claim Ratio (Per Cent) |
|---|---|---|---|---|---|---|---|
| | | | | **1981-82** | | | |
| 1 Andhra Pradesh | Kharif | 40 | 4,314 | 39,36,157.71 | 1,88,983.84 | 66,435.07 | 35.15 |
| | Rabi | 31 | 1,168 | 13,69,232.37 | 54,968.53 | 1,47,071.93 | 267.56 |
| 2 Haryana | Kharif | 15 | 549 | 10,47,915.51 | 50,478.45 | 5,986.29 | 11.86 |
| | Rabi | 21 | 260 | 4,08,922.50 | 18,554.44 | 10,881.75 | 58.65 |
| 3 Himachal Pradesh | Kharif | 6 | 161 | 40,722.25 | 1,979.26 | 767.31 | 38.97 |
| | Rabi | — | — | — | — | Nil | Nil |
| 4 Karnataka | Kharif | 7 | 318 | 3,45,632.00 | 17,834.69 | Nil | Nil |
| | Rabi | — | — | — | — | Nil | Nil |
| 5 Maharashtra | Kharif | 10 | 6,096 | 19,61,071.59 | 84,809.64 | Nil | Nil |
| | Rabi | — | — | — | — | Nil | Nil |
| 6 Orissa | Kharif | 15 | 834 | 4,97,562.20 | 23,633.96 | 56,162.69 | 237.64 |
| | Rabi | 5 | 1,600 | 21,08,473.00 | 22,470.98 | 2,08,267.18 | 926.83 |
| 7 Tamil Nadu | Kharif | 9 | 1,996 | 20,48,672.35 | 87,070.36 | 12,574.48 | 14.44 |
| | Rabi | 13 | 1,653 | 21,67,909.39 | 65,539.98 | 12,658.23 | 19.31 |
| 8 West Bengal | Kharif | 29 | 4,140 | 24,83,481.50 | 96,482.91 | 3,79,513.44 | 391.89 |
| | Rabi | 14 | 1,536 | 18,66,705.00 | 42,034.05 | 63,880.47 | 151.97 |
| Grand Total | | 215 | 24,625 | 2,02,82,457.37 | 7,55,201.09 | 9,64,198.84 | 127.67 |
| | | | | **1982-83** | | | |
| 1 Andhra Pradesh | Kharif | 111 | 9,721 | 1,12,18,770.68 | 4,61,880.10 | 3,73,726.41 | 80.91 |
| | Rabi | 14 | 630 | 8,47,351.80 | 26,069.48 | 12,429.49 | 47.68 |
| 2 Bihar | Kharif | 3 | 354 | 2,81,711.15 | 8,769.50 | Nil | Nil |
| | Rabi | 12 | 1,691 | 17,32,520.86 | 55,182.88 | Nil | Nil |
| 3 Himachal Pradesh | Kharif | 2 | 44 | 10,389.43 | 415,60 | 68.92 | 16.58 |
| | Rabi | — | — | — | — | Nil | Nil |
| 4 Karnataka | Kharif | 13 | 449 | 6,36,015.13 | 23,615.66 | 1,67,092.32 | 707.55 |
| | Rabi | — | — | — | — | Nil | Nil |
| 5 Madhya Pradesh | Kharif | 29 | 4,767 | 45,81,298.00 | 1,74,950.83 | 1,83,036.72 | 104.62 |
| | Rabi | 8 | 614 | 7,90,356.62 | 26,691.78 | Nil | Nil |
| 6 Maharashtra | Kharif | 27 | 8,776 | 39,58,746.82 | 1,44,644.53 | 1,81,485.19 | 125.47 |
| | Rabi | — | — | — | — | Nil | Nil |
| 7 Orissa | Kharif | 67 | 4,130 | 33,76,492.41 | 1,21,663.18 | 6,06,612.38 | 498.60 |
| | Rabi | 5 | 1,428 | 22,82,410.36 | 24,037.17 | 2,38,928.39 | 994.00 |
| 8 Tamil Nadu | Kharif | 25 | 3,294 | 53,31,625.59 | 1,56,399.78 | 2,13,570.80 | 136.55 |
| | Rabi | 22 | 2,502 | 42,13,341.86 | 1,21,916.71 | 1,55,779.00 | 127.77 |
| 9 West Bengal | Kharif | 62 | 11,893 | 68,23,607.81 | 2,07,117.08 | 15,98,812.10 | 771.94 |
| | Rabi | 9 | 562 | 7,41,056.30 | 11,471.97 | Nil | Nil |
| Grand Total | | 409 | 50,855 | 4,68,25,694.82 | 15,64,826.25 | 37,31,541.72 | 238.46 |
| | | | | **1983-84** | | | |
| 1 Andhra Pradesh | Kharif | 73 | 4,701 | 65,14,615.80 | 2,36,617.13 | 1,14,145.28 | 48.24 |
| | Rabi | 5 | 403 | 4,19,027.50 | 16,105.07 | Nil | Nil |
| 2 Bihar | Kharif | 10 | 3,364 | 32,00,931.90 | 1,04,638.98 | Nil | Nil |
| | Rabi | 18 | 2,212 | 16,23,893.36 | 55,195.19 | Final data awaited | |
| 3 Haryana | Kharif | 2 | 18 | 34,575.00 | 1,596.94 | 2,508.31 | 157.07 |
| | Rabi | 26 | 813 | 26,00,579.00 | 1,03,750.20 | 27,125.92 | 26.14 |
| 4 Himachal Pradesh | Kharif | — | — | — | — | Nil | Nil |
| | Rabi | — | — | — | — | Nil | Nil |
| 5 Karnataka | Kharif | 44 | 2,966 | 34,57,532.00 | 1,47,833.42 | 1,896.41 | 1.28 |
| | Rabi | — | — | — | — | Nil | Nil |
| 6 Kerala | Kharif | — | — | — | — | Nil | Nil |
| | Rabi | 6 | 306 | 6,21,670.00 | 20,567.22 | Nil | Nil |
| 7 Madhya Pradesh | Kharif | 11 | 2,405 | 21,66,727.53 | 84,917.88 | Nil | Nil |
| | Rabi | 9 | 899 | 4,98,383.00 | 16,262.05 | Nil | Nil |
| 8 Maharashtra | Kharif | 38 | 7,913 | 35,44,815.32 | 1,35,434.74 | 2,01,595.59 | 48.85 |
| | Rabi | — | — | — | — | Nil | Nil |
| 9 Orissa | Kharif | 125 | 6,447 | 56,40,690.14 | 2,04,388.88 | 11,177.06 | 5.4 |
| | Rabi | — | — | — | — | Nil | Nil |
| 10 Tamil Nadu | Kharif | 29 | 3,637 | 62,52,168.28 | 1,46,321.27 | 1,37,107.32 | 93.70 |
| | Rabi | 28 | 3,458 | 64,34,461.05 | 1,83,392.15 | 1,11,683.93 | 60.89 |
| 11 Uttar Pradesh | Kharif | 50 | 3,487 | 39,75,781.55 | 1,99,404.36 | 11,932.25 | 5.98 |
| | Rabi | 183 | 13,229 | 1,59,95,079.57 | 3,89,003.19 | 1,09,044.98 | 28.03 |
| 12 West Bengal | Kharif | 21 | 4,075 | 21,83,390.70 | 64,408.48 | Nil | Nil |
| | Rabi | 3 | 106 | 1,99,650.00 | 4,927.88 | Nil | Nil |
| Grand Total | | 681 | 60,439 | 6,53,63,971.70 | 21,14,765.03 | 7,28,217.05 | 34.43 |

This is of course desirable; but it will require a much larger number of crop-cutting experiments to be conducted every year. In order to get the scheme started, we had advised the state governments that, in order to make the scheme applicable to any 'area', there should be at least 15-20 experiments on each crop in the 'area'. Even this modest requirement has not been often met. On the basis of past experience, it seems to us that we should ask for at least 25 crop-cutting experiments on each crop in an 'area' in order to apply the crop insurance scheme to that 'area'. For the condition to be fulfilled for each development block, the crop-cutting experiments may have to be expanded generally at least four-fold, and many more times in some areas, before the scheme may be applied for each crop in each block. This may prove too expensive. It is sometimes proposed to supplement the crop-cutting experiments presently being done for estimation of crop output by additional experiments specifically for the crop insurance scheme. This would be undesirable. The crop insurance scheme must be based on the general crop-cutting experiments done for estimation of crop output. Hence, if any expansion of the crop-cutting experiments is done, it should also go into the estimation of crop outturn. The reason is obvious. Any sudden expansion of crop-cutting experiments may also lead to deterioration in the standards of that work. This is equally undesirable. In the circumstance, we urge serious consideration of an alternative we had suggested in our original proposal, namely, that in each area, instead of a separate scheme for each crop, we should have a single crop insurance scheme for all crops taken together on the basis of a composite index of production. In the light of the experience gathered in the last few years, we would now modify this proposal and suggest that for each area, two crop insurance schemes, one for the kharif crops taken together and the other for the rabi crops taken together should be prepared. The proposal has two main advantages. First, it will require only a moderate expansion of crop-cutting experiments; because now we would need about 25 experiments on all kharif crops taken together and all rabi crops taken together. Second, if there are only two schemes in place of several schemes one for each crop, the administrative expenses will be reduced to that extent.

The last mentioned consideration, namely the administrative expenses, must receive the most serious consideration; otherwise there is the danger of the bureaucracy benefiting more than the farmer. It was with this consideration in mind that we had also suggested that the crop insurance scheme should be made compulsory to all borrowing farmers or for a specific section of the borrowing farmers such as the small farmers defined by their credit eligibility. In view of the recent initiative taken by the government it will be now natural to make the crop insurance compulsory to all borrowing farmers. It will integrate the crop insurance with the crop loan and there will be no need to issue separate policies to each insured farmer. Crop loan insurance will be a part of the terms and conditions of the crop loan. This will mean almost no additional administrative costs on account of crop insurance. It will also protect agricultural credit from the hazards of agriculture. Now that the government has taken the initiative and agreed to bear the residual burden, it is time to make crop insurance a part and parcel of agricultural credit rather than administering it as an independent scheme by an independent agency.

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# Transition from Subsistence to Commercialised Agriculture

## A Study of Krishna District of Andhra, C 1850-1900

**G N Rao**

*This paper traces the agrarian transformation brought about by canal irrigation under the Krishna dam and links it with the process of commercialisation of agriculture. It also considers paddy—which is normally taken to be a subsistence crop—as a catalytic agent which successfully exploited the technological changes in the infrastructure and injected dynamism into agriculture. The paper argues that a so-called subsistence crop like paddy can play a progressive role—progressive in the limited sense of enabling the cultivators to produce for the market, accentuating the process of monetisation and making cultivators look upon agriculture as something more than a 'way of life'.*

### I

### Introduction

THE primary objective of this exercise is to trace the agrarian transformation brought about by canal irrigation under the Krishna anicut (dam), and link it up with the process of commercialisation in agriculture. An unconventional aspect of this study is to consider paddy—which is normally taken as a "subsistence crop"—as a catalytic agent that successfully exploited the technological changes in the infrastructure and injected dynamism into agriculture. It is argued here that a so called subsistence crop like paddy can play a progressive role—progressive in the limited sense of enabling the cultivators to produce for the market, accentuate the process of monetisation and make the cultivation look upon agriculture as something more than a 'way of life'.

The specific questions that are sought to be answered in the study are the following:

(i) How did the Krishna farmers respond to irrigation?

(ii) Were there any built-in disincentives under the colonial regime which slowed down the agrarian expansion and growth?

(iii) Why and how could a "subsistence crop" like paddy transform itself into a "Commercial Crop" in the area?

(iv) How did the farmers respond to the emerging food-surpluses?

(v) What was the role played by the farmers and traders in the paddy-market?

(vi) Could the transport facilities rise to the occasion?

(vii) How did the process of commercialisation affect the (a) credit, (b) land, and (c) labour markets?

Section II gives a brief outline of the subsistence character of agriculture in the pre-anicut period and makes the point that the tax-burden on cultivators was one of the major obstacles in the way of growth. Sections III and IV document agrarian expansion, changes in the cropping pattern and the emergence of food surpluses respectively. Section V highlights the problems caused by expanding but inadequate transport facilities. Section VI seeks to comment on commodity markets and trade. Sections VII-IX analyse the impact of commercialisation of agriculture on credit, land and labour markets respectively.

### II

### Pre-Anicut Period

The agrarian economy of Coastal Andhra was in a state of stagnation followed by decay in the first half of the 19th century. The introduction of Permanent Zamindary Settlement during 1802-04 had strengthened the forces of exploitation in agriculture. Unfavourable seasons, depression in agricultural prices, abolition of "Government Factories" in 1829 and consequent outmigration of weavers, famines and decline in cropped area had not only caused a sharp fall in land revenue but also accentuated the miseries of the agricultural community. Exports of piece goods, for which the region was so famous in earlier times, fell at an alarming rate. The frequent occurrence of droughts and famines also slowed down the rate of growth of population, resulting in forced cultivation and use of torture in the collection of land revenue. Irrigation was neglected and transport by road and water was in a miserable state of affairs. In short, cultivation became an unprofitable proposition during the first half of the 19th century.[1] It was at such a time that an anicut (irrigation dam) was thrown across the river Krishna at Bezwada (Vijayawada) in the early fifties.[2] Irrigation injected forces of dynamism into the agrarian economy. However, these potentialities could not be exploited fast during the initial period owing, among other things, to the continuation of a system of burdensome taxation on the cultivators. Eager to realise a quick return on the investment in irrigation, the government of the day thoughtlessly tried to squeeze as much revenue as possible from the cultivators. By around 1855, i e, the year of completion of the Krishna anicut, there was about 20,65,266 acres of cultivable land in the district of which about 59 per cent was under cultivation. (Krishna district of the period of study included not only the Krishna district of the present times but also portions of Guntur and Prakasam districts. Thus, it included the taluks of Gudivada, Bunder, Bezwada, Nandigama, Repalle, Bapatla, Sattenapalli, Narasaraopet, Vinukonda and Palnad.) Of the occupied land as much as 88 per cent was under dry cultivation. Per acre assessment on wet lands varied from an average of Rs 3.44 in the Masulipatam Division to Rs 6.50 in the Guntur Division of Krishna district.[3] Over and above this assessment, a water tax of Rs 3.59 and Rs 4.00 per acre in the Masulipatam and Guntur divisions increased the total assessments to Rs 5.94 and Rs 10.50 in these two areas. Cost of cultivation came to about Rs 4.10 per acre. In other words, total expenses borne by the cultivators on an acre of land came to Rs 11.94 in Masulipatam and Rs 14.60 in Guntur Divisions. Taking the value of gross produce at Rs 16.58 per acre, the net profit to a cultivator turned out to be Rs 5.54 in Masulipatam and as low as Rs 1.98 in Guntur. Thus, the total tax burden in relation to surplus stood at 1.07 in Masulipatam and 5.30 in Guntur.[4] This high rate of taxation acted as an impediment to agricultural expansion and growth in the immediate post-anicut period.

### III

### Agrarian Expansion

The survey and settlement operations were commenced in 1859 in the Masulipatam Division and in the early sixties in the Guntur Division. In the Masulipatam Division it was proposed to charge from Rs 2.50 to Rs 7.00 per acre on irrigated land and from annas[5] four to Rs 4.00 for unirrigated land. Seventy-seven per cent of the land was under pure loamy Regar in Masulipatam. In Guntur as much as 90 per cent of the total area was under varieties of "Regar". Black cotton soil and red soil formed only two per cent. The land revenue rate on irrigated land in Guntur varied from Rs 1.75 to Rs 7.50 and on unirrigated land from annas four to Rs 4.59 per acre.[6]

Table 1 gives an account of the progress of cultivation of ryotwari (government) lands. Wet cultivation could make some progress till mid-sixties but showed a decline in the latter half of the decade. The early seventies showed a recovery except for the famine period of 1876-77. Dry cultivation showed a steady progress throughout the sixties but a marked decline was noticeable in the early seventies.[7]

Table 1 obviously gives only a partial picture as it does not throw light on the inam and zamindary areas. Table 2 gives a comprehensive picture of land under all the three tenures.[8]

### REASONS FOR FLUCTUATIONS IN WET AREA

The inefficient system of water-distribution, poor water management by the cultivators, land turning saline—"choudu"—when watered, and a high water tax appear to be the four principal reasons for the tardy and varied progress of wet cultivation in the Krishna district.

Land was first taken up near Kankipadu on the Masulipatam side and Duggirala on the Guntur side.[9] As the works progressed, water was sent down the Pullasur Channel on the one side, and the Tungabhadra on the other. Great eagerness was shown by the cultivators to have water for their land. Wet cultivation was earnestly taken up on either side of the river and the revenue rose steadily at the rate of rupees one lakh a year. This went on from 1857 to 1864. In the year 1864, it was realised that the demand for water was far exceeding its supply. Subsequently, a great apprehension was felt regarding adequate supplies of water. It was feared that the crop would fail for want of enough water just at the critical period of ear-filling in October.[10] On each occasion, however, a fortunate rise in the river or an opportune fall of rain saved it from destruction, but it did not prevent losses in many tracts. These tracts being on a higher level, or otherwise unfavourably situated could not receive enough water. Hence, distrust began to be felt in these areas on the ability of the anicut to supply water to all the needy tracts.

In the post-anicut period a great deal of land was taken up that was better suited for dry than wet cultivation. People had gradually found this out, but the rigid nature of water-rules prevented them from reconverting their wet lands into dry. As a result of such indiscriminate and over application of water for all lands, saline efforescence or "choudu" had set in, rendering some lands unfit for cultivation.

Once the affected farmers realised that some of the irrigated lands were subject to the evil of "choudu", a reaction was set in pleading for permission from the revenue authorities to reconvert their wet lands into dry. This was hastened by the disaster suffered in a cyclone in 1864 which desolated the district. Although dry crops suffered more than the wet, irrigation suffered a set back, as the cyclone, "swept off 22,000 men, women and children besides an enormous number of cattle and an untold amount of property".[11]

The problem of reconversion of wet lands into dry was more acute in the Repalle taluk. Almost at the same time when the calingulahs on the western bank channel at Kollur and Vellatur were completed, ryots refused to take up any land under these canals. Thornhill who went personally to investigate the matter described the situation quite graphically:

> I was myself encamped for ten days at Kollur in 1867, and had much conversation with the people about the work: they explained that the land commanded by the calingulah was the very best quality of alluvial dry soil, that it yielded more than two crops of dry grains and that where water had been applied to land similar to it, the soil had so often been spoiled by 'soudoo' (choudu), that they dreaded the experiment and positively refused to have anything to it.[12]

Thornhill went to convince the ryots about the utility of reconverting their dry lands into wet, but rather he appeared to have been convinced on the company by the forceful arguments of the ryots! He observed:

> Any one who has seen the western banks of the Kistna from the anicut to Repally covered with cholum, Bengal gram, varagee (variga) coriander seed and all the varieties of pulses and garden crops, could bear testimony to its wonderful fertility, and it is not a matter of surprise that the ryots should shrink from an experiment which might have given them increased income for a few years, but which their experience told them was too likely to convert much of their beautiful land into desert.[13]

The Board of Revenue had grudgingly recognised the evil of "choudu" in the Krishna district and allowed free option

TABLE 1: GOVERNMENT (RYOTWARI) LAND UNDER CULTIVATION, KRISHNA DISTRICT

*(in acres)*

| Averages for the Years | Wet Land | Dry Land | Total Cultivated Land* |
|---|---|---|---|
| 1859/60-1863/64 | 1,56,814 | 13,32,518 | 14,99,741 |
| 1864/65-1868/69 | 1,52,354 | 14,41,413 | 15,95,843 |
| 1869/70-1873/74 | 1,58,826 | 15,37,000 | 16,95,707 |
| 1874/75-1876/77 | 1,78,576 | 12,29,074 | 14,07,657 |

*Note*: * Total cultivated land includes wet, dry as also garden lands. As data on garden land are available only for four years i e, from 1859/60 to 1862/63, they are not separately shown in the above Table.

*Source*: Proceedings of Board of Revenue, May 8, 1978, pp 4109-22.

TABLE 2: STATEMENT SHOWING 4-YEARLY AVERAGE AREAS UNDER IRRIGATION UNDER ALL CHANNELS OF THE KRISHNA IRRIGATION SYSTEM, KRISHNA DISTRICT

| Period | Total Area under Irrigation* (in Acres) | Remarks |
|---|---|---|
| 1859/60-1862/63 | 1,31,161 | Period of expansion |
| 1863/64-1866/67 | 2,00,117 | Period of Stagnation |
| 1867/68-1870/71 | 1,91,802 | |
| 1871/72-1874/75 | 1,23,451 | Period of steady expansion |
| 1875/76-1878/79 | 2,66,550 | |
| 1879/80-1882/83 | 2,89,522 | |

*Note:* * Totals include Ryotwari, Inam and Zamindary areas. For the period 1876-1882, the Zamindary areas irrigated have been estimated. The above Table does not include data on areas irrigated under other (non-Krishna) systems of irrigation. For more details see footnote 8.

*Source:* PBR, May 8, 1878, pp 4109-22 and "Reports on the Administration of Madras Presidency", Various Issues.

to the cultivators to take up or refuse water. For lands affected by "choudu", water was offered freely and without any payment so long as they continued to be barren. When the option was given to the ryots to continue or relinquish the anicut-water, they took immediate advantage of it, lest the option should be withdrawn. They started systematically reverting to dry crops every third year.[14]

The water-tax appears to be the other major hurdle in the progress of wet cultivation. Immediately after the construction of the Krishna anicut, the water-tax imposed was Rs 3.37 per acre. By 1878, it rose to Rs 3.89. This appears to have held back the expansion of wet cultivation.[15] In the zamindary areas it was also checked by violent conflicts between zamindars and tenants such as occurred in the Nuzuid zamindary in 1870.[16] The average rate of assessment in the government (ryotwari) taluk of Gudivada was Rs 5.81 per acre. Only on highly fertile lands, the rate went upto Rs 7.50. But in the neighbouring Nuzividu zamindary even on ordinary lands the charge was Rs 10 and above. Most of the zamindars of the Krishna district and especially the Nuzividu and Vallur were well off to assist their ryots in times of famines but they had been extremely unwilling to do so. As Boswell, the Officiating Collector of the district observed: "The idea is to get as much as possible out of the ryot and when no more is to be got out of him, let him go to the devil!"

With such a system of tax collection, agricultural expansion in general and wet cultivation in particular was bound to suffer. No wonder, between 1863 and 1872 the wet area in the zamindaries was almost stagnant. Even in the later period the growth was rather slow.

## IV

## Cropping Pattern

During a period of nearly two decades from 1877-78 onwards, the total cropped area under ryotwari and inam categories increased significantly; from a little over 18 lakh acres to nearly 23 lakh acres.[17] As agriculture expanded the share of food grains had declined while pulses registered a slight increase.[18] Overall, the share of food crops in the total cropped area fell by about four percentage points. Non-food crops enlarged their share of total cultivated area (Table 3). Among the major Non-food crops, however, cotton which was one of the important cash crops of the district during the first half of the nineteenth century registered a significant decline in terms of both area and share in the total land under cultivation during the last quarter of the century. While oil seeds maintained a steady level for quite some time the shares of indigo, condiments and spices and other minor crops in the total cropped area showed an increase.[19]

TABLE 3: CROPPING PATTERN IN THE KRISHNA DISTRICT (RYOTWARI AND INAM LANDS)

| Triennia | Total Area under Cultivation (in 000s) | As Percentage in the Total Cropped Area | | | |
|---|---|---|---|---|---|
| | | Foodgrains | Pulses | Total Area under Food Crops (3 + 4) | Total Area under Non-Food Crops |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1877-79 | 1,809 | 73.74 | 4.72 | 78.46 | 21.54 |
| 1880-82 | 1,876 | 68.28 | 5.32 | 74.60 | 25.40 |
| 1883-85 | 1,946 | 68.95 | 5.54 | 74.59 | 25.41 |
| 1886-88 | 2,023 | 70.06 | 5.69 | 75.75 | 24.25 |
| 1889-91 | 2,180 | 70.20 | 5.62 | 75.82 | 24.18 |
| 1892-94 | 2,278 | 68.61 | 6.07 | 74.68 | 25.32 |

*Source*: "Reports on the Administration of Madras Presidency", Various Issues.

TABLE 4: SHARE OF MAJOR CROPS IN THE TOTAL AREA UNDER CULTIVATION IN THE KRISHNA DISTRICT (RYOTWARI AND INAM LANDS)

| Triennia | As Percentages in the Total Area under Cultivation | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Food Crops | | | | | | Non-Food Crops | | | | |
| | Rice | Great Millet (Cholum) | Spiked Millet (Cumbu) | Varagu | Other Coarse Cereals | Pulses | Cotton | Oil Seeds | Indigo | Condiments and Spices | Other Minor Crops |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 1877-79 | 19.14 | 13.69 | 10.92 | 12.34 | 17.65 | 4.72 | 10.91 | 4.83 | 1.57 | 2.25 | 1.98 |
| 1880-82 | 18.00 | 10.64 | 8.75 | 13.35 | 18.54 | 5.32 | 10.59 | 5.48 | 3.98 | 3.30 | 2.05 |
| 1883-85 | 19.17 | 20.35 | 8.52 | 13.20 | 7.81 | 5.54 | 9.21 | 5.94 | 4.84 | 3.37 | 2.13 |
| 1886-88 | 20.04 | 19.82 | 8.07 | 14.43 | 7.70 | 5.69 | 7.59 | 5.40 | 5.09 | 3.14 | 3.03 |
| 1889-91 | 21.03 | 21.02 | 8.72 | 13.29 | 6.14 | 5.62 | 8.41 | 5.68 | 2.79 | 3.62 | 3.68 |
| 1892-94 | 21.44 | 18.01 | 9.05 | 0.41 | 19.70 | 6.07 | 7.68 | 4.24 | 3.57 | 3.65 | 5.07 |

*Source*: (Annual) "Reports on the Administration of Madras Presidency", Various Issues.

Although the share of food crops in the total cultivated area declined over the period, rice increasingly became a major crop occupying well over one-fifth of the total cropped area. The share of rice in the total cereal-area increased from one-quarter in the 1870s to nearly one-third in the mid-nineties enabling the district to generate food surpluses.

### EMERGENCE OF FOOD SURPLUSES

In a historical study such as this, given the inadequate data, the compilation of a series of estimates of gross production, consumption and surplus, is a difficult task. The Board of Revenue, working on the basis of the sanitary commissioner's estimate of foodgrain requirements (1¼ lbs per head per day), calculated local consumption in 1875 at 296,000 tons. Seed would amount to another 28,000 tons. The Board took gross output to be 756,000 tons, leaving a surplus of 432,000 tons. However, it seems likely that their estimate of foodgrain area in the zamindaries was too high, and if we reduce it on the basis of the ascertained ratio of irrigated zamindari to other irrigated land in 1870-72,[20] and retain the Boards' yield estimate of 0.4125 ton per acre, gross output becomes 649,000 tons and the surplus 325,000 tons.

All that we can say is that the Board appears to have over estimated food surpluses, but the fact cannot be denied that a significant portion of the gross output was surplus.

## V

## Transport

There were some improvements in the

local transport system during our period but trade continued to be hampered by poor communication system.[21] Road mileage grew from 509 in 1877-78 to 562 in 1883-84. The increase in road mileage by the early eighties had given a fillip to trade. The number of bullock carts transporting goods increased from about 25,000 in the late seventies to a little over 62,000 by the late eighties.[22] The canal system was primarily designed for irrigation and this function often hindered its use for transport.[23] Its configuration also reduced its utility for trade. The cotton of Guntur for instance, could not be shipped direct to Cocanada.[24] The local sea ports were also neglected and their links with the hinterland poorly developed. It was some relief for the Krishna cultivator that a railway line along the east coast was laid in 1891-92. This went a long way in accelerating trade and augmenting the process of commercialisation of agriculture.

## VI

## Commodity Markets and Trade

So far we have tried to trace agricultural growth of the district taking into consideration the impact of irrigation on agricultural expansion, cropping pattern and "food surpluses". We have also examined the role of the built-in-disincentives of tax burden and an inadequate transport system acting as speed-breakers to the growth and transition to a commercialised agriculture till the early eighties.

As our series of data on transport system, *viz*, road mileage, boats, carts, etc, is not complete we cannot claim that these constraints on the growth and transition process had continued even for the latter period as well. Judging from the increase in the volume of trade and other qualitative evidence in the late eighties and thereafter, as we shall see in this section, it appears, that the constraints of tax burden and transport bottleneck were not acting as severely as they used to, till the early eighties. The Buckingham canal came quite handy to the Krishna cultivators and merchants to tap the grain markets of Madras and other Tamil districts. In the early nineties the coastal region, especially Krishna district, had come to benefit from rail-transport-a long standing demand of merchants and cultivators. As the price of grain, especially of paddy/rice was increasing, taxation ceased to be burdensome on the cultivators. Thus, the eighties and nineties was a crucial period for the agrarian economy of the district in undergoing a qualitative transformation.

As stated earlier "foodgrain surpluses" did emerge in the district although one might debate about its magnitude. Given the fact that rice had now become a staple food for some sections of the agricultural community, and that area under cholum and other crops was in fact increasing during the eighties and nineties, thereby indicating an increasing local demand for coarse grains, one would be surprised if the marketable (paddy/rice) surpluses were small, from the eighties onwards. In other words, we are postulating that with an increase in the area under paddy and increasing transport facilities (Buckingham canal, Masulipatam canal, etc, and Railways in the post-1890 period) and with the fast emergence of market towns of Guntur, Tenali and Bezwada, commodity markets (mainly in paddy) were emerging, widening the horizons of the paddy-growers. Paddy was slowly shedding its subsistence character and assuming commercial dimensions. The Krishna ryot was increasingly looking forward to selling his paddy/rice in the market towns. Though the peasant cultivator lacked familiarity with the market towns, coastal Andhra was not bereft of a trading caste, Komatis (Arya Vysyas), who traded in all commodities from piece goods to pulses, realised the potentialities of grain trade in the district. A large segment of Komatis who had over time settled down in the coastal towns expanded their family-based operations deep into the countryside. But this had stirred the forward looking sections of the Krishna cultivators especially the Kammas into the realisation that instead of depending on these Komati-traders they could directly transport their surplus grains to the market towns either by bullock-carts or by boats.

TABLE 5: PARTICULARS OF TRADE OF THE PORTS* IN THE KRISHNA DISTRICT

| Triennia | Total No of Vessels (Foreign and Native) | Tonnage | Value of | |
|---|---|---|---|---|
| | | | Exports Rs | Imports Rs |
| 1862-64 | 712 | 71,836 | 23,36,593 | 19,83,907 |
| 1865-67 | 593 | 74,632 | 35,94,975 | 21,45,174 |
| 1868-70 | 751 | 82,527 | 29,87,611 | 23,86,707 |
| 1871-73 | 618 | 98,029 | 23,90,600 | 16,60,875 |
| 1874-75** | 777 | 1,94,924 | 32,48,501 | 19,79,125 |

*Notes:* * The ports in the Krishna district include Masulipatam, Nizampatam, Kothapalem, Epurupalem and Motupalli.

** This row has averages only for two years.

*Source:* "Reports on the Administration of Madras Presidency", Various Issues.

TABLE 6: PARTICULARS OF RAW COTTON DESPATCHED BY CANAL FROM THE GUNTUR DIVISION OF THE KRISHNA DISTRICT

(Five Yearly Averages, 1882-1901)

*(Bales of 400 lbs despatched)*

| Period | Despatched to | | Total Bales Including Other Stations |
|---|---|---|---|
| | Cocanada | Madras | |
| 1882-86 | 18,214 | 4,843 | 23,057 |
| 1887-91 | 22,113 | 2,558 | 27,364 |
| 1892-96 | 20,202 | 5,782 | 26,901 |
| 1897-1901 | 17,100 | 12,834 | 29,934 |

*Source:* Board of Revenue (Revenue, Settlement, Land Records and Agriculture), No 463, December 17, 1903.

> In Bezwada there is a regular corn exchange where the price of paddy is fixed daily by the ryots with their samples, and the buyers are either merchants who buy on commission for Madras or agents of Bombay and Poona Companies. The Tenali prices are ruled by the prices fixed at Bezwada, Masulipatam, Madras, Secunderabad, etc. The merchants who buy or else the rich cultivators who are nearly all becoming traders *store their grain till prices have risen and bring it to Tenali. Paddy is exported wherever the highest prices is obtainable* . . . Paddy and rice were also sent to Bellary in case of scarcity there or to Vizianagaram or Bangalore.[25]

Another dimension was added to the grain trade. The Krishna cultivators realised that it was easier to export de-husked and boiled paddy as against raw paddy. Hence rice mills sprang up in many of the larger villages "*often built with the capital of the local ryots*"[26] (emphasis added).

> "Nearly every village has its hand-mills, often in considerable numbers and a large steam power rice factory is being built at Tenali."[27]

The numerous rice mills that came up in the villages had to compete with the traders of the nearby market towns.

> They could not hope for annually gutted markets or a succession of bad seasons to drive peasants into dependence on them. If their rates were not close to those offered in the main (market) towns, their mills, will grind to a halt.[28]

This led to a near integration of paddy markets in the district. The increasing awareness of the profitability of his produce made the Krishna ryot look around and watch the imports of grains from Burma and sell his produce at an appropriate time. As a Royal Commission on Agriculture put it:

> ... Once he (the ryot) has paid his land revenue (kist) he keeps a steady eye on the prices primarily for rice imports from Burma, and is *in no haste to come to towns with the agent or buyer if the towns do not suit him*. The better market for his produce (Madras and Tamil districts), is close at hand; he sells his husked rice to local mill-owners who hull it before passing on and are at least as much concerned to keep their mills working as they are to beat down the price.[29]

So much for the qualitative evidence on market towns, transition of paddy into a "commercial crop", awareness of the paddy growers about the markets and the dynamic and shrewd participation of the Krishna ryot to produce for and sell his commodity in the markets. But paddy was not the only agricultural produce that the ryot sold, although it became over time the major item of his interactions with the market.

As was stated in the earlier sections Krishna district was growing cotton on large scale in the mid-nineteenth century. But during the second half of the 19th century the cotton area had gradually decreased. Part of this decline could be attributed to the collapse of the cotton-boom in the mid-sixties.

The other agricultural produce that entered into the markets of the Krishna district were oilseeds. The dry taluks of the district increasingly relied on the cultivation of oil seeds which became a major item of the trade in the commodity market of the district.

Let us look at the quantitative dimensions of trade in the commodity market. Trade data of the district which are avilable in the official records are as patchy as those on transport. The following account tries, as far as possible, to analyse the composition of trade and indicate the broad trends emerging from an economy in transition.

For the sixties and seventies, data on composition of commodities traded are hard to come by. We have some data on the sea-borne trade of the district. Although the number of vessles involved in the sea-borne trade had not increased between 1862 and 1875, the tonnage of the ships showed a marked rise in the early seventies (see Table 5). The mid-sixties and early seventies witnessed a marked rise in the values of exports from, and imports into the district. Between them, the values of exports gained an edge over the values of imports.

The Guntur Division of the Krishna district had an upper edge over that of the eastern delta in terms of growth of non-food crops like cotton and indigo. Table 6 gives data on raw cotton despatched by Canal from the Guntur Division between 1882-83 and 1901-1902. Cocanada port in the neighbouring Godavari district and Madras city were the two major destinations of the Guntur cotton trade. As Table 6 shows, cotton trade did not make much headway in the direction of Cocanada. Trade towards Madras city, however, showed some promise in the nineties. The total quantity of raw cotton exported from the Guntur division almost remained stagnant during the eighties and nineties. As for the local rates of raw cotton in the division either they remained stationary or showed a decline.

As stated earlier we could not obtain a series of data on trade from the official records. What we do get are the occasional sets of a few figures for short periods of three or four years; one has to squeeze inferences from such meagre data.

Grain trade between Krishna district and the Nizam (Hyderabad) state and the other districts of Madras Presidency appears to have been on the increase in the late eighties and early nineties. In the year 1888-89 sea-borne net exports of grain from the Krishna district were a little over 16,000 tons. In the next three years they had gone upto 22,546 tons. Rail-borne net exports through the Nizam's Railway line increased from five tons in 1888-89 to nearly 6,400 tons in 1891-92.

As for traffic on the navigable canals we have some evidence to believe that the grain trade was significant in the district. In the year 1891-92, foodgrains occupied a place of primary importance in terms of quantities and values. In the year 1891-92 foodgrains formed a little over 46 per cent of the total bulk of the up-traffic and 21 per cent in the down-traffic. In 1892-93, of the total quantities, foodgrains formed 48 per cent in the up-traffic and about 37 per cent in the down-traffic. Even in terms of values, foodgrains form-

Table 7: Purchases and Sales of the Rights of Ryotwari Land Holderrs and Minor Inamdars of Krishna District

| | 1893-94 | | | 1894-95 | | | 1895-96 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total Sales | | | Total Sales | | | Total Sales | | |
| | No | Extent (Acres) | Value (Rs) | No | Extent (Acres) | Value (Rs) | No | Extent (Acres) | Value (Rs) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| I Class of Purchases: | | | | | | | | | |
| Total | 7,312 | 52,351 | 14, 50,834 | 6,302 | 24,579 | 11,02,158 | 7,350 | 26,406 | 13,13,145 |
| Agriculturists | 5,474 | 36,605 | 11,07,239 | 4,937 | 16,778 | 8,15,338 | 5,576 | 18,756 | 9,95,845 |
| Traders | 698 | 3,007 | 1,21,241 | 663 | 3,309 | 1,04,609 | 672 | 3,127 | 1,51,082 |
| Field Labourers | 203 | 7,426 | 21,360 | 241 | 474 | 40,700 | 211 | 323 | 16,291 |
| Others | 937 | 5,313 | 2,00,994 | 461 | 4,018 | 4,41,471 | 891 | 4,200 | 1,49,927 |
| II Class of Sellers: | | | | | | | | | |
| Total | 7,312 | 52,351 | 14,50,834 | 6,302 | 24,579 | 11,02,158 | 7,350 | 26,406 | 13,13,145 |
| Agriculturists | 5,693 | 35,956 | 11,28,016 | 4,644 | 17,522 | 8,32,001 | NA | 8,929 | 3,47,328 |
| Traders | 40 | 1,608 | 52,646 | 311 | 1,251 | 53,697 | 366 | 1,766 | 80,799 |
| Others | 1,579 | 14,787 | 2,70,172 | 1,347 | 5,806 | 2,16,460 | NA | 15,711 | 8,85,018 |

*Source*: Revenue (1898) Revenue Current No 6320 (Confidential No 72) Board of Revenue. Revenue dated September 20, 1898, p 14. For want of space only bare essentials are presented above. For more details see the Seminar article.

ed the single largest item of the canal traffic, *viz*, 29 per cent in 1891-92 and 22 per cent in 1892-93. The pattern of canal traffic was not different on the Buckingham canal reaching towards Madras city. Nearly one-fourth of the total quantum of goods transported on this canal were food grains. In terms of values they formed, however, only 16 per cent of the total trade.

In other words, foodgrains increasingly came to occupy an important place in the total trade transacted from the district. It was but an indication that paddy, the so-called subsistence crop, was increasingly grown for the market.

The total value of up-traffic on the Masulipatam canal, (from Masulipatam towards Bezwada) in the year 1890-91 was Rs 18,18,237. Foodgrains formed about 28 per cent of this traffic. But if treasure is excluded from the total value, i e, if only goods transported are taken into consideration, then the value of the traffic comes to Rs 11,47,722.[30] Foodgrains as a proportion of this value formed about 45 per cent. Thus, food grains assumed an important role in the trade towards Bezwada, the major commercial centre in the Eastern portion of the district.

As for the down-traffic it was oil seeds, nuts and oils which had a major share. Excluding the treasure the total value of commodity-flow from Bezwada towards Masulipatam was Rs 21,30,941. Oil seeds, nuts and oils formed as high as 53 per cent of the total value of the commodity flow towards Masulipatam. Oil seeds were mainly grown in the uplands of the district *viz* in Bezwada, Nuzividu and Nandigama taluks of the eastern delta. Understandably this dry land produce was carried to the coastal delta areas like Masulipatam.

In the year 1891-92 foodgrains in the up-traffic and oils and oil seeds in the down-traffic formed major proportions of the total traffic. Foodgrains formed a little over 30 per cent of the total up-traffic and oils and oil seeds formed one-fourth of the total down-traffic. The particulars of treasure were not available for that year. If one excludes the treasures from the values of the traffic both ways, the importance of foodgrains, and oils and oil seeds in the total value of commodity flows would be all the more striking.

## VII

## Credit Market

We have seen in the earlier sections how the dynamism that was injected into the agriculture of the district in the early fifties, with the provision of irrigation, had gradually started yielding results and by the late eighties and nineties the emerging marketable surpluses (especially paddy), improved transport facilities and the rise in grain prices generated a market-consciousness among the forward looking sections of the agricultural community.

An agrarian economy in a period of transition would, more often than not, leave the impact of its stirrings on the credit, land and labour markets. In this section, we try to capture a segment of the credit market, the one for which we have some empirical evidence. In an agrarian economy credit transactions are not always amenable to recording for posteri-

TABLE 8: SALE VALUE OF LAND, KRISHNA DISTRICT, 1886-1900

*(in Rs)*

| Taluk | Average for the Years | Dry Land | | | Wet Land | | | Garden Lands (Only with Wells) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | A | B | C | A | B | C | A | B | C |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| | | | | | Delta Lands | | | | | |
| Tenali | 1886-90 | 88.87 | 183.75 | 61.54 | 178.50 | 57.50 | 40.66 | 249.00 | 110.00 | 132.50 |
| | 1896-1900 | 292.50 | 111.50 | 60.50 | 614.00 | 614.00 | 105.66 | 446.00 | 267.00 | 202.00 |
| | | | | | Up Lands | | | | | |
| Guntur | 1886-90 | 96.75 | 38.95 | 81.18 | NA | 309.00 | 169.00 | 10.50 | 22.50 | 127.50 |
| | 1896-1900 | 739.00 | 48.18 | 91.50 | 1,274.50 | 165.00 | 95.00 | 99.50 | 340.00 | 91.50 |

*Notes*: A = Alluvial and Permanently improved.
B = Regar Series.
C = Red and Sandy Soils.

*Source*: "Statistical Atlas of Madras Presidency, 1908", p 135.

TABLE 9: AVERAGE DAILY WAGE RATE FOR RURAL UNSKILLED LABOUR

| Triennia | Andhra Districts | | | | | | |
|---|---|---|---|---|---|---|---|
| | Ganjam Rs-a-p | Visakhapatnam Rs-a-p | Godavari Rs-a-p | Krishna Rs-a-p | Nellore Rs-a-p | Cuddapah Rs-a-p | Kurnool Rs-a-p |
| 1877-79 | 0-1- 7 | 0-1- 6 | 0-3- 0 | 0-3-6 | 0-3- 2 | 0-2- 5 | 0-3-5 |
| 1880-82* | 0-1- 5 | 0-1- 6 | 0-2- 7 | 0-3-4 | 0-3- 1 | 0-2- 5 | 0-3-7 |
| 1883-85 | 0-1- 6 | 0-1- 5 | 0-2- 9 | 0-3-5 | 0-2-11 | 0-2-11 | 0-4-7 |
| 1886-88 | 0-1- 8 | 0-1- 6 | 0-2- 8 | 0-3-7 | 0-3- 0 | 0-2-11 | 0-5-0 |
| 1889-91 | 0-1- 8 | 0-1- 7 | 0-2-10 | 0-3-3 | 0-2- 8 | 0-3- 0 | 0-6-1 |
| 1892-94 | 0-1-10 | 0-1-11 | 0-3- 2 | 0-3-4 | 0-2-10 | 0-2- 9 | 0-2-2 |

*Notes:* To capture even the minute changes in the wage-rate the old denominations have been retained.
Sixteen annas made one Rupee and twelve pies made one anna.
* Wage data for the year 1882-83 are not available. So this wage rate is an average for two years, i e, 1880-81 and 1881-82.

*Source:* "Reports on the Administration of Madras Presidency", Various Issues.

ty. Innumerable transactions escape the official records. Grain loans, short-term hand-loans ("chebadullu"), loans on mortgage of houses, gold and silver could not enter into our analysis. We could cull out some data on land mortgages, value of land, simple mortgages and mortgages with possession, purposes of borrowing loans, sales of land, particulars of buyers, etc. In short 60 per cent of the cases of simple mortgages involving ryotwar landholders and minor inamdars and the lenders were agriculturists. Traders accounted for only about one-fourth of the total number of cases. Even in terms of the extent of land mortgage and its value, the same pattern holds good. In the cases of mortgages with possession, nearly three-fourths of the total number of creditors were agriculturists, and traders accounted only for about 12 per cent of the cases. In terms of the extent of land and its value agriculturists accounted for nearly 67 per cent of the cases. Discharge of other debts (45 to 69 per cent) and marriage and other domestic expenses (21 to 31 per cent) were the major purposes of borrowing money on land mortgage. For the cultivators in the permanently settled estates, agriculturists accounted for about 70 per cent, and traders about 25 per cent of the total creditors. Together these two categories of creditors accounted for 93 to 97 per cent of the total number. Almost the same pattern holds good for the extent of land mortgaged and its value. Again, like in the case of the ryotwar landholders loans were taken mostly for discharge of old debts, marriage and domestic expenses. Mortgages with possession were very few to merit a detailed analysis. For the tenants in the proprietary estates agriculturists advanced loans on mortgage in 50 to 60 per cent of the total borrowings. The traders' share varied from 13 to 23 per cent and the rest by "others". In the group of "others" the contribution of (i) officials and (ii) professionals like lawyers was significant. These two categories together have a share in "others", ranging from 41 to 64 per cent in terms of number and 31 to 95 per cent in terms of acreage. Mortgages with possessions were very few.

We could cull out some information on the particulars of sales and purchases of the right of ryotwar landholders and minor inamdars. It should, however, be admitted that these statistics do not give an idea of the total debt or of the total extent of land which had been permanently or temporarily alienated from the agricultural classes. These data were compiled from information supplied by the registration offices.

> They left out ... cases in which a written instrument dispensed with under section 54 and 59 of the Transfer of the Property Act i e, the cases in which the principal money secured of the value of land sold is less than Rs 100.

Even so, they are useful to know if the land was passing on from the agricultural to the non-agricultural classes. In other words, as a result of the transition in a subsistence economy, whether merchant capital was entering into the land market or the agricultural community as a whole was holding its own. The distinction between agriculturists and traders might be blurred if the substantial cultivators themselves indulged in trade. We have seen in the earlier section that the substantial cultivators tried to establish direct links with the commodity markets. However, they had not become traders or commission agents to any significant extent, although they exhibited considerable shrewdness in exploiting the opportunities in the commodity markets. As stated earlier, Arya Vysyas, the traditional trading community of coastal Andhra had been historically active in the trade of all varieties like grain-trade, trade in provisions, "cash-crops", piece goods, etc. Only in salt, were the Banjaras dominant. Given this traditional role of the Arya Vysyas and the emerging phenomenon of a proud, dynamic and aggressive cultivator sure of himself and his status in the agrarian society, it was unlikely that he would have become a "whole-time trader". After the harvest the cultivator would certainly look around for the best time and market to sell his marketable surplus. In that process he might even try to outwit Komati—the traditional trader. But once the surplus was disposed of, the cultivator would return to his local factional politics, moneylending, consolidation of his power at the village and taluk levels—activities which increase his status in an agrarian society. In other words, we are suggesting that the distinction between the agriculturists and traders can be accepted, by and large, in drawing inferences on land-transfers, through mortgages from one category to the other. To be sure, the evidence presented in the ensuing pages is not exhaustive. Even so, this might throw some clues to the pattern of land transfers.

Table 7 gives information on the purchases and sales of rights of ryotwar landholders and minor inamdars. On average for the three years, voluntary sales of land accounted for over 90 per cent of the total sales. Well over 70 per cent of the total sales of land were by the agriculturists. About 97 per cent of the total sales by the agriculturists were of a voluntary nature.

On an average for the three years, i e, 1893/94 to 1895/96, in about three-fourths of the cases, land was purchased by the agriculturists themselves. The number of cases where traders purchased land did not exceed 10 per cent of the total. Either in terms of average extent of land per sale transaction or per acre land value no single category of buyers appears to be in a relatively advantageous position over the others. Field labourers acquiring land should not be a surprising phenomenon. In the year 1893-94 they appeared to have bought land of low quality for, the per acre value was as low as Rs 2.88. But during the next two years they had bought superior types of land. Understandably, their average extent of land per purchase was relatively the lowest compared to all other categories. Of the 20,964 total land sales during the three years, the number of purchases by field labourers was 655 or formed only 3.12 per cent of the total. However, this phenomenon should not be magnified. We will revert to this point in the succeeding section. A general comment on mortgage and sale transactions is in order. In the Madras Presidency, in the districts which registered agrarian expansion and growth the agriculturists were able to hold their own and also acquire more land. These districts were Visakhapatnam, Godavari, Krishna, Tanjore and Salem. As per the Revenue Current No 6320, dated November 20, 1898, "... in the remaining districts they (agriculturists) lost more or less, the largest amount being in Madura. After this comes Coimbatore."

## VIII

## Land Market

An expanding agrarian economy witnessing growth would, by and large, activate the land market. Unless the economy is troubled by a very sparse population or an absence of an immigration into the region, land prices would increase. This activity in the land market should be all the more striking in a region such as coastal Andhra endowed with irrigation systems from the middle of the 19th century. An expanding market for agricultural produce and a slow but steady improvement in the infrastructure—especially transport—would give an added impetus for the land prices to move up. These propositions bear some relevance to the data provided in Table 8.

The district of Krishna can be broadly divided into two regions (not necessarily mutually exclusive), *viz*, uplands and delta lands. Uplands can be further classified into dry lands, wet lands and garden lands. Each sub-group can be further classified into (i) Alluvial and permanently improved (I and II), (ii) Regar series (III and IV), and (iii) Red and sandy soils. This classification is based on the fertility of the soil. A similar type of classification holds good for the delta lands as well. Table 8 gives information on land prices for 15 years from 1886 onwards.[31]

In view of the economic development discussed in the earlier sections and the fact that the rural credit market was not dominated by the non-agricultural classes, the demand for land amongst the substantial cultivators and the agricultural community in general must have increased over time. Given this background, it is not surprising to find an increase in the land prices of the delta region over a short period of 15 years. True, the data that we could gather does not take into account the fluctuations in the general price level. But the substantial increases in the land prices—especially the wet and garden lands of the delta region—do point out to an increasing demand for land. This, inspite of the fact that density of population in the Krishna district was relatively less than in the neighbouring districts like Godavari and Visakhapatnam. This demand for alluvial and permanently improved land, reflected in the sharp increase in their prices, has to be seen in the light of an increase in the price of foodgrains—especially paddy in the late eighties and nineties of the 19th century. It was on alluvial and permanently improved soils of the delta region that paddy was extensively grown in the district. And with a sharp increase in the price of paddy, coupled with an expanding market facilitated by the advent of rail transport in the early nineties, the demand for paddy-growing, alluvial and permanently improved land was increasing. No wonder, land prices were moving up during this period.

## IX

## Labour Market

It was argued earlier that the growth in agriculture initiated a process of commercialisation in agriculture, and, notwithstanding the handicaps that it encountered, it did leave its impact on the credit and land market. How did the labour market behave? How did the growth process and commercialisation in agriculture affect the lot of the agricultural labour?

It was stated by some authorities like Srinivasa Raghava Iyengar that during the second half of the 19th century agricultural wages had been doubled and a large number of the agricultural labourers acquired lands, becoming *pattadars* (landholders).[32] Since Raghva Iyengar's analysis is relevant only upto 1890, let us concentrate on the period 1850-1890.

The decennial growth rates of population of the district for the first four decades of the second half of the 19th century were, 9.48 per cent,[33] 21.60 per cent, 6.62 per cent, and 19.83 per cent respectively.[34] The growth rate of population was low during the third decade due to the great famine of 1876-78. The significant growth rate of population for the decade ending with 1891 may be attributed to low base of population density, faster rate of agricultural growth and improvement in transport facilities.[35] The 1876-78 famine which had adversely affected the neighbouring districts of Nellore, Visakhapatnam and Ganjam drove a large number of people from these districts into the Godavari and Krishna districts. The irrigated tracts of Krishna and Godavari had to absorb these immigrants, a majority of whom stayed back. In the Krishna district, of the total population of 15,48,480, as many as 5.63 per cent were such immigrants in 1881. This percentage rose to 5.82 by 1891. It is interesting to note that while the growth rate for thirty years ending with 1901 was 48.4 per cent for the entire district, Nuzvid, Gudivada, Tenali, Guntur and Bezwada taluks had registered growth rates of 75.6, 69.6, 57.9 and 49.5 per cent respectively. And these were the taluks most protected by the irrigation system.

Agricultural labourers (male) as a proportion of total male agricultural workers constituted 14.5 per cent in 1871, 23.4 per cent in 1881 and 21.4 per cent in 1891. Thus it is important to note that these proportions rose sharply in the seventies and eighties of the last century.[36]

Information on agricultural wages for the pre-1873 period in the Madras Presidency is quite sketchy and discontinuous. The wage-data that we present (Table 9) refer to the casual labour. Casual labourers were usually paid a higher wage than attached labour. The former were by and large paid in cash and the latter in kind.

As for the pre-seventies, we have some qualitative evidence to show that wages were not increasing. The Board of Revenue after communicating with the Collectors of several districts in 1863, came to the conclusion that "as a rule all agricultural labourers were still paid in grain and that these grain wages had not risen materially during the late years".[37]

The Board made another round of enquiries with the Collectors in the early seventies which yielded the fact that wages in kind paid to farm labourers remained stationary and that the rise in money wages was neutralised by a rapid rise in prices.[38] Thus, it appears that between 1863 and 1872 there was no increase in the real wages of the agricultural labourers in the region.

The daily wage rate for casual/field labour in Krishna district was higher than many of those of the coastal and south-western districts of Andhra (see Table 9). This was perhaps due to two factors. Firstly, as stated earlier, the density of population in the district was comparatively low. Secondly, the expansion of trade, the starting of construction activity (railways, etc) and urbanisation and the emergence of market towns weaned away a section of rural labour thereby retaining their bargaining power. However, the influx of immigrants from the economically backward districts of Visakhapatnam, Ganjam, Nellore, etc, most of whom stayed back in the district, forced the money wages to stay stagnant. For nearly two decades beginning with 1877-78 there was absolutely no upward movement in the wages (see Table 9). On the other hand, given the fact that cash-payment of wages to casual labourers was increasingly replacing kind payments, and that prices of food grains had been increasing in the eighties and nineties we find that the real wages of the agricultural labourers in the Krishna district had been, in fact, deteriorating. This appears to be a paradox in the rural set up. Raghava Iyengar's contention that many of the landless labourers acquired lands and became *Pattadars* appears to be a piece of exaggeration. We have noted earlier (in the Section on the credit market) that there were some cases of labourers buying up some lands. But such cases were few in number. Given the family composition of working members, some savings could accrue to certain families of the attached labourers and such fortunate households may have bought up some lands. Thus, the phenomenon of landless labourers acquiring lands and becoming pattadars could not have been a general feature of the entire labouring class.

The general decline in rural wages from the late seventies with a simultaneous increase in the area under cultivation especially area under paddy—strikes one as apparently illogical. For, with an increase in the area brought under plough, the demand for labour should have been on the increase. An increasing demand for labour and a concurrent fall in wages do not happily fit in, unless there was a spurt in the growth of native agricultural labour, or a large scale immigration into the area from outside the district. We have tried to underline these reasons as important factors in understanding the labour market of the district. The immigration from the neighbouring districts of Nellore, Ganjam, Visakhapatnam, etc, was a powerful factor in blunting the bargaining power of the labourers.

> The Famine of 1876 and 1877 brought in considerable number of poor people from the neighbouring districts who found themselves as field labourers, coolies, palanquin bearers and domestic servants. This rendered labour cheap. Most of them remained here permanently.[39]

As the attached labourers were by and large paid in kind, they were probably protected from the fluctuations in grain prices. But even this system of kind payment did not continue for long. As the economy was increasingly getting monetised, kind payments were giving way to cash payments. This was happening as early as the eighties. Moreover, "paddy or unhusked rice, which in 1850 was returned at Rs 24 per garce (9,860 lbs) is now (1884) was Rs 68."[40] Hence even if one were to concede that (money) wages had been doubled during the period, one finds that the labourer was no better off since prices of foodgrains had increased almost threefold during this period.

## X

## Conclusions

The subsistence farmers of Krishna district exhibited abundant enthusiasm towards irrigation during the late fifties and early sixties of the nineteenth century. However, an inefficient system of water-distribution, the farmers' relative unfamiliarity with water management, and the land turning saline efflorescence dampened their spirit and slowed down the spread of wet (paddy) cultivation in the late sixties.

Rigid water rules prohibiting the farmers from experimenting with crop-mix and a high tax burden—especially a water-tax upto Rs 4 per acre—acted as built-in-disincentives under a colonial regime thereby slowing down agrarian expansion and growth.

Paddy—the "subsistence crop" so called—could transform itself into a "commercial crop" due to the assured irrigation, expanding market, rising prices and improvements in transport facilities from the late eighties and early nineties of the 19th century.

By the mid-seventies the district was able to produce food surpluses, especially paddy. The farmers of the area were eager to sell their produce both within and outside the district. Finding the road and canal transport systems inadequate the enterprising sections of the farmers—especially the Kammas—invested in rice mills and competed with the traditional traders-the Arya Vysyas (Komatis)—in the grian trade at the market towns of Bezwada, Guntur and Tenali. By the early nineties when a rail road was constructed along the east coast connecting Madras and Calcutta, both the Kammas and Komatis became ever more active thereby reaping the fruits of commercialisation in agriculture.

The transition that was taking place in agriculture left its impact also on the credit, land and labour markets. In a period of transition, the agricultural community as a whole appeared to have held its own against the non-agricultural categories like the traders and pure moneylenders. In the credit market the dominant position was held not by the pure traders but by the substantial cultivators who became the beneficiaries of the process of commercialisation. The Komati traders by and large confined themselves to trade transactions in the market towns of coastal Andhra. The rise of the Kammas—a farming community— in the socio-economic and cultural life of present day Andhra Pradesh can be directly attributed to the impact of commercialisation of agriculture in coastal Andhra.

As a result of this growth process and increasing monetisation of the economy, expansion of commodity and credit markets, rise in agricultural prices and improvements in transport, sections of farmers with a land base accumulated cash surpluses thereby activating the land market. As a result of increasing demand for paddy-growing alluvial and permanently improved land, its price had registered a substantial rise during the last one and half decades of the nineteenth century.

Agricultural growth and commercialisation appeared to have by-passed the labourers. In spite of the fact that increase in employment avenues in trade, transport and construction in the emerging market towns of Bezawada, Guntur, Bapatla and Tenali had weaned awav a section of the rural labour force to non-agricultural occupations, the wages of agricultural labourers did not show an upward trend. As a matter of fact, in a growing economy their conditions appeared to have paradoxically deteriorated.

Overall, the transition in the backward agrarian economy under Colonial rule was long, slow and incomplete. The benefits of this limited transition in agriculture accrued to the enterprising, acquisitive and dynamic segments of the landowning cultivators—especially the Kammas—and the shrewd Komatis—traders of the market towns.

## Notes

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1 For more details see G N Rao, 'Stagnation and Decay of the Agricultural Economy of Coastal Andhra', *Artha Vijnana*, September, 1978, Vol XX, No 3.

2 Arthur Cotton, who championed the cause of irrigation was the brain behind the Godavari and Krishna anicut systems. The Krishna anicut was built during the period 1852-1855.

3 Letter from Goldingham to J D Bourdillon, Secretary to Government, dated July 9, 1855 quoted in "Report on the Direct and Indirect Effects of Godavari and Krishna Anicuts in Rajahmundry, Masulipatam and Guntur Districts and the Coleroon Anicuts in Tanjore and South Arcot Districts 1852-58". (Hereafter referred to as, "Report on the Direct and Indirect . . .") Madras, published by H Smith, p 156.

4 "Report on the Direct and Indirect . . .", op cit.

5 One anna was equivalent to one-sixteenth part of a Rupee.

6 Gordon Mackenzie, "A Manual of Kistna District", Madras, 1883, p 356.

7 Proceedings of Board of Revenue (Hereafter referred to as PBR), May 8, 1878, pp 4109-22. Table 1 furnishes only a partial picture of the progress of irrigation in the district as the figures relate only to the ryotwari lands.

8 Particulars of land irrigated under the three tenures for the period 1859-1876 have been collected from PBR. But for the subsequent years figures are culled out from the (annual) Reports on the Administration of Madras Presidency. Irrigated lands of the zamindary areas had to be estimated. The ratio of government and inam areas irrigated (put together) to the zamindary areas for the period 1870-72 stood on average at 1.0:0.156. On this basis the zamindary land irrigated has been estimated for the period 1878-1883.

There are apparent discrepancies between the data on 'wet' land in Table 1 and 'land irrigated' in Table 2. In Table 1 area under 'wet' includes lands watered by both the

Krishna, Godavari systems as well as other sources whereas in Table 2 the 'irrigated area' refers only to the land watered by the Krishna system.

9 Letter from Thornhill to the Ag Secretary to the Board of Revenue dated May 26, 1869, PBR, No 89, pp 4667-73.

10 Thornhill, op cit.

11 Ibid.

12 Ibid.

13 Ibid.

14 Ibid.

15 Actually according to one source the water tax was as high as Rs 4.00 per acre. See PBR July 21, 1863, No 205, pp 1540-44. For want of space, details of these data are not furnished in the present article. According to the Board's proceedings the value of the gross produce per acre in wet cultivation (growing paddy) was Rs 24.09. While the land assessment was Rs 3.13 and water tax Rs 4.00, cost of cultivation worked out to be Rs 5.64. In other words, the total expenses borne by the cultivator on an acre of wet land was Rs 12.77 leaving a net profit of Rs 11.32 to the cultivator. Thus, while total tax as a proportion of gross produce was 0.30, total tax as a proportion of net profit was as high as 0.63.

16 Leman's Report dated June 1, 1872, PBR, July 1872, No 1588, pp 3342-46.

17 Particulars of cropping pattern are available only for the ryotwari (government) and inam lands. Quite often the official records are silent on the zamindary areas. Hence inferences had to be drawn from a partial picture of the agrarian setting.

18 For the year 1882-83 area under pulses was not specifically stated in the annual report on the Administration of Madras Presidency. On the basis of data for the preceding and following years area for the year 1882-83 is roughly estimated at 1,00,000 acres.

19 Crop-wise data on non-food crops for the year 1882-83 are not available in the records. Hence for the triennium 1881-82, the averages are only for two years. So is the case with the triennium, 1892-94.

20 The ratio of the irrigated area in the ryotwari and inam areas pur together to the zamindary areas stood at 1.0:0.156 for the period, 1870-72. In other words, for every one acre of irrigated land in the ryotwari and Inam areas there was 0.156 acre of irrigated zamindary areas in the district. Taking this as a proxy for all cereal areas we arrive at an estimate of 2,12,160 acres of cereal area in the zamindary lands for the year 1875. Adding this figure to the total ryotwari and inam areas (i e, 2,12,160 plus 13,60,000) we arrive at an estimate of 15,72,160 acres of cereal area for the year 1875.

21 Large quantities of rice used to be exported from the Krishna delta to Hyderabad, Bellary, Cuddapah and Kurnool. However, the existing road transport system was unable to meet the requirements of trade. The weakness of the road transport system was amply demonstrated by the manner in which the district Collectors repeatedly stressed the need to construct the railway line in the areas. For instance the Collector of Krishna district observed: "A short line of 180 miles over a country without an engineering difficulty would connect the capital of the Deccan with the canal system of the rice-growing deltas of the Godavari and Krishna with the ports of Cocanada and Masulipatam and through them with the whole coast of the Bay of Bengal. It would also connect Bombay in a direct line with the nearest port on the eastern coast". See Thornhill, PBR, May 26, 1869, No 4, 292, pp 4667-73.

22 These data are culled out from the Administration Reports of the Presidency. From 1877 to 1883 the number of bullock carts remained at about 25,000. From 1884-85 onwards one finds a gradual increase in their number from 34,000 to a little over 62,000 by 1889-90. But during the year 1890-91 the number suddenly shrank to 45,700. Part of the reason could be the near famine conditions which set in at the beginning of the 1890s which had depleted livestock as well as marketed surpluses.

23 For instance the Ellore (Eluru) canal, in which a large quantity of water was required, considerable silting used to take place frequently impeding the traffic. Whereas the necessity for keeping sufficient water for heavily laden boats led at times to more water being taken into canals and surplused out, at other times to less water being given out of the canal to its distributaries than was necessary for irrigation.

24 At Seethanagaram cotton would be shipped on a ferry boat which was insufficient for the traffic. When cotton, after waiting for several days to cross the Krishna river, was landed on the other bank, it had again to be carted to the place where it was shipped on the boat bound direct to Cocanada. The Collector complained that constant interruptions in the transit, and the inevitable delays and exposure to rain, were very injurious to the cotton trade.

25 Board of Revenue (Revenue Settlement, Land Records and Agriculture), No 463, December 17, 1903.

26 Ibid.

27 Ibid.

28 David Washbrook, 'Country Politics in Madras, 1880 to 1930' in *Modern Asian Studies*, Vol 7, No 3, 1973, p 511.

29 Cited in Washbrook, op cit. Also see his "The Emergence of Provincial Politics, the Madras Presidency, 1870-1920", New Delhi, 1977. See especially Chapter 3 for an excellent comment on the agrarian society of Andhra.

30 For want of space, item-wise breakdown of traffic are not provided in this essay. For more details see G O No 6865 Misc dated November 30, 1891. PBR (Revenue, Settlement, Land Records and Agriculture) October 16, 1891, No 800 I Public Works Department, Irrigation.

31 Parts of Nuzividu, Narasaraopet and Vinukonda taluks consist of the Uplands. The delta lands were spread in seven taluks of the district, *viz*, Nuzividu, Gudivada, Masulipatam, Tenali, Bepatla, Guntur and Bezawada. The land prices of the alluvial and permanently improved varieties of all the three classes of dry, wet and garden lands had increased substantially during the last one and half decades of the 19th century.

32 S S Raghava Iyengar, "Memorandum on the Progress of Madras Presidency during the Last Forty Years", Madras, 1893.

33 Dharma Kumar, "Land and Caste in South India", London, 1965, Statistical Appendix, pp 120-121.

34 "Census Reports", 1871-72, 1881 and 1891.

35 "Census Report", 1891.

36 However, share of agriculture in total male workers declined from 70.0 per cent in 1871 to 58.5 per cent in 1881 and it made a further slide down to 56.5 per cent by 1891. Concurrently, the share of non-agriculture in the total male workers rose from 30.0 per cent in 1871 to 41.5 per cent in 1881 and to a further rise upto 43.5 per cent in 1891. This should be viewed in the light of an expanding non-agricultural sector like trade, transport and construction indicating the growth of the economy attributable to prosperity in agriculture.

37 R A Dalyell, 'Memorandum on the Famine of 1866', Madras, 1868.

38 PBR, No 2179, November 11, 1872.

39 Maclean's 'Manual of Madras Administration', Madras, 1884.

40 Ibid.

# Technical Assistance Projects and Socio-Economic Change

## Norwegian Intervention in Kerala's Fisheries Development

**John Kurien**

*This paper analyses the impact of a technical assistance project on the socio-economic fabric of Kerala's fish economy. The paper is organised into three sections.*

*The first section deals with the past and the more recent history until the pre-independence era and the initiation of the Indo-Norwegian Project in 1952. This part attempts to portray the overall context and concerns of fisheries development initiatives in Kerala and in the country as a whole. It also provides the background to the dynamics of the establishment of the Indo-Norwegian Project.*

*The second part deals with over three decades of planned fisheries development in Kerala—1950 to 1982—showing the changing approaches to development and the consequences emanating therefrom. It evaluates state policy, the efforts of the Norwegians, the role of the private sector and the larger socio-economic forces in transforming the fish economy and the effects of this on fish workers and fish.*

*The final part of the paper deals with the present crisis in Kerala's fish economy and highlights the questions being raised about it—including the very pointed one about the extent of Norwegian responsibility for the present state of affairs.*

## I

## Initial Conditions, Shaping of Perspectives

THERE is a hoary tradition to the marine fishing industry in Kerala. Though we have no authentic records of the history of periods before the Christian era, there is scattered evidence in the songs of the Sangam Age[1] (1st-4th century AD) and writings of travellers like Pliny who wrote in the first century AD about the immensity of fishery and the importance of the fishing community.

### RESOURCE PLENITUDE

That the waters off the coast of Kerala were plentiful in fish resources have been recorded in later centuries.[2] It is said that the Arab traders found their way to Malabar by following the teeming shoals of oil sardines which migrate down the West Coast of India hugging close to the in-shore waters.[3] More recent periods of European colonial rule in the region saw the systematic documentation of the flora and fauna for the scientific value of ichthyology. Francis Day's "Fishes of Malabar" published in 1865 was one of the kind.[4] The waters off the Travancore region alone, in the 1940s, was calculated to be yielding 254 kg of fish per hectare[5] and "this is double the quantity produced by an acre of water considered to be rich by the fishery experts of the world".[6] This was in spite of the fact that only 15 per cent of the harvestable area was fished.[7] The potential in the remaining area was assessed to field half a million tonnes more of fish.[8]

### DIVERSITY IN TECHNOLOGY AND SKILLS

The conversion of the living marine resource into products with use and exchange value are mediated by the skills of the fishermen and the judicious use of technology. Early references to the methods of fishing and the arts and science related to it are also available.[9] Two striking features of fishing technology are its diversity and the strong element of the exotic. The diversity is largely influenced by the variety and nature of the distribution of fish species and by factors of physical oceanography. The exotic influence is largely due to the adoption of several technological designs from other countries with which the region of Kerala had extensive contact primarily through maritime trade links. The hallmarks of the techniques thus adopted were their appropriateness to the aquatic eco-system and their inherent limits on productivity.[10] It was a technology appropriate for fishing merely as a source of meagre livelihood.

The greatest asset of the fishermen of Kerala is their accumulated knowledge about fish, fish habits, waves, currents and stars which they have, though a tradition of learning by doing, handed down from generation to generation.[11] The whole system of fishing operations—be it shark fishing in Poonthura, *thanguvala* operations in Purakad or the *beppu* fishing in Kozhikode—are not determined *a priori* by a process of inductive reasoning as would be in the case of a modern fishing expedition. Having over time assimilated the nuances of their eco-system by a continuous series of varied but concrete experiences, the progress of their fishing operation is a simultaneous integration of a large number of discrete thought processes which defy verbalisation in the form of any general theory on the practice of fishing.

### EARLY INTEGRATION INTO MARKET ECONOMY

It is therefore evident that the natural resources, skilled labour power and techniques necessary for the development of a viable fish economy have always been present in the Kerala region. In spite of this it would seem that the fishermen were hardly the main beneficiaries of development. The control of the fish economy by persons who dominated the realm of trade was constantly a factor to reckon with. This arises partly from the perishability of fish and the fact that it formed only a small portion of the fishermen's consumption: there were large surpluses available for disposal and trade even at very low levels of productivity. Interactions with the market therefore came at a rather early phase in the development of productive forces. The initial trade/barter activities were perhaps taken up by the wives of fishermen and subsequently, in a caste-based society, by men from other communities who did not consider fish trade a taboo.

### MERCHANTS AND RESPONSES TO THE MARKET

We have evidence to show that the fish economy of the region of Kerala responded effectively to the pulls of the market and adapted its harvesting and processing activities to cater to these demands. This was because of a merchant class who were quick to respond to profit opportunity. However, as we shall note below, the response was often at the expense of the fishermen and the larger social good.

From Travancore and Cochin, following the setting up of coffee plantations in the Western ghat regions, the demand for dried fish among the coolies employed provided a good market. The carriages which brought down coffee from the highlands reconveyed a large amount of dried fish.[12] More important was the opening up of the country by the railways laid by the British in Malabar and Cochin.[13] The dry fish exports from Travancore, where good salt was available, doubled from 26,982 cwts (1,373 tonnes) in 1854 to 54,166 cwts (2,757 tonnes) in 1864.[14] This "export" relates primarily to movement within the Indian sub-continent.

The most interesting example of the overriding response to market demand which is of particular interest in the context of this study is the case of fish oil exports from Malabar.

Oil sardines which even until 1827 were caught primarily for "manuring the rice-fields and coconut trees (because they) were) too fat to salt well",[15] in a span of 30-35 years became the raw material for the thriving fish oil exports from Malabar and Cochin to Great Britain. With the fast depletion of the whale population due to over-fishing, the world supply of fish oil was greatly reduced. Fish oil prices increased and this spurred the search for alternate resources and sources of supply. In the 1830s fish oil export from Malabar was unheard of. In 1845-46 about 66 cwt (34 tonnes) reached London. By 1863-64 the quantity had reached 82,799 cwt (4,214 tonnes) valued at over £ 7,000 per annum compared to around £ 1,270 in 1850-51.[16]

Such a quick response to international demand could only be undertaken with the initiative and drive of a merchant class open and responsive to profit opportunities. The evidence seems to indicate that relatively very little investment and labour was required to extract oil compared with (say) the alternative of salting or drying for local consumption.[17]

### MERCHANT CONTROL OVER FISHERMEN

The question remains: how were unorganised producers made to respond to the dictates of the market through the aegis of merchant capital? The answer lies in the fact that the overriding control of merchants and middlemen was the nexus between credit and marketing of the produce. As reported by the Banking Enquiry Committee of Travancore in 1930 "... once the producer is indebted to the middlemen the tendency is that he is unable independently to market his commodity and the natural results are that he gets less price and has to pay interest on loans. This cuts his small margin of profit clean. One of the witnesses at Quilon informed us that two agents at Quilon mostly control the export trade. They advance all the money required on condition that the catch is sold to them. For every Rs 160 advanced to them they get a promissory note executed for Rs 200. It was said that they never take back the capital, but only the interest which is Rs 40 per annum. The fishermen practically loses his liberty to sell his fish to anyone else".[18] Another source tells us that in 1931 the export of dried fish from Travancore was estimated to yield Rs 40 lakhs, "but the export trade is in the hands of a few rich wholesale merchants who take the lion's share and the poor workers get precious little".[19]

### PRODUCERS' ORGANISATIONS—THEIR FAILURE

Attempts at creating forms of organisations which would give the fishermen greater control over their produce were made in the Travancore region as early as 1917. These organisations were to be registered as co-operatives of fish producers and they were to perform the function of providing credit to redeem fishermen from indebtedness; take control of processing facilities like curing yards; sell their fish collectively and have collectively owned fishing equipment. By 1933 there were 95 co-operatives with a membership of 8,194 covering about a third of the active fishermen.[20] A report[21] evaluating these co-operatives lament their poor performance and points to the lack of support extended by community leaders and the government to the fishermen in their struggle against the merchants and middlemen who have consistently sabotaged the co-operatives.

### PROFITS AND ECOLOGICAL CRISIS

The social and ecological impact of the exploitation of a natural resource solely by the dictates of profit was also a matter that received attention in the last century. Day wondered whether the trend of oil exports will result in "species well adopted for salting ... finding their way into the fish oil boiling pot', .." and further states "... it must be left for future years to demonstrate whether the present increase of this fish-oil is a healthy or an unhealthy stimulus due to present high prices; for if the latter, the fisheries are being overfished and the future loss will be great ..."[22]

We shall see how these initial conditions and the issues mentioned recur in Kerala's fish economy and become matters of live concern to this day. The Norwegians intervened with the intention of initiating change. In hindsight one may conclude that they were largely unaware of these initial conditions and so were deprived of a proper sense of historical and social perspective. This in turn greatly coloured the character of their intervention.

### FISHERY DEVELOPMENT PRIORITIES IN THE STATE OF TRAVANCORE-COCHIN

There is a mistaken notion that the Norwegians entered into a fisheries sector which was stagnating and which received little priority in the development perspectives of the state. In fact the fisheries sector of the early 1950s in Travancore, which was recovering from the post-war phase, was as vibrant as the Norwegian fishery during the first quinquennium of Norwegian independence from Sweden in 1905. While the sector by no means gave the visual impression of being 'modern' it certainly was innovative and dynamic. The basic premise of fisheries development plans in the Travancore region hinged on the judicious exploitation of marine resources by effectively and gradually raising the productive capabilities of the existing facilities giving primacy to the accumulated skills of the fishermen. The thrust was to ensure that technological and scientific research for this purpose be conducted on a "basis of sound commercial principles ... without overlooking the interest of those engaged in the industry and their urgent problems".[23]

The ongoing programmes to facilitate this were many. They included: the supply of wood to fishermen to build their *kattumarams* and canoes and cotton yarn to make their nets; establishment of fishing curing yards under the supervision of fishery officers to ensure a regular supply of good salt and hygienic processing;[24] a programme for phased mechanisation for existing craft amenable to this; tapping new resources beyond the reach of the traditional crafts by using a large trawler to tow indigenous fishing crafts to and from the off-shore fish grounds; the formation of a fishing company called 'West Coast Fisheries Ltd' with government participation to undertake exports and other business; a reorganisation of the co-operatives with fishery officers taking interest in the day to day activities; and the co-operatives themselves being organised to provide the supplies of foodgrains, cloth and other necessities to the fishermen.

Introduction of the latest technology of freezing was attempted as early as 1938 by the installation of a refrigeration plant for preservation and cold storage of fish. Following this it was reported that fish was "made available in the High Ranges and Tamil Country. 95,000 lbs of frozen fish were transported to different parts of South India (last year) though it has to be remembered that the market is shy owing to the comparatively high price of cold-stored fish."[25] There was awareness of the vast marine resources yet to be tapped and also the potentials of the prawn fishery. The author of the Travancore Manual states: "In addition to these different varieties of fish, the invertebrate prawns are found in plenty in our backwaters and the sea and as they occupy a very prominent place among the commercial products from our waters we must not omit to mention them when speaking of the fisheries of Travancore."[26]

In spite of the large number of indigenous initiatives to develop the fishery resources there was a strong opinion in the concerned fishery circles of Travancore that adopting some of the technology of fishing from the developed fishery countries like Britain and Scandinavia would augur well for Travancore. Alluding to the rags to riches fairy tale, the fisheries sector was stated to have the potential of becoming the Cindrella of industries in Travancore.

### PRIORITIES OF THE UNION OF INDIA

The philosophy of fisheries development for the Union of India as a whole was markedly different. Though fisheries was always considered a state subject it was deemed necessary to formulate a national policy on it. An exercise of sorts was conducted in 1946 by the National Planning Committee wherein we see what has emerged as the most dominant school of thought among fishery policy makers in India today. The basic premise of this school is the characterisation of the existing fishery sector as an occupation "largely of a primitive character, carried on by ignorant, unorganised and ill-equipped fishermen. Their techniques are rudimentary, their tackle, elementary, their capital equipment slight and inefficient."[27] This total rejection is followed by a call for the need to adopt modern techniques, the creation of a fisheries bureaucracy and a string of scientific and research institutions to form the basis for modernisation of the sector. Interestingly the representative of the Government of Travancore on the Committee[28] has recorded his dissent note pointing out that the fundamental requirement was to build up the industry from what exists before overburdening it with a plethora of research institutes and administrative machinery at an early stage. That research priorities should evolve from the demands of the existing industry and not be divorced from it was the major thrust of his argument. In hindsight we realise that his views were not taken seriously.

## II

## The Development Decades

In this section, which forms the main substance of the paper, we will attempt to chart out in detail a course covering over three decades—1950 to 1984. We shall try to bring out the various key factors that conditioned the growth and direction of the fish economy of Kerala and weave into this the role played by the INP. We shall follow the pattern of dealing with each decade in a separate part discussing the significant events and changes that occurred therein. Each part will end with a balance sheet taking stock of the "assets and liabilities" of the period.

### *Part I: The Fifties—Initiating Planned Change*

With the euphoria of gaining independence still very much in the air, the enthusiasm for introducing planned socio-economic change in the country was at a very high ebb. With Jawaharlal Nehru at the helm the conviction and commitment to tranform every sector of the economy with the desirable participation of the people was evident among politicians and planners. The institution of the Five Year Plans and the commencement of the Community Development Programme were two indicators of these noble intentions.

For the region that is now called Kerala, the decade of the fifties must be noted for four important events which had a very significant bearing on the fisheries sector. They are: (a) The initiation of the Indo-Norwegian Project idea in 1952, (b) The entry of frozen penaeid prawns as an important item of export, (c) The creation of Kerala State in late 1956 by an amalgamation of the greater parts of the erstwhile State of Travancore-Cochin, and the Malabar district of Madras state, and (d) The coming to power in 1957 of the world's first democratically elected communist government in the state.

The importance of the first two events, we will consider shortly. The two political events occurring in the latter half of the decade and their fishery significance warrants explanation first.

### CREATION OF KERALA STATE AND THE COMMUNIST MINISTRY

The creation of Kerala state in 1956 brought together into one political unit three crucial factors needed for a wholesome development of fisheries for the larger social good: the most productive waters in the Indian sub-continent; the best of skilled fishermen with a wide diversity of techniques and the two most enlightened fishery administrations in the country—that of the State of Travancore-Cochin and Malabar district of Madras state.

With the coming to power of a communist government in August 1957 they highlighted the need to organise the fish producers, raise their productivity and develop fisheries giving primacy to fish as a source of livelihood and food. In doing so they were only reinforcing the orientation of the erstwhile Government of Travancore-Cochin. The Norwegian intervention in the form of the Indo-Norwegian Project for Fisheries Community Development was initiated before the above mentioned political events. But when these events did materialise they had a considerable bearing on the INP. However, as we shall see later, it was the snowballing impact of the first export of frozen prawns to the USA by a private firm and some of the "discoveries" during the INP's activities in the fifties which created what we shall show to be a turning point in the thrust and direction of the fisheries development perspectives of Kerala state.

### THE INDO-NORWEGIAN PROJECT

The Norwegian intervention into Kerala's fish economy has been a target of much discussion and analysis.[29] We will draw from these sources but will attempt to situate the intervention in a perspective which we consider to have been inadequately dealt with by others. The thrust of earlier analysis has often been to seek answers for the "impact" of the intervention at the micro-level within the dynamics of the project area situated in the erstwhile State of Travancore-Cochin. The wavering fortune of the Norwegian intervention are sought to be explained on the basis of the styles and whims of personalities—Norwegian and Indian—associated with the project from time to time. What we shall try is to greatly enlarge this realm and consider the effect that the social and economic forces in the world at large and the region of Kerala had on shaping and determining the "impact" of the Norwegian intervention.

The Norwegian intervention into Kerala came in the form of an Indo-Norwegian Project (INP) for Fisheries Community Development in the States of Travancore-Cochin and took effect in January 1953 following a tripartite agreement signed in New Delhi between the United Nations, the Government of Norway and the Government of India.[30]

The INP was the world's first development project of its kind inspired as a part of the UN Expanded Programme for Technical Assistance which was seen as an avenue for post-war reconstruction and development assistance to the newly independent developing countries. The success of the Marshall Plan in the reconstruction of the war-torn economies of the west was a point of departure for developed economies to extend technical assistance in the form of machinery, aid and expertise to what in those times were referred to as "underdeveloped economies". In Norway under the leadership of the Labour party in power there was a consensus and popular pressure to undertake such technical assistance programmes as an extension of the social democratic solidarity ideal. With this objective the Norwegian Storting (parliament) established the Norwegian Foundation for Assistance to Underdeveloped Countries in the summer of 1952. Apart from the solidarity ideal there were other less noble motives to the establishment of the Foundation.[31]

The Norwegians were undoubtedly purposefully motivated but were inadequately prepared to face the complexities of such a new form of outreach to assist in the development programmes of newly emerging nations. Among the Norwegian Directors of the Foundation there were very few people having knowledge of underdeveloped countries in general and an even smaller number had any knowledge of economic growth problems in them. Apart from India's appeal as a newly independent democratic country and the popular appeal of Gandhi and Nehru, very little else was comprehended by the Norwegians about the problems and needs of development in India; the social, cultural, economic structures through which development was to be achieved; or about the administrative machinery for undertaking the concrete tasks.

The Board Directors of the India Fund (as the Foundation was also called) had a few guidelines given to them before they set out on their mission to India (in late 1952) to identify a project in which they could get involved. The main pressure was to ensure by all means that a supplementary agreement going into the specifics of a technical assistance project be concluded. Priority was to be accorded to food production in a limited rural area.[32] Involvement in industrial development in India's large public sector was ruled out and investment through the private sector was ideologically not suited. The delegation was instructed not to choose a fisheries project.[33] Since the Indian government had not requested for Norwegian assistance there was no *a priori* guarantee of a market for a project suiting Norwegian pre-conditions.

As anticipated there were difficulties in finding an appropriate project. Having moved from Himachal Pradesh to Assam and finally reaching Travancore they had to settle for a fisheries project in the latter area[34] or go back with no project at all. The Indian government was not keen to accept a purely technical assistance programme and were keen to fit the Norwegian offer into the framework of the Community Development Programmes being propagated at that time.[35] The finally stated objectives in the supplementary agreement were:[36]

To bring about:

(a) an increase in the return of fishermen's activity
(b) an efficient distribution of fresh fish and improvement of fish products
(c) an improvement of the health and sanitary conditions of the fishing population and
(d) in general, a higher standard of living for the community in the project area.

These objectives were clearly the result of the process of compromise between Norwegian technical assistance priorities *per se*, the overall philosophy of the Government of India and the development concerns of the Government of Travancore-Cochin.[37]

The Norwegian intervention in India and its involvement in the fisheries sector of Travancore must be seen against this backdrop. The Government of India had nothing to lose by extending a warm welcome to the Norwegians. The Government of Travancore-Cochin on the other hand was open to Norwegian involvement, but only in the fishery sector. The Norwegian delegation accepted the fishery project[38] under the terms that it would be "administered by the Government of Travancore, under the supervision of the Government of India and in consultation with the Representative of the Board of the Norwegian Foundation".[39]

The Indo-Norwegian Project can be treated in two main phases. The first phase is from 1953-1963 when the activities were primarily concentrated in Kerala in the erstwhile Travancore-Cochin region. Within Kerala during this phase the project primarily covered three fishing villages in the district of Quilon with a population of 12,000 in 1952.

The second phase from 1963 to 1972 consisted partly of a continuation of only some of the fishery activities initiated in Kerala and partly an extension of this to two other maritime states of Karnataka and Tamil Nadu.

In this part we will concentrate on the INP's first phase. We shall not go into elaborate details of the particular activities undertaken during this phase since it would be a repetition of ground covered by several authors and is now well known. We will also restrict our discussion to the first two fishery related objectives of the project.

## THE INDO-NORWEGIAN PROJECT: LAUNCHING PROBLEMS

As pointed out earlier, the first supplement to the main agreement signed before the start of the project clearly bore the mark of concern uppermost in the minds of the Travancore fisheries administration. In a context where state finances were very limited, the merits of a pilot project of the type the INP was envisaged to become, were measured to be worth the "risks".[40]

Given the time in history and the pioneering nature of the effort it is but understandable that the INP was confronted with many teething troubles in the initial stages. However, even giving allowance for this we find that the initial years—1953 to 1957—were marked by an inability to launch the programme of action for want of skills and understanding rather than want of facilities and finances.[41]

We must elaborate: The strategy for increasing productivity of the fish harvesting activity spelt out in the agreement states: "to the extent feasible present fishing boats will be supplied with suitable motors" [Clause 1d (i)]. What we see is that in less than six months of the commencement of the INP the Norwegians had reached the conclusion that this was not feasible. It is strange that the local canoe had to be shipped all the way to Norway, fitted with engines, tested in Norwegian fjords and then pronounced to be unsuitable for motorisation in Travancore.[42] A ready made alternative—a smaller flat-keeled boat designed in Norway—was offered. However this alternative never proved superior to the existing traditional canoes and if some fishermen did accept it this was perhaps only because it was given to them to experiment with.[43]

Interestingly in 1954 the dugout canoes in the State of Saurashtra (in north-west India now in Gujarat state) which were similar to the ones available in Quilon, were being very successfully motorised with both inboard and outboard engines.[44]

On the question of processing technologies the first supplement states: "Equipment will be introduced for the extraction of oil and the possibilities of improving curing methods and producing fish meal from waste products will be examined" [Clause 1 d(ii.)] Interestingly we note that the INP did not take up any of this. This neglect is particularly noteworthy considering that there were two fish curing yards established in two INP villages—Neendakara and Puthenthura—by the Travancore Fisheries Department. Here fishermen of the area continued to cure fish during this period. Moreover, this is all the more surprising since Norwegian knowledge on drying and curing fish and the attempts at making a protein concentrate from the entrails of fish was also fairly progressed.[45]

The deviation from the original terms of the agreement is also perceived in the setting up of a Fisheries Section branch office in Cochin in early 1955. Pressure was also exerted by the Norwegians on the Government of India to enter into a second supplementary agreement which would give sanction to the attempts to experiment with shrimp trawling, freezing technology and exports of prawns—all of which were developing in quick strides in the private sector in Travancore-Cochin.

It is our understanding that the most important reason for the stalemate of these early years was the lack of adequate fishery competence on the part of the early Norwegian collaborators and hence their inability to adopt a greater "aquarian rationality" in their overwhelming concern for technical assistance *per se*. We also consider the "resistance" of the Indian counterparts—(especially those from the fishery administration of the erstwhile State of Travancore) as well as their constant insistence on sticking to the letter of the agreement[46] as a response to Norwegian technical assistance being pushed without cognisance of the economic, social and political mlieu in the fishery sector of the state as a whole.

### THE FISH ECONOMY OF KERALA

The fishery realm outside the Indo-Norwegian Project was largely unaffected by the activities that went on within the project area.

With the initiation of the Five Year Plans the fisheries sector also moved into the arena of planned development. The investment made by the State of Travancore-Cochin in fisheries through the hastily prepared First Five Year Plan (1951-55) was a paltry sum of Rs 0.27 million implying that the bulk of the investment made during that period was wholly by the private sector—largely the fishermen themselves aided by the private sources of funds from merchants and moneylenders.

During this First Plan period the average fish production for the region that formed Kerala state was estimated to be around 1,81,000 tonnes. The main economic species were oil sardines and mackerals. All this fish was caught by the artisanal fishermen using their non-mechanised wooden craft and traditional cotton nets or hooks.

The Second Five Year Plan (1955-60) was more thoughtfully planned and the possibility of using Plan expenditures to create an economic environment oriented to certain spelt out goals was attempted.

During this Second Plan the state invested a total of Rs 6 million for fisheries development of which Rs 2.16 million (36 per cent) was spent on production oriented schemes and Rs 3.38 million (56 per cent) on processing and marketing schemes. From the outlay for the production oriented schemes as much as Rs 1.86 million (86 per cent) was spent on providing credit to fishermen through co-operatives and making improvements to the traditional craft and gear (particularly for supplying nylon nets and timber for craft). Of the outlay for processing/marketing schemes, processing facilities for drying and curing and internal market oriented programmes received priority claiming 64 per cent of the funds. The schemes initiated during the period were a continuation of the pre-1950 orientation and were essentially centred around strengthening what we have elsewhere referred to as the traditional sector[47] of the fish economy of the region.

During this plan phase, fisheries development was seen as essentially a programme to increase the productivity and power of the fishermen and through this to enhance the protein supplies to the consumers within the state. Fisheries development was not divorced from fishworkers development or the interest of the avid fish eaters of Kerala.

### THE INDO-NORWEGIAN PROJECT: DRIFTING WITHOUT DIRECTION

Even while the Second Five Year Plan priorities were being systematically implemented, the INP was drifting without direction. On the one hand a commitment to the original objectives had to continue, although the Norwegians had reached an autonomous conclusion that pursuing them was leading to a "dead end". On the other hand there was pressure, primarily from Norway, to make a "success" of the project.

With the motorisation of the traditional crafts abandoned even before it was given rigorous trials, the search for the universally useable beach landing craft also was slowly being dropped.[48] The move to construct larger boats with more powerful engines using completely new fishing techniques was well on the way.

By mid-1957 freezing technology was selected for the processing of the fish to be internally marketed. The fish chosen was oil sardine. Experimental marketing was started but we are told nothing about the economies of it. Judging from the 1938 experience of the Government of Travancore there is reason to think that the consumer resistance and the low purchasing power would not have made it viable.[49]

### ENTER THE PENAEID PRAWN

When the INP had just started functioning in Kerala in 1953, a private merchant took the bold step of exporting 13 tonnes of frozen penaeid prawns to the US.[50] This was followed by a swift increase in demand for frozen prawns from Kerala leading to a quantum increase in exports. By 1957-58 five more firms had joined the fray and between themselves had exported 458 tonnes of frozen prawns to the US. The success of the private entrepreneurs and the inherent interest in a survey of marine resources led in 1956 to a collaboration between the INP and the Centre Marine Fisheries Research Institute (CMFRI) for an assessment of the marine wealth of Kerala. This was perhaps INP's major contribution to the state of knowledge of fisheries. One of the important "discoveries" was that the presently untapped resource of penaeid prawns available off Cochin and Quilon—both in the shallower in-shore waters and the deep sea—made the Kerala waters one of the world's richest prawn grounds.[51]

Spurred by this discovery and the rather rapidly increasing market for prawns in the US,[52] the new technique of bottom trawling for prawns and its experimental freezing was undertaken by the INP in 1958 with the objective of making trial exports to the US. The Indian members on the INP standing Committee[53] were against this INP initiative which they felt was outside the structure of producer control and hence in a sense contrary to the agreement. They urged the creation of a fishermen's sales organisation under whose auspices such ventures could be undertaken. Because of the objection raised the prawns frozen until then were also marketed locally.

### ENCOUNTERING THE FISH MERCHANTS WITH CO-OPERATIVES FROM ABOVE

The comments of the Standing Committee on the need to hasten the creation of a producer based marketing experiment led to the quick formation of autonomous co-operatives Sales Organisation within the area of operation of the INP in Quilon. This Sales Organisation was expected to achieve for the fishermen in Neendakara what similar organisations did for the fishermen of Norway—assure the producer of a higher price for his fish. To fulfil this all the physical facilities—ice plants, freezing plants and insulated vans—were largely placed at the organisation's disposal. The fishermen who had availed of the INP boats were obliged to hand over their catch to the organisation at pre-determined prices rather than to the regular fish merchant of the area with whom they had always transacted business.

The Norwegians apparently under-estimated the power of the local fish merchants. They did not understand the nature of the relationship between fishermen and merchants. They also failed to appreciate the fact that these organisations created *for* the fishermen were unlikely to succeed when compared to the Norwegian Sales Organisations which were created by the Norwegian fishermen, with the assistance of their government, following long drawn struggles against middlemen and merchants.[54]

The local middlemen and big fish merchants scuttled the functioning of the Sales Organisation by out-buying it when the catches were low and withdrawing from the shore when there was a bumper catch. A quick succession of such situations and total chaos prevailed. The autonomy of the organisation really meant nothing so long as the fishermen who were registered as its members hardly felt they had a stake in its successful functioning. Both the fishermen and the merchants knew that the INP would prop up the Organisation in times of crisis. The writ of the merchants prevailed.

### BALANCE SHEET FOR THE DECADE

The close of the decade saw the INP for the first time in the hands of persons from Norway whose fishery expertise was held in high esteem the world over.[55] The change also helped to stall the drift and set right the INP's rudder—*albeit* with the resolve to take a new, more decisive course with changed goals.

The beach landing experiments being undertaken were terminated; the new, larger and more powerful "INP Boats" were being produced in the INP boat yard with an eye to developing shrimp trawling and purse seining; many high visibility demonstrations of their performance were conducted; over 100 local fishermen were trained to use mechanised boats thus raising their level of skills; the co-operative Sales Organisation experiencing rough weather was bestowed with a heavy-investment-low-turnover marketing scheme; the demand for ice had generated sufficiently to get the INP plant to function at full capacity.

A sum of Ṅ kroner 27.8 million (Rs 18.4 million in 1959 prices) was spent on the INP from the time of its inception until the end of 1958.[56] Of this, 42 per cent was spent on Norwegian personnel and project administration; 30 per cent on the fishery section and 28 on the health division. Another way to present the same is that 82 per cent of the expenditure was on Norwegian personnel and capital equipment and the remaining 18 per cent were the expenses incurred in India relating to wage costs; operating expenses, maintenance of the equipment; and some investments in research, human and physical capital.[57]

There was considerable concern about the political consequences of such a large scale of investment restricted to a limited geographic area. The extent of the disparity between the project area and outside is evident from the following: the aid per capita in the project area from its inception until 1958 was Rs 474.00 compared to the per capita community development expenses of the Government of India of around Rs 5.00 in the two administrative divisions (blocks) in which the project area was located.[58]

By the end of the decade fish production in the state as a whole increased to average 2,37,000 tonnes. The entire harvest was a result of the efforts of the artisanal fishermen of the state. They were very favourably aided by mother nature[59] and to a lesser extent by the most significant technological change in Kerala's fisheries—the shift from using cotton to nylon nets.[60] In the INP area of the total fish landing of 2,080 tonnes about 12 per cent (260 tonnes) was contributed by the harvest of the mechanised boats issued by the INP.[61]

In 1957-58 it was estimated[62] that there were 42,039 fishermen households in Kerala state comprised of 269,064 individuals. Between them they operated 8,280 *kattumarams*, 3,173 plank canoes and 8,774 dugout canoes. The combined total of fishing nets was estimated to be 61,560 with over 16,000 hook and line sets. With the active fishermen in the population estimated to be around 66,000 the output per worker was around 4,500 kg per annum. The average household income was estimated to be Rs 542 per annum and the average debt Rs 322.

We may surmise that the basic orientation of both the State of Travancore-Cochin and the State of Kerala under the Communist Government was to have fish produced by the masses for the masses. It was hoped that the two Five Year Plans and the INP would provide the financial resources, the new technology and the organisational framework to facilitate this at higher levels of productivity. However, we note that the decade ends leaving the economy in the throes of a change in approach.

## *Part II: The Sixties—The Export Oriented Approach*

The early sixties heralded in the export oriented approach to fisheries development. All attention focused on the

TABLE 1: EXPORT OF FROZEN SHRIMP/PRAWN FROM INDIA*

*(Quantity = in tonnes; Value = Rs million; Price = Rs thousand/tonne)*

| | To Japan | | | To US | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Quantity | Value | Price | Quantity | Value | Price | Quantity | Value | Price |
| 1953 | | No exports | | 13 | Not available | | 13 | Not available | |
| 1957 | | No exports | | Breakup | Not available | | 496 | Not available | |
| $1962_D$ | 9 | 0.1 | 8.9 | 2055 | 9.8 | 4.8 | 2238 | 10.8 | 4.8 |
| 1966 | 1005 | 11.9 | 11.9 | 7100 | 69.4 | 9.8 | 8784 | 88.8 | 10.1 |
| $1967_J$ | 2590 | 41.6 | 16.1 | 7957 | 79.8 | 10.0 | 11173 | 129.8 | 11.6 |
| $1971_O$ | 11575 | 205.3 | 17.7 | 9504 | 86.7 | 9.1 | 23181 | 313.3 | 13.5 |
| 1974 | 19174 | 390.3 | 20.1 | 12681 | 200.3 | 15.7 | 34361 | 637.3 | 18.5 |
| 1979 | 36583 | 1727.0 | 47.2 | 13117 | 357.8 | 27.3 | 53511 | 2231.2 | 41.7 |
| 1982 | 37713 | 2352.3 | 62.4 | 11256 | 399.7 | 35.5 | 54625 | 3009.7 | 55.1 |

*Notes:* D = Devaluation of the rupee.
J = Japan becomes main buyer.
O = Oil crisis.

* Until 1970 Kerala's share of the quantity of export of frozen shrimp/prawns from India was over 95 per cent. In 1982 it was only 50 per cent.

*Source:* Kerala State Planning Board 1969; MPEPC 1970; MPEDA 1978, 1984.

penaeid prawn! From an export turnover of a little under 500 tonnes of frozen prawns in the end of fifties, by 1961 the figure had reached 1,462 tonnes with an export value realisation of over Rs 4,000 per tonne[63] compared to the internal fresh fish shore price of Rs 150 per tonne.[64]

In 1962 the Japanese were also scouting for prawn supplies as a response to having lost access rights to Mexican waters. That year they imported nine tonnes of prawns from Kerala at the phenomenal price of Rs 8,900 a tonne[65] (see Table 1).

This increased export of prawns by private firms to the US and Japanese market; the confirmed location of economically exploitable, untapped prawn resources off Kerala; the demonstration and introduction of the more catch-efficient technique of bottom trawling[66] by the Norwegians made *both* the Indo-Norwegian Project and the fisheries administration of Kerala devote their undivided attention to the pursuit of prawns.

### THE PRIME AGENTS OF CHANGE

Contrary to popular understanding it is not the INP which is to be considered as the prime agent (sometimes considered 'villain' of change [67] that caused the shift to an export-oriented strategy.

As we had mentioned earlier it was a single pioneer entrepreneur in 1953 and then a couple more who were daring and innovative enough to make the first initiatives to export frozen prawns to the US. By the early sixties, the overpowering signals of the market made a new class of more powerful merchant capitalists (whom the pioneers represented) in Kerala join the 'pink gold' rush. This merchant class has had a history of exhibiting the phenomenal ability to convert any commodity into a medium for profit through circulation.[68] Their entry into the fish economy on a large scale was promoted not only by the strong price impulses in the late fifties and early sixties. It was also a response to crises in the trade in other commodities in which they had been traditionally involved.[69] Prawn was perhaps the first commodity which this merchant class handled where they did not first have to dislodge foreign interests.[70] On the contrary, because of the INP, they were assisted by foreigners!

The INP was caught in this current and played a supportive and demonstrative role by providing the technology for more effective harvesting and processing of the resource.[71] By leasing out its facilities to some of the merchant interests, the INP provided them with an initial "no risks" basis to get a taste of the phenomenon profits in 'pink gold' trade. Having amassed wealth, they soon made their own investments in plant and machinery which in five years (by 1968) was nearly ten times that of the INP.[72]

### THE INDO-NORWEGIAN PROJECT: YEARS OF SUCCESS?

The period 1960 until the close of the INP in 1963 have been characterised as the "turning point" and "success period" of the INP.[73] From years of groping and drifting there seemed to be much action and a definite direction to the course taken.

Our contention here is that: (a) This 'success' was achieved at the cost of a *shift* in the direction of the INP which was largely inconsistent with its original objectives. (b) Social and economic forces external to the project and almost totally outside the control of the Norwegians were responsible for steering the INP along this new direction. Under the pressure of these very same forces the "checks" placed earlier on the INP by the Indian counterparts (particularly those from Kerala state) also vanished. The INP only continued to drift—it was the current that had changed course.[74]

By 1963 the most notable structural change in the project area consequent to the introduction of the new technology of fish harvesting and processing was the creation of a new class of non-operating entrepreneurs or capitalists[75] who owned the means of production and through this opened up avenues for a large migrant labour force recruited from outside the INP area.[76]

The change in the technology and labour process in the realm of fish harvesting and processing taken together with the entry of this new segment of merchant class interests into the fish economy can be considered as the death knell of the fisheries development policy in Kerala which viewed fishing as a source of livelihood and fish as a source of food for local consumption. The Norwegians played the role of chief pall bearers.

### THE INDO-NORWEGIAN PROJECT: A SECOND PHASE

On April 1, 1963 the activities and the physical facilities of the INP in the three villages of Shakthikulangara, Neendakara and Puthenthura were formally handed over to the Government of Kerala.

Following this the Norwegians concentrated on their work around the new concept of "integrated fishery complexes". Three such complexes were set up in Cochin (Kerala state), Karwar (Karnataka) and Mandapam (Tamil Nadu). These were established in centres having facilities for harbour development. "Each fishery complex project envisaged introduction of power vessels to undertake commercial fishing operations. The shore installations comprise(d) ice factory and freezing plant, facilities for processing and marketing of fish and also repair and maintenance facilities for boats."[77]

The complex in Kerala functions under the complete administrative control of the Government of India and is called the Integrated Fisheries Project (IFP). It is an impressive "high-technology fish economy" model within Kerala. The project with a staff strength of 405 undertakes research and survey work and catches fish using its own large vessels, processes it using modern facilities and has its own marketing channels for the sale of the produce. It is however a 'model' which has had little possibility for creating either spread or demonstration effects outside its own walls. Its bureaucratic links with New Delhi and its technology links with Norway are stronger than its contacts with either fishermen's organisations[78] or the fish trade channels in Kerala state.

The style of functioning of the Integrated Fishery Project in Cochin has precluded the possibility of the Norwegian intervention *per se* having a large influence on the dynamics and direction of Kerala's fish economy in the post-1963 period. What little can be attributed to it in this period would only be from the "hang-over" effect of the involvement in the first phase. Considering that the IFP was totally indigenised it would stand to reason that if a pattern of fisheries development encouraged by the Norwegians was continued, the responsibility must now rest totally with the Indian administrators and the local economic interests who continued to support it without question. We would therefore argue that any analysis of trends in Kerala's fish economy in the post-1963 period should be undertaken without assigning a determining role to the Norwegians. This should not however be considered as absolving them of the historic role they played in introducing a sharp dualism in the fisheries sector of Kerala. This dualism and the consequent polarisation in the economy and a marginalisation of the bulk of working fishermen in the state are the hall marks of the two decades following the completion of the Indo-Norwegian Project in Kerala which we will take up for discussion below.

### THE EXPORT ORIENTATION AND KERALA'S FISH ECONOMY

The effect of this overpowering demand-pull for prawns had its repercussions in Kerala's fish economy as a whole. A sector which was relatively outside the mainstream of the economic and social processes in Kerala society was suddenly transformed into a respectable avenue for investment and involvement. The possibilities of a "Modernised" fishery sector emerged quickly breaking down traditional barriers to entry[79] into the sector. The export-oriented thrust that began to get engrained in the sector was blessed by the country's own attempt to boost foreign exchange earnings. The devaluation of the rupee in mid-1966 gave a further boost to the exports of prawns from Kerala.[80]

The prawn export euphoria had its immediate effect on state policy reflected best in the state's plan expenditures during the period 1961-69. Of the total Rs 110 million spent on fisheries development during this period Rs 82.5 million (75 per cent) was spent on production oriented schemes; Rs 54 million of which went for financing mechanised boats equipped primarily to fish for prawns and Rs 20 million for supporting infrastructure and training facilities. As much as Rs 20 million (18 per cent) was used to finance processing and marketing oriented schemes out of which Rs 18 million was directed towards creating facilities and organisations which were explicitly export-oriented or directly facilitating the export drive.

While the above only represents the investment made in the public or co-operative sector, the pace at which the private sector developed was also phenomenal. We have no estimates for the whole of Kerala but the change in the INP area mentioned earlier gives a picture of the trend.[81]

A very simple investment-output comparison for the decade of the sixties shows that for the Rs 92 million spent by the state between 1961-69 for investments directed towards export-oriented fisheries, an export value of Rs 909 million was realised between 1962-69.[82] Compared to this, for the Rs 8 million spent by the state to improve the artisanal fishery methods and augment facilities for internal marketing during the same period (1961-69) the fish harvested by the artisanal fishermen was approximately 2.5 million tonnes valued at Rs 542 million. It is also crucial to note that between 1961-69, of the 237 tonnes of prawns landed as much as 70 per cent were caught by these artisanal fishermen.[83]

State fisheries policy and investment priorities had come to be swept along with the rising tide of the export drive. The new emphasis was to (a) augment the harvesting capacity by providing subsidies for mechanised boats used for trawling and (b) to build up the human and capital investments essential for their operations.

The state's attempts to continue linking the mechanisation programme with the creation of producer's co-operatives was watered down to mere lip service. On paper the mechanised boats were issued only through producer co-operatives or to groups of fishermen. In reality however the co-operatives, whose mere numbers increased rapidly, were dominated by financiers and middlemen and were indeed far away from being genuine fishermen's organisations.[84] Mechanised boats issued by the government were registered in the name of the fishermen but in reality fully controlled by the plethora of financiers and middlemen.[85] The latter had found a new niche in the export drive by mediating between the new semi-proletarianised fishermen and the *nouveau riche* merchant class that had entered the prawn export processing business. They primarily controlled the sale of the produce from the mechanised boats and some went on to establish unorganised prawn peeling sheds after having attained sufficient control over supplies.

The investment in building harbours, breakwaters, guide lights and providing the training for fishermen to operate the mechanised boats was also the exclusive domain of the government.

In essence what we observe is that the more risk prone, capital intensive, low-return investments were made by the state while the realm of the export business came to be largely concentrated in the hands of the private sector. This was a strategy most suited to the new segment of the merchant class in the fisheries sector.

The attempt by the state to maintain a commanding presence in the processing and exporting of prawns by the establishment of a giant corporation—the Kerala Fisheries Corporation (KFC)—to be run along business lines also resulted in utter failure. This was partly due to the inability to run a business venture on bureaucratic

TABLE 2: DISTRIBUTION OF THE VOLUME AND VALUE OF OUTPUT IN KERALA FISHERIES BETWEEN SECTORS AND CLASSES (1969-1980)

| Year | Volume (in thousand tonnes) | Value of Output (in Rs Million)[1] | | | No of Workers[3] | Output Per Worker (Kg) | Per Capita Income of Workers (Rs) | Output Per Worker (Rs) |
|---|---|---|---|---|---|---|---|---|
| | | Total | To Owners[2] | To Workers | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| | | | | **Mechanised Sector** | | | | |
| 1969-70 | 40 | 41.5 | 29.0 | 12.5 | 7,765 | 5,150 | 1,610 | 5,344 |
| 1974-75 | 143 | 322.8 | 226.0 | 96.8 | 11,260 | 12,700 | 8,597 | 28,668 |
| 1979-80 | 115 | 468.4 | 327.9 | 140.5 | 17,500 | 3,880 | 8,029 | 18,737 |
| | | | | **Non-mechanised Sector** | | | | |
| 1969-70 | 303 | 165.5. | 66.2 | 99.3 | 90,660 | 3,340 | 1,095 | 1,826 |
| 1974-75 | 277 | 311.8 | 124.7 | 187.1 | 99,105 | 2,800 | 1,888 | 3,146 |
| 1979-80 | 190 | 271.4 | 108.6 | 162.8 | 1,06,625 | 1,780 | 1,527 | 2,545 |

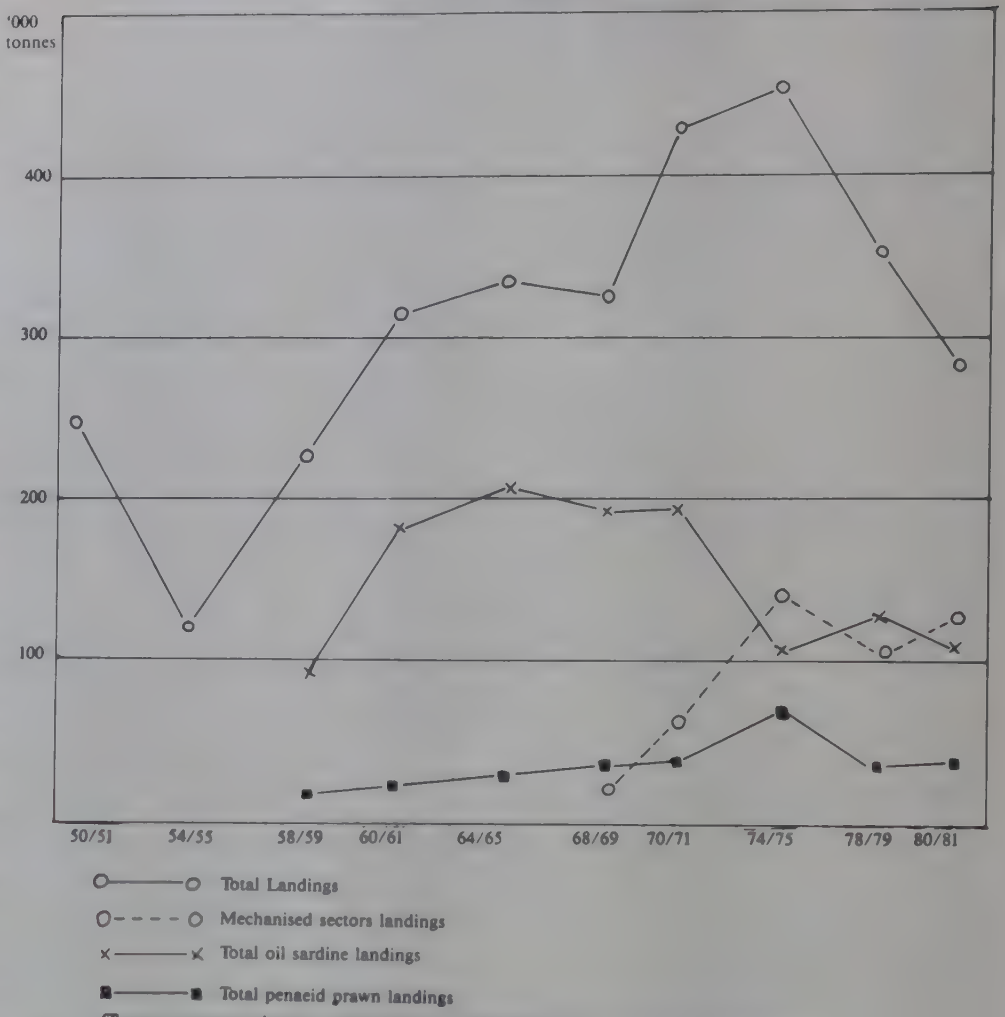
*Notes:* 1 Two year simple average in current prices.

2 In M-Sector it is assumed that owners get 70 per cent of gross earnings. Actually they get 70 per cent of 'divisible earnings' which is gross earnings minus operating costs which are commonly shared. Operating costs account for a sizeable part of M-Sector gross earnings and have varied over time. Hence the figures are on the high side. In the NM-Sector assumed owners get 40 per cent of gross earnings. Here again for the same reason given earlier the figures are on the high side. However operating costs in NM-Sector is a much smaller fraction of gross earnings.

3 From 1971 the total number of 'Ocean, Sea and Coastal Fishermen' ascertained. Total number for prior and subsequent years estimated using 2.3 per cent growth rate of labour force (T). M-Sector workers estimated by multiplying number of boats during the period of five (M). Non-mechanised sector workers are (T) – (M). M-Sector workers likely to be underestimated particularly for 1974-75 and 1979-80 when it is known that as many as 7-8 persons were attached to a boat although on any trip only 5 participated.

*Source:* Kurien, 1984 d.

FIGURE 1: MARINE FISH LANDINGS OF KERALA STATE
(1950/51 to 1980/81)



(Two-year averages chosen at three points in each decade to smoothen the fluctuations)

lines and partly due to the fact that any step by the KFC to make its presence felt in the market was scuttled by the private trade interests. By the end of 1983 a sum of Rs 44 million[86] had been invested in this juggernaut. In turn its business operation had yielded a loss which was in excess of its total asset value.[87]

### BALANCE SHEET FOR THE DECADE

The implications of the changing emphasis of fisheries development policy on the fish economy and in particular the fishermen is not known to us in detail from primary survey data.

It can be said that two clearly demarcated sub-sectors had been created in the economy—one which now received all the attention of the state and the new enterprising merchant class and another which was left largely to its own survival. The first which we may now refer to as the "modern sector" is made up of the mechanised boats in the realm of production and the more capital intensive and export oriented processing and distribution activities. The latter is what we referred to earlier as the "traditional sector" composed of the non-mechanised crafts and the labour-intensive, internal market oriented distribution and processing activity.

During the decade, fish production averaged 304,700 tonnes. As of 1969-70 the modern sector in fish production activity accounted for landings of 40,000 tonnes of fish/prawns (12 per cent), valued at Rs 41.5 million. It gave direct employment to about 7,800 fishermen. The output per worker in the sector (accounting for eight per cent of the active fishermen in the state) was 5,150 kg and his per capita income (current prices) was Rs 1,600. At the same time the 90,600 fishermen operating non-mechanised craft accounted for 88 per cent of the total fish landing in 1969-70 (303,000 tonnes) valued at Rs 165.5 million. The output per fishermen in this sector was 3,340 kg or 35 per cent below his counterpart on the mechanised boats and his per capita income (current prices) was Rs 1,095[88] (see Table 2).

In brief, the sixties was one marked by a gradual process of polarisation of the economy. The effect of this was to be quickly felt in the subsequent decade.

## *Part III: Seventies and Early Eighties—Growth and Stagnation*

In less than three quinquenium starting from 1970 Kerala's fisheries had witnessed its greatest rise and fall. The decade of the seventies witnessed the highest ever fish landing and prawn landing in Kerala—448,000 tonnes and 84,700 tonnes respectively in 1973—and also experienced the stagnation and sharpest decline in the growth of overall catch. In the post 1974-76 period the decline in fish landing was of the order of six per cent per annum. Oil sardines and mackerals, once the main stay of the fishery plumped to all time low levels. From a peak of 250,000 tonnes in 1968 (oil sardine and mackeral) the combined harvest touched a low of 112,000 tonnes in 1975 and reached a rock bottom of 87,000 tonnes in 1980. Fish production was 279,000 tonnes in 1980—the lowest since 1961 (see Figure 1).

Marine products exports from Kerala on the other hand increased from 22,792 tonnes in 1969 valued at Rs 277 million to 31,637 tonnes in 1979 valued at Rs 1,096 million. Prawns accounted for the highest share of volume and value of export. Kerala's share in the all-India marine exports declined (see Table 1).

### INVESTMENT GROWTH DESPITE STAGNATION OF PRODUCTION

This stagnation and decline in the fish landing becomes more prominent when seen against the background of increased investment of mechanised boats—small trawlers, (for harvesting prawns) and purse-seiners (for harvesting oil sardines). The total number of mechanised boats by 1979-80 was estimated at around 3,500—more than double the number at the beginning of the seventies. The increase in fishing power did not result in a commensurate increase in the fish catch. This picture is made further depressing when we realise that during the decade both the number as well as the fishing assets of the artisanal fishermen also increased significantly. Going by aggregate counts of traditional fishing craft alone the increase was of the order of around 10 per cent from 30,594 in 1972 to 34,112 in 1979. The number of artisanal fishermen increased from around 90,000 to 1,06,000.

The growth of investments in the two sectors have however been prompted by different factors.

### IN THE MODERN SECTOR

In the modern sector it was the spiralling prices of prawns following the increased demand from Japan which lead to the rather anarchic growth of mechanised boats and processing facilities. It was also this that kept most of the units just above breakeven point.

The aftermath of the oil crisis made Japanese fishing in distant waters rather uneconomical and the proclamation of EEZ's made many potential fishing grounds inaccessible to them. The policy of cultivating sources of supply for prawns on a world wide basis was consciously adopted by them. The strategy of gaining entry by out-buying the competitors was frequently resorted to.

From a mere nine tonnes of frozen shrimp from India in 1962 (all of this came from Kerala) the Japanese were importing 5,313 tonnes in 1969 at a unit price of Rs 17,340 per tonne. In 1971 they emerged the principal buyers (replacing the US) by importing 11,575 tonnes at Rs 17,700 per tonne (compared to US rates of Rs 9,100 per tonne) and by 1982 imported 37,713 tonnes at the phenomenal Rs 62,370 per tonne[89] (see Table 1).

For the Kerala merchant exporter, selling to the Japanese meant price and freight advantages and also a higher yield from the wet weight due to the particular Japanese product specification.[90] Further, the Japanese tastes for cuttle-fish and squid—both varieties of cephelopods available off Kerala's waters but which had a restricted internal market—enabled processors to enhance their freezing capacity utilisation. It was only after 1975 that the Japanese began importing these items from Kerala.

As in the sixties, the pattern of state investment priorities continued to reinforce the growth of the private sector. Plan expenditure during the seventies doubled to Rs 209 million of which Rs 57 million was spent for the issue of mechanised boats; Rs 14.4 million for supporting infrastructure development and Rs 4 million for export-oriented investment in marketing and processing.

TABLE 3: VOLUME AND VALUE OF MARINE FISH PRODUCTION IN KERALA

*(Quantity = thousand tonnes; Value = Rs million; Price = Rs/tonne.)*

| Year | Quantity | Index of Quantity | Value | Price | Index of Price |
|---|---|---|---|---|---|
| 1961 | 268 | 100 | 35.0 | 131 | 100 |
| 1962 | 192 | 72 | 28.9 | 151 | 115 |
| 1963 | 203 | 76 | 41.5 | 205 | 156 |
| 1964 | 318 | 119 | 67.6 | 213 | 162 |
| 1965 | 339 | 126 | 68.5 | 202 | 154 |
| 1966 | 347 | 129 | 94.7 | 273 | 208 |
| 1967 | 364 | 136 | 105.7 | 290 | 221 |
| 1968 | 345 | 129 | 100.8 | 292 | 222 |
| 1969 | 295 | 110 | 161.8 | 549 | 419 |
| 1970 | 393 | 147 | 252.1 | 642 | 490 |
| 1971 | 445 | 166 | 292.9 | 658 | 502 |
| 1972 | 295 | 110 | 224.8 | 762 | 581 |
| 1973 | 448 | 167 | 491.3 | 1097 | 837 |
| 1974 | 420 | 156 | 529.5 | 1260 | 962 |
| 1975 | 421 | 157 | 739.7 | 1757 | 1341 |
| 1976 | 330 | 123 | 560.2 | 1697 | 1295 |
| 1977 | 345 | 129 | 658.5 | 1908 | 1456 |
| 1978 | 373 | 139 | 783.1 | 2098 | 1601 |
| 1979 | 331 | 123 | 648.5 | 1962 | 1497 |
| 1980 | 279 | 104 | 831.1 | 2978 | 2273 |
| 1981 | 275 | 102 | 822.2 | 2990 | 2282 |
| 1982 | 325 | 121 | | | |

*Source:* Kurien 1978a till 1976 threafter own calculation based on quantity figures of CMFRI and price data from Economic Review of Government of Kerala, 1977-1983.

The entry of the big business houses and the multinationals into the marine export trade enhanced the growth of processing facilities[91] and further spurred the growth of the investments in the harvesting of prawns from the in-shore waters in a bid to keep utilisation rates of the processing facility high. A vicious circle had set in and the common property nature of the resource prompted on unchecked and indiscriminate expansion of the fleet.[92] With the increase in the boats the number of fishermen employed in the sector increased more than proportionally.[93] Even if we assume that the old ratio of five to a boat was maintained it meant 17,500 workers. While their physical output dropped from the 1969-70 level of 5,150 kg to 3,880 kg per annum in 1979-80 their per capita income in current prices rose to Rs 8,000 per annum[94] due to the phenomenal rise in prawn prices (see Table 2).

### ...AND THE TRADITIONAL SECTOR

The rationale for increased investment in the traditional sector of production—particularly in gear types—arises both from the increasing numbers of active fishermen and is the result of their response to a fall in their share of the total output. Between 1969-70 and 1979-80 this sector's share of the total output fell from 88 per cent to 62 per cent and the absolute quantity dropped from 303,000 tonnes to 190,000 tonnes. During that period the output per fishermen plunged from 3,340 kg per annum to 1,780 kg—a fall of about 47 per cent. The increasing investment in gear was therefore a means of attempting to possess as many different types so as to maintain their levels of productivity[95] (see Table 2).

The most recent trend which began in 1980 has been the rapid motorisation of all types of traditional crafts with out-board engines. The diminishing inshore resources, lower per capita yields, the urge for speed and the aggressive marketing of

TABLE 4: INDICATORS OF THE QUALITY OF LIFE OF FISHERMEN HOUSEHOLDS IN KERALA AND QUILON DISTRICT

| | Percentage of Active Marine Fishermen to Total Population | Distribution of Income | | | Spread of Social Facilities | | | | Alternate Employment |
|---|---|---|---|---|---|---|---|---|---|
| | | Proportion of | | | The Proportion of Households | | | | Members in Activities Other Than Fishing |
| | | Household with Less Than Rs 500 | Household with More Than Rs 3,000 | Owning House Sites | Living in Katcha or Pucca Hans | Having Houses Electrified | Having Water Available in Ward | Having Separate Latrine Facilities | |
| All Kerala | 20.24 | 12 | 3 | 80 | 52 | 10 | 33 | 5 | 5 |
| Quilon District | 17.91 | 7 | 6 | 80 | 55 | 14 | 42 | 10 | 5 |

*Source:* Government of Kerala, 1983b.

the Japanese multinationals have made this motorisation phenomenon take the shape of a tidal wave. Along with this also comes the new pressure to develop better beach landing craft.[96]

However, confronted with an absolute fall in the share of the output such measures only prove to be counter productive.[97] At the close of the decade, the per capita annual income of the over 100,000 artisanal fishermen was a mere Rs 1,527 (current prices). In real terms it would be much less than their income a decade ago.

### BALANCE SHEET FOR THE PERIOD

Two of the most striking features of the period are the growing complexity of the economy and the differential impact of the stagnation on the various actors involved in it.

From a scenario with only caste-bound, marginalised actors the stage is now also occupied by a new class of merchant entrepreneurs, Indian big business houses and local units of multinational corporations.

Going on the assumption of one owner-entrepreneur per boat, in the modern sector, the gross earnings per owner, in 1969-70 was Rs 18,670 and it increased to Rs 93,680 in 1979-80. Even allowing for a 50 per cent deduction for variable and fixed costs, the net profits are substantial (see Table 2).

In the processing sector we find that in 1975 there were 99 registered exporting firms—mostly family controlled partnership concerns—accounting for an export turnover of Rs 464 million. Twenty-three of these firms had annual sales of Rs five million and over. They accounted for 79 per cent of the total export turnover from Kerala. By 1982-83 the number of firms increased to 114 and 48 firms which had annual sales of Rs five million and over, cornered 93 per cent of the total export turnover of Rs 1,133 million.[98] Most of the smaller firms which were "set up" by the multinational corporations faced considerable problems when the latter gradually pulled out from Kerala to other states.[99]

The workers on the mechanised boats were much better off than the fishermen using artisanal crafts. However, their income even in current prices had dropped by the end of the decade (see Table 2). Little is documented about the numbers involved in the processing sector. While considerable employment has been generated in this sector it is equally true that most of it is undertaken on a casual, piece-rate basis and largely by young girls.[100]

Average shore prices of fish soared from Rs 549 per tonne in 1969 to Rs 2,990 per tonne in 1982 (see Table 3). The retail prices are generally marked up by 50-150 per cent depending on the location of the market and the species of fish in question.[101] This increase of fish prices is at a more rapid pace than the general price levels and also the price levels of other animal protein sources such as eggs, milk and beef. For the relatively poorer sections of rural Kerala, particularly the agricultural households, this must have had a distinct bearing on their nutritional standards.[102] Among the middle and higher income households there is evidence of a shift to other more readily available and cheaper sources of protein.[103]

The rather deplorable state of the quality of life of fishermen even after 25 years of planned fisheries development and over a decade of phenomenal growth in exports was documented in a survey undertaken for the whole state in 1979.[104] There were 118,801 fishermen households (marine and inland) and 111,420 full-time active marine fishermen. Of the total households only three per cent had incomes above Rs 3,000 per annum and 50 per cent had incomes below Rs 1,000 per annum.[105] It was estimated that about 80 per cent of them own at least their homestead land. About half owned thatched houses, a third have semi-permanent houses (Katcha) and the remainder live in houses constructed of brick. Only 10 per cent have their homes electrified and fewer have separate toilet facilities. Only a third of the total households have drinking water facilities within the ward in which they live[106] (see Table 4).

The stagnation and decline of the decade was not only the breeding ground of squalor and poverty but strong waves of dissent and protest as well.

## III

## Crisis and Questions

The questions being raised about the fish economy of the state today are many. The crucial ones are the same as raised by Francis Day a century ago. The vital difference of course is that the economy is today very deeply engulfed by capitalist forces of development and that the questions are now asked by the fishermen themselves.

Starting with the initiatives of the Norwegians, spurred by the stronger and more compelling market forces that unleased themselves from the early sixties and combined with state patronage for the same, the economy has undergone a very marked technological polarisation. This in turn has not only resulted in a concomitant economic and social polarisation of the type we have attempted to describe above but also an ecological crisis which has jeopardised the future of the whole sector. There have been considerable discussions and debates on whether or not the indiscriminate fishing during the seventies had lead to overfishing of the resources.[107] However the luxury of debates has remained inside the walls of the research organisations while the artisanal fishermen affected by decline in their output and income have taken the matter to the streets.[108]

### THE FISHERMEN'S AGITATION

From 1981 onwards an annual feature in Kerala in the month of May has been the upsurge of the artisanal fishermen demanding for their fundamental rights to a livelihood and guarantee of a sustainable future which will not be jeopardised by social forces which have their eyes on fish resources primarily for making quick profits. An efficient technology controlled by such interests becomes a destructive tool they argue, alluding to what they consider to be the ecological degradation of Kerala's coastal waters due to unregulated and indiscriminate bottom trawling for prawns and excessive purse-seining for oil sardines and mackerals.

While their movement has not been without contradictions[109] the consistent demands of the artisanal fishermen over the years have been a call to:

- proclaim an exclusive economic zone for small scale fishermen
- ban of destructive fishing techniques
- and a systematic regulation and management of the living marine resources of Kerala.

In this context the pioneer role of the INP as a key participant in initiating the prawn rush and the trawler boom have come in for severe criticism by them.[110]

### LESS FISH FOR LOCAL CONSUMPTION

The spiralling prices of fish largely due to its short supply *vis-a-vis* the growing demand in the state has led to questioning the state policy of heavy investments in the harvesting activity which in turn have not yielded fish for food to local consumers. The fact, as we have shown, the period of rapid introduction of mechanised boats in the 1970s was also the phase of a steady decline of fish production (see Table 3). The per capita availability of fish dropped from 15.2 kg in 1956-58 to 9.2 kg in 1982-83.

### PRIVATE VERSUS SOCIAL PROFITABILITY

At the macro-level we see that the heavily state financed mechanisation of fishing has led to raising of productivity. This in turn has ensured a higher level of earnings to the fishermen working on the boats and more obviously a sizeable profit to the capitalists—particularly the boat owners and the merchant exporters. However this predominent pattern of ownership of the boats and the nexus between mechanisation and prawn exports has greatly detracted from the modern sector's potential to become desirable from the stand point of the overall economic and social considerations of Kerala society at large. This is particularly so when viewed from the three important considerations of: providing cheap protein for local consumption; ensuring a more decentralised mode of functioning and greater spread effects with regard to employment generation.[111]

The largely self-financed, non-mechanised artisanal sector in fishing can be highly desirable from the standpoint of its social profitability,[112] but it is unable to provide its incumbents with the required levels of productivity and the socially necessary accumulation to assure them the possibilities of a sustained income even for mere survival.

### NEED FOR NEW PERSPECTIVES

The need for new perspectives and concrete alternative approaches is being very acutely felt today. However fresh initiatives cannot be merely a tinkering with the old approach and framework which has brought us to the present crisis. There is a need to create a future which ensures a development process which is sustainable, just and participatory.

In this paper we will only allude to the areas which we consider to be key to the framework for the future. Our basic premise is that there is need to raise productivity and ensure a fair distribution of the gains. To achieve this it would be necessary to give attention to the following:[113]

(a) Management of the marine resource
(b) Generation of appropriate and appropriable technologies
(c) Use of multiple energy sources
(d) Exercise of greater producer control over the marketing of fish
(e) Search for new employment alternatives for fishermen.[114]

### RESOLVING CONFLICT

The malaise that has infected the fish economy of Kerala has today reached a point of high crisis. In a democratic polity, functioning in the overall capitalistic framework of society, the vote-bank strength and the economic clout of the various interest groups involved must necessarily be carefully balanced.[115] The crisis in fishing in Kerala is also a reflection of the larger socio-economic and political crisis in the state. Hence its resolution also will necessarily involve a political process of give and take. The onus of making hard decisions regarding the future policies for the fisheries sector have been momentarily set aside by instituting expert commissions to examine the questions and suggest remedies.[116] Meanwhile some interest groups have also resorted to legal measures to seek justice.[117]

### ARE THE NORWEGIANS TO BLAME?

A question that has been constantly raised in the recent past both in India and in Norway relates to the extent of Norwegian responsibility for the crisis in Kerala's fish economy. An answer to this would depend on how one understands the dynamics of a bubble on a stream. Given that, we also seem to think it matters whether the question is to be answered by a Norwegian or an Indian.[118]

In our understanding the INP, despite its pioneering nature, must be seen as an intervention which *hastened* rather than *initiated* socio-economic change. Its role was essentially catalytic in the 'chemical process' resulting from the interaction between penaeid prawns and profit potentials the result of which was prosperity for a few and pauperisation for many.

It would therefore follow that Norwegian or no Norwegian, the export orientation in Kerala's fish economy and its concomitant consequences would have developed—probably at a little slower pace and on a more capital intensive basis.

In the post-1963 phase, when the Norwegians had withdrawn into the shell of their Integrated Fishery Project, the active interaction of the prawn hungry Americans and the Japanese, together with the profit hungry Kerala merchant capitalist class unleashed the 'pink gold' rush. If the Norwegians had not by then played the 'catalytic role' of demonstrating the effectiveness of bottom trawling (using relatively small boats) and methods of processing, we are of the opinion that the imperatives of the market would have ensured that the Americans, Japanese or more likely organisations like the Food and Agriculture Organisation (FAO) of the United Nations would have done so.[119] That is, if the merchant capitalist class in Kerala could not rise to the occasion.

In the context of continued assistance for fishery development projects in India by the Norwegians—but now, unlike with the INP, at the request of the Government of India—the responsibility to weed through old experiences to learn new lessons is an essential exercise. It would seem that on the part of the Norwegian aid bureaucracy and the public there is a fresh beginning in this direction.[120] From the Indian part we need a more thorough going introspection which will look into techno-economic, ecological, demographic and socio-political dimensions of our fish economy. Our views on future aid and technical assistance from abroad must develop both from the analysis of the above and the perspectives which emerge about an action programme for a more sustainable, just and participatory fisheries development in Kerala and India.

## Notes

[This paper is a slightly modified version of a presentation made at a seminar on Norwegian Aided Fisheries Development Projects. The seminar was sponsored by the Norwegian Ministry of Development Co-operation/NORAD and held in Lofoten Islands, Norway in March 1985. I am greatly indebted to Rolf Willmann and Mihir Shah for their extensive comments on the initial draft. Errors and omissions are solely my responsibility.]

1 Literature on the Sangam Era says that 'Thamizhagam' (which includes the region that is now Kerala) was divided into five 'Thinais' and one of these—the coastal Thinai—was inhabited by tribes called Parathvars, Velayars, Meenavars and Nulayara whose main occupation was fishing, salt making and pearl collecting.

2 Frair Ororic who sailed down the south west coast of India in 1320 observed "there are fishes in those seas that come swimming . . . in such abundance that for a great distance into the seas nothing can be seen but the back of fishes, which casting themselves on the shore, do suffer men for the space of three daies (days) to come and take on many of them as they please" Quoted in Day: 1865.

3 From a discussion with C C John former fisheries advisor to the State of Travancore-Cochin.

4 Day, 1865.

5 Given as 2 cwts per acre in Velu Pillai, 1940, p 433.

6 Velu Pillai, 1940, p 433.

7 Narayanan Thampi, 1942, p 104.

8 Velu Pillai, 1940, p 433.

9 *'Valavisu Puranam'* an ancient Malayalam treatise contains several references to the method of fishing in vogue and to the arts and sciences relating to fishing.

10 Catamarams are of either Egyptian and/or Polynesian origin; the high board dugout canoes made by addition of planks stitched to the dugout are purely of Arab influence; the dip nets are of Chinese origin; the boat seine is unmistakably Spanish and the shore seines were first introduced by the

Portuguese. The fact that the nets were 'selective' and the craft were small, placed certain inherent constraints to raising the productivity (output/unit).

11 Mathur, 1978 makes a good starting point of recording the knowledge of the Muslim fishermen of Malabar.

12 Day, 1865, p ix.

13 Ibid, p xvi.

14 Ibid, p xix.

15 Ibid, p viii quoting from a person referred to as Dussumier writing in 1827.

16 Ibid, pp xxi and xxv.

17 Ibid, p xv.

18 Report of the Banking Enquiry Committee, Travancore, 1930, Vol 1, Trivandrum, 1930, p 79.

19 Achyutha Menon, 1937.

20 Paramupillai, 1935.

21 Ibid.

22 Day, 1865, pp xv, xx.

23 C C John fisheries advisor to the State of Travancore-Cochin elaborates this point in a dissent note made by him during a National Planning Committee on Fisheries. See footnote 27 and 28 below.

24 Two such curing yards were established in Neendakara and Puthenthura before the Norwegians started the INP. The curing yards became the main contact point between the fishermen and the fisheries administration. The officer-in-charge called the Petty Yard Officer kept close contact with the fishermen. This post of Petty Yard Officer continues in the Kerala Fishery administration though the curing yard programme was gradually shelved from 1964 and none exist now.

25 Narayanan Thampi, 1942, p 104. The year referred to is 1940.

26 Velu Pillai, 1940, p 435. Prawns were caught by the fishermen. It was an inexpensive item. Most of it was dried and exported to S-E Asian countries and during the glut it was used as manure for coconuts. The local consumption of prawns was not much partly due to the then popular association of stomach disorders and allergies with prawn consumption.

27 Shah, 1948.

28 C C John represented the Government of Travancore.

29 See Sandven, 1959; Klausen, 1968; Asari, 1969; Galtung, 1969, 1984; Pharo, 1980, 1984; Platteau, 1984.

30 This was the first supplement to the main agreement between the United Nations, Government of Norway and Government of India signed in October 1952 in New York following which a Norwegian delegation visited India and decided to embark on the project in the Southern Indian State of Travancore-Cochin.

31 This observation from Pharo, 1980, who was commissioned in 1976 by the Norwegian Ministry for Development Co-operation to write the history of the INP. It was thought that with an aid project which would promote "peace and stability through economic growth" the foreign policy of the government would acquire a more positive image particularly in the context of the domestic criticism against NATO membership; Pharo: 1984 quotes the main advisor to the Foreign Minister of the time as having recorded in his diary while commenting on the Norwegian Aid Plan to India—"Good plan, it is necessary to give to people something of a positive nature to supplement high defense expenditure".

32 The emphasis on a limited geographic area stems from the need to "see' the change effected by their involvement. For convincing the Norwegian public even through photographs and films it was important to have a direct relationship with a particular area and a fixed set of people.

33 Pharo, 1980 mentions that fisheries was considered to be "too problematical" an area and hence this instruction. However it seems strange that a country which has world reknown for its fishing industry would not have wanted to undertake an aid project in this sector. We would hazard two guesses to solve this riddle. One possibility is that developing a fishery industry of another country was considered a threat to Norwegian fish exports— particularly stock fish exports to countries in Africa. A second possibility, and this seems the more plausible explanation for the *a priori* instruction, is that the Chairman of the Board of Directors of the India Fund H U Sverdrup and the Norwegian Director of Fisheries, Klaus Sunnana were not on the best of terms (Pharo, 1980). Given this, it is understandable that choosing a fishery project in India would compel the Fund to seek advice from the Directorate of Fisheries which would be hardly forthcoming in the context of the strained relationship between Sverdrum and Sunnana.

34 Given that the Norwegians finally settled for a fishery project and in an area that was climate-wise most unsuitable for the Norwegians, only goes to show the extent of political pressure that existed to start an aid project—any project. The reversal of the Board decision not to involve in a fisheries project was probably possible only because Sverdrup himself was a member of the delegation to India.

35 The spirit of the community development programme initiated in October 1952 was at a high ebb. Jawaharlal Nehru was behind it and even the communist and socialist parties in India had no effective critic to offer on its contents. The objectives of community development projects were: (Dube 1960)

- (a) To provide substantial increase in the country's agricultural production and for improvements in the system of communications, rural health and village education.
- (b) To initiate and direct a process of integrated cultural change aimed at transforming the social and economic life of the village.

36 The similarity between these objectives and the community development objectives is obvious.

37 The development concerns of the Government of Travancore had for long centred around more than a mere raising of incomes. Health, education and the improvement in the general quality of life were explicit in the programmes of the government. Today the region of the erstwhile State of Travancore is reputed for its high health and literacy standards despite its relatively low levels of income.

38 As indicated in footnote 34 above the Norwegian's had very little choice but to accept and also largely on the terms dictated to them. Though this may seem strange, it was part of the compromise they had to make in order not to be faced with the politically unacceptable proposition of returning to Norway empty-handed.

39 Clause 2 (a) of the First Supplement to the Main Agreement.

40 The plea of the Norwegians about the need for a concentrated effort in a small area on a pilot basis was accommodated by the Government. Clearly the political palatability was low for such a pilot project loaded with a heavy dose of funds when the area outside remained without any. If the Government agreed to accommodate the INP style of functioning it was at a considerable risk. The calculation was that the payoff in terms of demonstrable results would be substantial. When this was not forthcoming an air of conflict built up.

41 The lack of expertise and skills was most evident in the realm of fisheries! The technology which was transferred—the vessels for example—was unsuitable to the climatic and oceanographic conditions. The Norwegian fishermen who came to the INP also had inadequate knowledge of the fishing grounds, bottom conditions and the behaviour of fish in the tropical waters. This situation did not help to create confidence among the Travancore counterparts.

42 The level of technology and skills needed to undertake this experiment was certainly available in India (see Footnote 44 below).

43 The alternative craft—a 22 ft flat keeled boat with 4-5 HP engines was neither technically nor economically superior to the traditional canoes. Though labour productivity was higher the resultant net income, because of the fuel costs, was much

lower than that of the canoes. Taking the figures given by Asari: 1969, but making corrections to his calculations by separating for income to owners and/or owner-workers and income to crew, we note the following from Table A. It is evident from Table A that the differences in earning of owners was clearly not high enough on the 22 ft boats to warrant a big shift in favour of it. It was a rational decision *not* to accept the new technology. Sixty-seven such boats were however constructed by 1956-57. Fishermen who were given the boats accepted it—some made good and concealed the fact from the INP authorities.

TABLE A: ECONOMICS OF SMALL FISHING CRAFT 1959-62

| | Traditional | | |
|---|---|---|---|
| | Small Canoes | Big Canoes | INP 22 ft Boat |
| Investment (Rs) (1953 prices | 1000 | 2000 | 2000* (subsidised) |
| Average Annual catch (kg) | 8603 | 8010 | 8841 |
| Gross Income (Rs) | 2389 | 3667 | 3643 |
| Net Income (Rs) | 2032 | 3148 | 1883 |
| Crew size | 5 | 10 | 3 or 4 |
| Output/Crew (kg)* | 1720 | 801 | 2210 |
| Workers share (Rs)* | 245 | 190 | 215 |
| Owner's share (Rs)* | 810 | 1260 | 1130 |
| Owner-workers share (Rs)* | 1055 | 1450 | 1345 |

*Note:* * Our calculations based on crew: owner sharing of net income in ratio 60:40 for traditional boats and 40:60 for INP boat.

44 The fact that this was done in Saurashtra and proved to be successful only goes to reinforce the doubt raised with regard to the Norwegian conclusion about the inability to motorise the canoes in Quilon. In fact today the very same canoes of Quilon are being motorised with more powerful outboard engines. However one may contend that even if the Norwegians did show that it was technically feasible to motorise the canoes, given that the prices of fish remained very low, the experiment would have met the same fate as the 22 ft flat bottom boats. In Saurashtra the fact of in-shore pomfret resources and the large demand for them from the Bombay market perhaps in no small measure account for the success of motorisation there.

45 The fact that the INP did not even consider taking up this activity of improving 'traditional' processing in which they had very useful experience casts a cloud of doubt on the purpose of shunning it. It is interesting to note that in the late sixties a nutrition programme among children in Kerala used 'fish powder' which was made from the entrails of fish and imported from Norway as a gift!

46 Particularly the clearly stated objectives.

47 See Kurien, 1978a. Essentially we are referring to the base of a fish economy matrix composed of three activities (columns)—production, processing/marketing and consumption—and three sectors (rows)—traditional, modern and ultra-modern. The traditional sector is at the base. Traditional production refers to the small-scale artisanal fishermen, their equipment and activity; traditional processing and marketing refers to processes such as curing and drying and the labour-intensive marketing network of fish distribution; traditional consumption refer to the consumption by rural and urban poor and the middle-class who form the bulk of the consumers. In brief it is a sector where production by the masses is for consumption by the masses.

48 In the first place the very search for a "universal" beach landing craft was doomed to fail given the very wide variability in sea and surf conditions even across very short stretches of coastline. The Norwegians did not get the opportunity or did not want to appreciate the rationale behind the wide diversity in craft design even within the short coastline length of Travancore.

49 The choice of oil sardine for freezing was in itself inappropriate due to the high oil content of the fish. Sandven, 1959, states that in the monsoon months of 1959, 15 tonnes of frozen fish were sold and in December 12 tonnes of fish were sold. With four insulated vans of eight tonnes capacity per trip this was gross underutilisation and very high costs which certainly could not be borne by the market—not to mention the resistance to frozen fish which continues to this day (see Kurien: 1984c). Compared to this the 1938 experiment of the Government of Travancore was far more successful with much less infrastructure.

50 Given that freezing technology was very new in India and the market for frozen Indian prawns in the 'sophisticated' US market also being a far cry this first step was indeed a bold one. The merchant concerned used the equipment of the West Coast Fisheries Company and also chartered a Japanese trawler for fishing.

51 It is known that there was some controversy as to whether it was the INP or the FAO who "discovered" the new resources of prawns in Kerala's waters. However the controversy was partly resolved by stating that the existance of such a resource was known earlier. Be that as it may, the important point is that in the early 1950s there was a conscious search for prawns by the Americans. International fishery bodies like the FAO followed. The INP resource surveys must also be seen as a part of this larger search (see footnote 52 below). India is today the world's largest producer of penaeid prawns. Kerala contributes about half of the harvest.

52 The demand for prawns in the USA is largely a post-World War II phenomenon. Two factors are responsible for the increased demand for prawn:

a) The war-time shift in the population from inland areas to the coastal regions introduced more people to sea food. Consequently on their return to their homes, the demand for sea food spread to the inland markets. The discovery of large shrimp grounds off Louisana and the establishment of a more efficient transport system and a cold chain gave a boost to the marketing of marine products.

b) The members of the US armed forces in the SE Asian regions developed a taste for SE Asian cusine which is replete with crustaceans (like prawns) and cephelopods (like cuttle fish). With their return home the taste for the exotic sea foods is more engrained and consequently demand increases.

One need hardly emphasise that the post-war prosperity is also responsible for the effective demand—shrimp was a luxury item.

Imports of shrimp into US in the 1930s and 1940s were from China. Following the revolution this supply dried up and alternative sources had to be found. In 1950 the import of shrimp into the US was 18,000 tonnes, in 1959 it reaches 48,000 tonnes and increased to 63,600 tonnes in 1962. US local production was at an all time low of 17,000 tonnes in 1954. Mexico was a prime supplier and had locational advantages but could not cater to the full demand. Supply from India soon followed.

53 The new Standing Committee established in the summer of 1956 was a product of the growing, then open conflict between the Norwegians and the Indians—particularly the 'counterparts' in the Travancore/Kerala Fisheries administration. The initial administrative agreement envisaged that the Government of Travancore would "administer" the project in "consultation" with the Board of the Norwegian Foundation. The Government of India was to play a "supervisory" role. This arrangement proved ineffective for conflict resolution. The 10 member Standing Committee which gave a greater role to the Government of India was expected to achieve this

(Pharo, 1984, p 5). Our reading of the situation is that it was not the committee *per se* but the changed context of priorities in the fisheries sector—particularly its latent export potential perceived in the late 1950s—which made the Government of India more involved and interested in the INP's affairs and to that extent also concerned with reducing conflict.

54 One wonders if the Norwegians really seriously believed that the INP "creating" the Sales Organisation would give "power" to the fishermen to control their produce. If they did then it indicated their lack of awareness of both Norwegian history and social processes. See Vassdal, 1982. If they did not, then having undertaken the task one must hold them responsible for failure. However, all the facets of the failure of the Sales Organisation are not well known but the total lack of participation of the fishermen in creating it is by far the most compelling cause for failure.

55 We take it that the thawing of the cold relationship between the Foundation and the Fisheries Department in Norway took place only after the death of H U Sverdrup. In 1957 G M Gerhardsen who was working with the FAO and was a world famous fishery expert was deputed to the Project first as fisheries leader and subsequently as Project Director. In 1958 and 1959 Trygve Aas and the Director of Fisheries in Norway Klaus Sunnana (who had serious misgivings about the INP when it was conceived) became involved with the project. Only with the coming of these persons can it be said that the fishery competence of the Norwegians outweighed that of the Indians.

56 One Norwegian Kroner = Rs 0.66 at 1959 exchange rates. The calculations were made from the statement of expenditures given in Sandven, 1959.

57 We would include under this head the construction of the sea walls in Neendakara, trial fishing experiments, oceanographic research, training of fishermen and the scholarships to Indians to study in Norway.

58 See Klausen, 1968. The total aid per capita was Rs 632 from which the salary and travel expenses of the Norwegians was Rs 158. This was deducted to give Rs 474.

59 Favourable oceanographic conditions are a very crucial determinant of a successful fishery. This is particularly true for the pelagic species which dominate the fish catch of Kerala.

60 The introduction of nylon for the making of nets was taken up by both the Department of Fisheries and many far sighted social service organisations. A prime example of the latter was the Trivandrum Social Service Society which imported and distributed nylon yarn from Canada.

61 Asari, 1969 Table 9.

62 A census of the whole state's fisheries was conducted by the Department of Fisheries. Unlike most other surveys/censuses that followed in the subsequent years the reliability of this survey is high and hence provides a good bench mark. The figures mentioned, except that of the output per worker, are from that survey.

63 The average export value realisation in 1962 was Rs 4,860. We have therefore assumed the price in 1961 to be over 4,000. The prices at the shore were also increasing rapidly. Calculating from the value received by the sale of prawns catch on INP boats (Sandven, 1959 and Asari, 1969) we note the following prices per tonne of prawns: 1957: Rs 200; 1959: Rs 290; 1962: Rs 560; 1963: Rs 600.

64 This price is the aggregated shore price of all species and hence includes the price of prawns. Retail prices range from 50 to 150 per cent above the shore price.

65 The price dropped the next year to Rs 5,630 per tonne but always remained higher than what was offered by US. It must however be noted that the Japanese always preferred the larger, more costly prawns whereas the Americans were happy even with the smaller varieties.

66 The artisanal fishermen of Kerala have been used to pelagic and mid-water trawling using two-boats. Prawns were caught only during the season when they become pelagic due to the upwelling— mainly the pre-monsoon months. Bottom trawling as a technique was also known to the Indian fishery scientists and was used during experimental fishing. However, it was the Norwegians who demonstrated that it was feasible even with the small 30 and 32 foot boat which they introduced. To that extent they take the credit for making the technique accessible to a broader base of investors.

67 Pharo, 1980 and 1984 talks about the 'entrepreneur' role of the INP. We are inclined to conclude that at best the INP played the "supporters" role assisting the local entrepreneurs—merchant capitalists.

68 The economic history of Kerala is largely the history of a significant merchant capitalist class. The main economic activities in the region revolved around the trade of land-based cash crops to foreign markets. Pepper, cardamom, rubber, timber, tea, coffee, cashew, lemon grass, coir are examples. We have also shown how fish oil became a source of foreign exchange in the late 1800s.

69 The cashew industry which was situated around Quilon was beginning to face a crisis in the early 1960s and the rise of prawn exports came as a great relief to many capitalists who shifted over. As in all such activity there are the pioneers who take great risk and those who join only after being sure of the extent of profits.

70 The colonial rulers with their superior finances and military might supported and defended their merchant entrepreneurs from competition. This however did not prevent the natives from devising numerous ways and means of entering the trade by collaborating and competing with the foreigners.

71 The technology of freezing was available in Kerala before the INP as is evident from its use in 1938 and subsequently in the early 1950s by the handful of private firms exporting frozen shrimp to US. The freezing capacity in Kerala in the 1947-56 period was 54 tonnes. The INP built the most modern facility.

72 (Asari, 1969 Tables 12 and 13) The facilities of the INP taken over by the Department of Fisheries was valued at Rs one million and that of the three firms in the private sector in Quilon at Rs 10.4 million. This was in 1968. In 1963 there was no investment yet made by the private sector—they leased in the INP plant for their use.

73 Pharo, 1980 talks about this juncture in the INP's history at a time when they were on the verge of 'success' but unaware of it. In fact he even says that there was some discussion about winding up the project just prior to this turning point in its history.

74 This historical inevitability is best articulated by Galtung, 1969 when he says "A development pattern may be very different from what one hopes and expects, regardless of intention and capabilities—simply because it is inserted into structures so strong and with a dynamism of their own, that it far exceeds what a handful of good people can muster as defences".

75 It is of great relevance here to note that one of the objections raised by Norwegian fishermen in 1930 to the introduction of trawlers (which were financially outside the reach of the working fishermen) was that it would be the first step to the growth of capitalist relations in fishing. That this happened in Kerala following the Norwegian promotion of trawlers is therefore hardly surprising. It has been mentioned that the trawlers introduced in Kerala were very small compared to what was opposed by the Norwegian fishermen in Norway in 1930. The important point is *not* the absolute size but the fact that in relative terms the scale of difference between the investment required for the existing level of technology and the one to be newly introduced was perhaps the same in Norway and Kerala. It is perhaps of interest to note that trawling operations have never been permitted in Norwegian in-shore waters.

76 Asari, 1969: Table 10 refers to the structural change which was basically the creation of a "Non-operating entrepreneur"

class—or more bluntly a capitalist class—in the project area. He writes: "This welcome change could be wholly attributable to the credit of the INP as it as the only development agency functioning in the area during the period". In 1953 of the 720 fishermen households in the area none belonged to this class. In 1963 the total households increased to 731 and the new class is made up of 20 households. There were also 64 "operating entrepreneurs" of mechanised boats. By the end of 1963 as many as 138 mechanised boats were issued to fishermen. If "operating entrepreneurs" are assumed to work only one boat per head it would mean that the remaining 74 boats were operated by the 20 "non-operating entrepreneurs" of the area. Asari also points out that only 87 of the 138 boats were operated by fishermen "the rest had been disposed of for various reasons". Capitalistic ownership also laid the basis for a proletarianised labour force most of which was recruited from the southern districts of Trivandrum and Kanyakumari.

77 Asari, 1969, p 7.

78 The South Indian Federation of Fishermen Societies (SIFFS)—a federation of genuine fishermen organisations with head quarters in Trivandrum—approached the IFP with a request that they accept shark fins from the sharks caught by their member fishermen since SIFFS had a problem of marketing them. The request was declined since the rules of the IFP did not permit such assistance (Information from SIFFS personnel).

79 Fishing was, and largely continues to be a caste based occupation. Involvement in selling/processing fish was also restricted to a few communities. There was therefore very little 'free' movement of capital or capitalists into the sector prior to the 1950s. Thereafter we see a trickle of entry and soon a tide by the mid 1960s. Undoubtedly it was the phenomenal profit opportunities which broke down the socio-cultural barriers. It was now respectable to talk about "being in the prawn business" whereas the same persons may have shunned the thought of making a living out of selling dried fish. The centralisation of fish landings to two or three major harbours also made the modern sector amenable to easier (absentee) control.

80 The external pressures on India to conform to the "rules of the game" by external funding sources brought about the devaluation and the emphasis on export-orientation. Marine products were ideal export items considering that the foreign component involved in the production and processing was practically nil. The value of exports of frozen prawn alone more than doubled from Rs 41 million to Rs 88 million between 1965 and 1966—the quantity increased only from 7,028 tonnes to 8,784 tonnes. Over 90 per cent of this was from Kerala.

81 See footnote 72 above.

82 The plan expenditure figure of Third Five Year Plan and subsequent three Annual plans are given in Table B. The export figure calculated from MPEPC 1970 is the total value of all marine exports from Kerala.

TABLE B

*(in Rs million)*

| | Third Plan 1961-66 | Annual Plans 1966-69 |
|---|---|---|
| 1 Mechanisation of boats | 11.2 | 42.8 |
| 2 Harbours etc | 8.2 | 8.9 |
| 3 Training of fishermen | 1.2 | 1.6 |
| 4 Export processing and marketing facilities | 6.6 | 5.4 |
| 5 Kerala Fisheries Corporation | — | 6.5 |
| Total | 27.2 | 65.2 |

83 The plan expenditure figure of Third Five Year Plan and subsequent three Annual plans is given in Table C. Quantum and Value of the catch of fish and prawns from Kurien, 1978a.

TABLE C

*(in Rs millions)*

| | Third Plan 1961-66 | Annual Plan 1966-69 |
|---|---|---|
| 1 Traditional craft gear improvements | 1.1 | 1.9 |
| 2 Credit/Grants to village co-operatives | 1.1 | 2.5 |
| 3 Internal marketing schemes | 1.5 | — |
| Total | 3.7 | 4.4 |

84 For a critique on the fishery co-operatives of Kerala see Kurien, 1980.

85 These financiers and middlemen were those who have been traditionally involved in the fish economy. Many of them also combined the role of financier-merchants. The merchants among them were involved largely in fresh fish trade and a smaller number in the export of dried fish and prawns. Only a few of them however moved easily and naturally into the frozen prawn export trade. We therefore notice that there is also a segmentation among the merchant class as a whole. These segments are not only separated by economic and financial barriers alone but also by strong social and cultural factors. The educated economics graduate, financed by a nationalised bank and promoted by a big business house wanting to enter the marine export business, would easily 'become' a merchant-exporter of frozen prawns but never of dried fish even if the margin of profits in the latter were as high. See Kurien, 1978b.

86 Aggregated from State Plan expenditures (see Table D).

87 The Kerala Fisheries Corporation is probably the largest loss making public enterprise in Kerala when considered in this manner.

88 The modern sector brought with it the concept of the "worker fishermen". Getting a share of the net returns (30 per cent divided by the crew of five) we can consider them to be receiving a "variable wage". In the traditional sector fishermen are generally owner-workers, non-owners being considered as "partners". The workers on the mechanised boats were initially all from traditional fishing communities. Their productivity and per capita income have always been higher than their counterparts on non-mechanised craft. For details see Kurien, 1978a.

89 MPEPC, 1970 and MPEDA, 1978 and MPEDA, 1984.

90 The Japanese prefer the prawn headless but with the shell-on. The Americans want a fully peeled and deveined product. The former gives a higher yield from the fresh prawn weight. This factor is also partly responsible for the increased quantum of export of frozen prawns following the large scale buying of the Japanese.

91 For a detailed account of the entry of big business into the marine export trade see Kurien, 1978b. They began their involvement without direct investments in any physical facilities but "promoted" entrepreneurs who were willing to become their agents. Essentially the big business house functioned like merchants. Their involvement became a source of threat to the local merchant class who opposed their entry into the trade. Consequently the Government of India was forced to curb the activities of the big business houses. By the end of the seventies most had

TABLE D

*(in Rs millions)*

| | Annual Plan | IV Plan | V Plan | Annual Plan | VI Plan |
|---|---|---|---|---|---|
| Investments and working funds for Kerala Fisheries Corporation | 6.5 | — | 14.3 | 18.9 | 4.4 |

wound up their marine fishing and export activities (see Table E). After 1976 there is hardly any new capacity installed and what exists runs at 20-25 per cent utilisation.

TABLE E

| | Private Sector | Public Sector |
|---|---|---|
| | (Cumulative and in tonnes) | |
| Growth of freezing capacity: | | |
| 1962-66 | 182 | 33 |
| 1967-71 | 386 | 51 |
| 1972-76 | 504 | 356 |
| Growth of frozen storage: | | |
| 1962-66 | 2095 | 805 |
| 1967-71 | 4641 | 1035 |
| 1972-76 | 7613 | 1210 |

92 The growth of mechanised boats was unchecked. There was no process of mandatory registration of boats and hence even a definite count of the number in operation could not be made.

93 The pauperisation of the artisanal fishermen over time provided a "free" work force to operate the mechanised boats far in excess of the required number. Many boat owners could have as many as 8-10 workers "on call". This reduced the bargaining power of the workers and affected their security of tenure. Earnings of workers still remains as a share payment. It is perhaps the overall political environment where the working class have as powerful a "lobby" as the capitalist class which has prevented any change from the sharing system. This in a sense is unique to Kerala's mechanised sector in fishing.

94 This is an inflated estimate since it is not based on the larger number of workers who would have shared the total earnings. Micro level studies show the figure to be around Rs 3,600 in 1980-81 prices. See Kurien and Willmann, 1982.

95 That necessity is the mother of inventions is very true judging from the various gear, tackle and bait innovations made by the artisanal fishermen in the latter half of the decade of the seventies. In the Trivandrum district for example a fisherman must possess or participate in fishing with at least five different gear-types if he is to fish for 300 days of the year. The ownership patterns and sharing systems prevalent allowed this to be attained without all the fishermen owning all the types of gear. With the falling production, control over a greater asset base gives a fisherman a competitive edge over a neighbour who has less.

96 The impact of this trend has not been fully assessed. A recent study (Kurien, 1984a) covers two centres—the INP project area and Vizhinjam fishing harbour in Trivandrum—and studies the changes in productivity and profitability following the introduction of motorisation and new craft designs in the artisanal fisheries sector. It also attempts to highlight some of the aspects that needs to be taken into consideration if the trend continues.

97 Scientists studying tropical water fisheries point out that even at low (individual) levels of productivity an unregulated number of operators fishing the in-shore waters can endanger the stocks.

98 Sebastian Mathew, 'Growth and Dynamics of the Marine Export Industry in Kerala', M Phil Dissertation, Jawaharlal Nehru University, New Delhi (in progress).

99 The operation of the local units of MNCs were strongly resented by the new merchant capitalist class who saw their entry as a threat. The latter were able to muster enough support to get very severe restrictions placed on big business house operations. Consequently many of the business houses shifted their operations to Andhra Pradesh and Orissa where the established merchant interests were not as well entrenched.

100 Very little systematic work has been done in assessing the number of persons involved and the way in which their work conditions have evolved during the decade. Kerala 'exports' to other states in India a large number of young girls who form a sizeable migrant labour population in the other leading marine processing centres in the country. Bombay, Veraval, Puri are places where their numbers are considerable.

101 The further away the retail market from the shore the higher the mark-up. Certain select species such as seerfish and pomfret command a premium in the urban markets. These two species are the only ones generally stocked in the frozen chests of retail food stockists.

102 Fish was the cheapest source of animal protein and in the early 1960s accounted for three-quarters of the animal protein intake of the Kerala population. We have no recent estimates of the intake but it stands to reason that both the above are now facts of history.

103 The shift to milk as a response to its greater availability and the relatively slower increase in prices has been observed. See Nair 1978. At family level the middle class parent gets a child accustomed to milk and eggs, and fish is served occasionally. This is in part response to the higher prices of fish and the scarcity of good quality of fish.

104 This survey was undertaken by the Department of Fisheries of Kerala State in 1979. After the survey undertaken by the Department in 1957-58 this is the only other comprehensive survey of socio-economic conditions undertaken so far.

It is a widely accepted fact by social organisers, bureaucrats and politicians that the fishermen of Kerala still belong to the most economically and socially backward section of the state's population. Yet, as has been pointed out, there are few other sections in the state whose labour contributes Rs three million every day to the country's foreign exchange earnings.

105 The income figures speak for themselves but the picture is made worse when one juxtaposes the level of indebtedness over it. See Platteau *et al* 1981 for a graphic and analytical account of the level of credit and indebtedness among fishermen in south Kerala including the INP area.

106 It must be pointed out that the survey indicates the quality of life of the fishermen of Quilon—as judged from their housing standards, toilet facilities and access to water—to be higher than that of other maritime districts of Kerala. The prime reason for this is the headstart they had in these respects due to the health and sanitation work undertaken by the INP. It is also true that the income distribution is less dispersed than the state average and relatively more households have incomes above Rs 3,000. The concentration of the mechanised sector's operations in the region is the main explanatory factor.

107 The scientific community has not taken a very consistent position on this question. The biologists of the Central Marine Fisheries Research Institute however are willing to state that given the evidence available to them there is "economic overfishing" of some resources but not "biological overfishing". The unfortunate fact is that by the time the 'evidence' is available it may be too late for the fishery.

108 The artisanal fishermen's agitation is at once both an ecology movement and a social movement. The most powerful trade union is an independent, non-political party union (a rare phenomenon in Kerala) in which are also involved many social activists—some of whom are priests and nuns. As a consequence of this there has been a tendency particularly with the press and the politicians to discuss the ecclesiastical issues involved and side track the crucial ichthyological matters. The agitational style of the union and the massive turnouts to demonstrations have forced both left and right governments in the course of the last three years to concede in principle to the need to protect the rights of the artisanal fishermen. For more details see Kurien 1984b also Kurien and Mathew 1982.

109 By posing the questions about the operation of trawlers, the artisanal fishermen not only alienate the capitalist owners but also the workers on the mechanised boats

who from the point of a class analysis are actually their allies. The inability to "fight trawlers" without "fighting the fishermen workers on board" has been a source of constant contradiction for the artisanal fishermen. This is particularly crucial when they opt for a physical confrontation at sea. The capitalist owners of the trawlers use this contradiction to their advantage.

110 This is not only in Kerala but also among the fishermen in other states. See letters to R Brusletten, Royal Ministry of Department, Norway from the Secretary of the Goenchea Ramponkarancho Ekvott in Goa on the subject 'Norad Fisheries Programme in India Not in the Interest of Fishermen'.

111 Taking the average production of the two sectors for the period 1971-76 and considering their pattern of production we have calculated the following (Kurien, 1978a) Table F.

TABLE F

| | Mechanised Sector | Non-Mechanised Sector |
|---|---|---|
| 1 Contribution to protein consumption of consumers in the state (in gms/capita/day | 1.16 | 7.02 |
| 2 Employment generated in the forward linkage of activities (in millions of person-days | 4.33 | 16.30 |

As regards the spatial distribution of the activity, the mechanised sector is concentrated to 10 all-season centres along the 590 kilometre coastline; the non-mechanised sector has a landing centre every 2¼ kilometre of coastline. The concern for a dispersed settlement and production pattern in fisheries is as much an issue in Kerala as it is in Norway. See Hannesson 1982.

112 Social profitability can include measures mentioned in footnote 111 above and also such measures as value added per unit of investment and catch per unit of energy consumed. On all these counts the artisanal sector is more socially desirable.

113 For a more detailed discussion of this see Kurien 1984d.

114 With the fishermen population increasing at a rate of 2.3 per cent per annum compared to the state average of 1.9 per cent the possibility of finding employment for all within the fisheries sector is rather bleak. Even today we have a situation of too many fishermen chasing too few fish.

115 The best example of maintaining the balance was the promulgation of a Marine Regulation Act to appease the artisanal fishermen and consequently to be rather lax in implementing it thus allowing the *status quo* to be maintained.

116 Between 1981 and 1984 two high powered commissions were constituted to look into the scientific and social dimensions of the fishermen's demands and recommend to the government the guidelines for policy making. The Babu Paul Commission, constituted after the fishermen's agitation in 1981, submitted its report with five out of six fishermen representatives submitting a long dissent note. (The representative of the ruling Cong(I) fishermen's union sided with the majority). This commission had 13 members (including the Chairman) of whom seven were officials and scientists. Two of them never attended any of the meetings. On the day of submission of the final report one sent a letter endorsing the commission's views; the other was brought from his office to sign it thus avoiding what may have turned out to be an embarrassing situation for the government. The Kalwar Commission appointed after the 1984 agitation had not submitted its report at the time of writing (April 1985).

117 The Purse-seine Fishing Boat Owners' Association moved the Kerala High Court on the grounds that the exclusion of pruse-seiners from some areas of the sea tantamounts to a violation of the owners fundamental rights to a livelihood guaranteed under the Constitution of India. The court awarded a verdict favourable to them on some "technical grounds" relating to the manner in which the government's notification of the exclusion was made.

118 To the older generation of Norwegians the INP or the "Kerala Project" is very much a part of their mental matrix considering the tremendous public involvement in the 1950s for collecting funds for the project as well as reading, seeing and reacting to its progress. The discussions and writings on the Norwegian role in Kerala, by Norwegians, therefore tends to have more than a tinge of emotion associated with it whether the evaluation is positive or negative. Galtung 1984 is a good example.

119 The FAO was very much involved in the fisheries sector of India in the decade of the fifties. Their involvement in Kerala was at a lower key precisely because the Norwegians were around. However the approach of the FAO was distinctly different. They believed in testing out several prototypes and would leave the commercial applicability to others. Long concentrated involvement in one area as with the Norwegians would hardly be the style of the FAO. The first exporter of prawns from Kerala used a Japanese manufactured trawler of much larger size than those popularised subsequently by the Norwegians.

120 A seminar organised by the Norwegian Ministry for Development Co-operation in March 1985 to discuss the Norwegian aided fishery development projects in India, Tanzania and Kenya was evidence of a rare show of openness to criticism and a willingness to learn lessons from mistakes.

APPOINTMENTS

**Institute of Economic Growth**

University Enclave,
Delhi - 7.

Applications are invited for temporary vacancy of a Professor in the scale of pay of Rs. 1,500-2,500. Candidates with Ph.D. in Economics/ Econometrics and substantial published work of high quality in Applied Econometrics in any one of the areas of money, trade, income and employment and experience of guiding research at doctoral level *or* an outstanding scholar with established reputation who has made significant contributions to knowledge in any one of the above areas may apply.

It will be open to the Institute to consider the names of suitable candidates who may not have applied for the post.

Applications with curriculum vitae should reach the Director by 31st July, 1985.

DIRECTOR
12.6.1985

This is particularly so in the context of increasing sentiments against aid to developing countries both by the extreme right and left political formations in Norway.

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# White Revolution in India: Facts and Issues

**K N Nair**

*This paper highlights the trend and sources of growth of milk production in recent years and analyses the underlying factors. It discusses the changes in the quantum and quality of feed supply, and the conversion efficiency of milch animal herd due to variations in species and breed composition and the role of Operation Flood. Such an exercise, it is hoped, will provide some insights into some of the major constraints on increasing milk production in India against the background of the much debated Operation Flood strategy.*

## I

## Trends in Milk Production

ANNUAL estimates of milk production are available from the Ministry of Agriculture. Before looking at the trends in milk production as reflected in these estimates, we shall summarise its main limitations.[1]

The average annual milk production is estimated by making use of the following formula:

$$M = B \times P_m \times Y_m \times 365$$

Where

$M$ = average annual milk production
$B$ = Number of milch animals used for breeding and milk production
$P_m$ = Percentage of animals in milk
$Y_m$ = Average daily milk yield per animal in milk.

The estimates of milk production are made separately for cows and she-buffaloes.

While data on the population of milch animals used for breeding and milk production and the proportion of animals in milk are available for the past several decades, from the five-yearly Livestock Census Reports, data on productivity of milch animals are available for the various animal husbandry tracts of the country only for the period beginning the sixties.

In order to obtain estimates of milk production, the Market Intelligence unit of the Directorate of Economics and Statistics, in consultation with the State Animal Husbandry Departments, used to conduct enquiries in selected milksheds in various animal husbandry regions and arrive at estimates of the productivity of the milch animal stock. Upto the mid-sixties, in the formula cited earlier, the yield per milch animal was obtained like this. Since the yield data were not based on any statistical survey, the estimates of milk production obtained were only rough approximations.

The need to obtain reliable estimates of milk production in the country began to be increasingly felt right from the inception of national planning. In order to obtain such reliable estimates scientifically designed sample surveys were begun by the Institute of Agricultural Research Statistics at the instance of the Ministry of Agriculture. These surveys which began in the late fifties were carried out in different years in different states, and collected information on yield per animal in milk by species, the utilisation of milk among producer households, and the bovine feeding and management practices.[2] By 1966-77 when these surveys had already covered 12 states in the country, the IARS had perfected the methodology for conducting random sample surveys for estimating milk production with a high level of reliability. However the Ministry of Agriculture did not do the surveys on an annual basis till 1977-78. Nevertheless, they arrived at annual estimates of the productivity of milch animals, by making adjustments, to the IARS Sample survey data, for changes in various factors affecting the productivity of milch animals in consultation with the State Animal Husbandry and Dairy Development Departments. Thus, though the sample surveys conducted by the IARS in the sixties gave more reliable information on the levels of productivity of milch animals, they did not result in significant improvements in the reliability of estimates of milk production. The estimates of milk production made by the Ministry of Agriculture during the period 1966-76 were data obtained from earlier sample surveys adjusted to specific later years by the official agencies on the basis of their 'informed' guesses on changes in the productivity of the stock. Since the seventies were characterised by large scale public investment in dairying and milk production, there is, in fact, a chance that the official agencies might have overestimated the production figures in order to show better performance of the sector.

However, the Ministry of Agriculture launched a scheme of annual integrated milk production survey using the methodology suggested by the IARS, from 1977-78 onwards. Only 14 states participated in these surveys. Data on the productivity of the milch animal stock, feed intake, etc, were collected through these surveys. Unfortunately most of the information collected through these surveys are not available. The only estimate published so far is on the total production of milk.

As is evident from the foregoing discussion, the annual estimates of milk production released by the Ministry of Agriculture have several shortcomings; they are not comparable over time; they do not cover all states; and they are published with inordinate time lag. In spite of such limitations, we had to depend for our analysis, heavily on these estimates since there exist no other sources of information available to evaluate trends in milk production. We have supplemented these data with estimates prepared at the state level, for those states which did not participate in the all-India survey. The estimated milk production from 1961 onwards is given in Table 1.

During the early sixties, the estimated milk production in the country was about 20 million tonnes and it increased to 23 million tonnes by 1974. During the subsequent period (1974-82) it increased to 33 million tonnes. In other words, milk production which had been increasing roughly at one per cent per annum during the first period jumped to about four per cent during the subsequent period. Thus if we go by official data India has had a significant breakthrough in milk production. Whether this has in fact been the case can be discussed meaningfully only after examining the sources of growth in milk production.

## II

## Sources of Growth in Milk Production

In the early sixties about 43 per cent of the total milk production in the country was from cows, about 55 per cent from she-buffaloes and the remaining two per cent from goats. Over the years, the contribution of she-buffaloes in total milk production has slightly increased from 54 per cent in 1961 to 60 per cent by 1982. The share of cow milk production declined from 43 per cent in 1961 to 35 per cent by 1982. Since 95 per cent of the milk production is from bovine sources, in the rest of our analysis, we shall examine only sources of growth in cow and buffalo milk production.

There are two sources of growth in milk production: increase in the population of milch animals and increase in productivity per milch animal. Table 2 gives values of these variables for cows and she-buffaloes. These values are quinquennial estimates and since there is all probability of annual fluctuations in yield per animal in mik and the proportion of animals in milk, these estimates may not fully capture the actual trend. However they provide us some rough idea of the direction in which the values of these variables have been moving over time. As it is evident from Table 2, the yield per milch cow remained almost unchanged during the sixties and has shown an increasing trend during the seventies. In the case of she-buffaloes, the yield showed a decline during the sixties and an increasing trend in subsequent years. The populations of cows and she-buffaloes showed increasing trends, the latter increasing at a faster rate.

In order to decompose the growth in milk production into its component elements we have made use of the following equation.[3]

$$(O_2 - O_1) = Y_1(P_2 - P_1) + P_1(Y_2 - Y_1) + (P_2 - P_1 (Y_2 - Y_1)$$

Where

$O_2$ = level of milk production in the terminal year

$O_1$ = level of milk production in the base year

$P_2$ = population of milch animals in the terminal year

$P_1$ = population of milch animals in the base year

$Y_2$ = yield per milch animal in the terminal year

$Y_1$ = yield per milch animal in the base year.

TABLE 1: PRODUCTION OF MILK ($10^6$ TONNES) IN INDIA (1961-82)

| Year | Cow | She-buffalo | Total* |
|---|---|---|---|
| 1961 | 8.75 | 11.08 | 20.38 |
| 1966 | 8.91 | 11.87 | 19.36 |
| 1972 | 9.45 | 12.37 | 22.50 |
| 1974 | 9.74 | 12.76 | 23.20 |
| 1978 | 10.98 | 16.79 | 28.35 |
| 1981 | 11.10 | 18.11 | 31.50 |
| 1982 | NA | NA | 33.0 |

*Note:* * Includes goat milk also.

*Source:* Government of India, Ministry of Agriculture, New Delhi.

The first term on the right side of the equation gives the contribution of increase in milch animal population to increase in milk production. The second term shows the contribution of increase in milk yield and the third term the contribution of the inter-action between increase in milch animal population and increase in yield to increase in milk production. The contributions of these factors to increase in milk production during the sixties and the seventies are given in Table 3. During the sixties, the growth in production was mostly due to increase in the population of milch animals. But during the seventies it has been largely due to increase in the productivity of the stock.

There are several factors which must have contributed to the increase in productivity of the milch animal herd. In our analysis we confine to the important factors operating from the production side. These factors include (a) increase in the quantum and quality of feed, and (b) changes in the conversion efficiency of the milch animal herd. In this process, we shall also touch upon the role played by Operation Flood project.

TABLE 2: ESTIMATED PRODUCTIVITY (KG/YEAR) OF MILCH ANIMALS IN INDIA

| | 1961 | 1972 | 1977 | 1982 |
|---|---|---|---|---|
| Yield/milch cow | 192.0 | 195.0 | 221.0 | 230.0 |
| Yield/milch buffalo | 504.0 | 469.1 | 587.0 | 635.0 |
| Population of milch cow ($10^6$) | 45.6 | 48.4 | 49.5 | 50.5 |
| Population of milch buffalo ($10^6$) | 21.9 | 26.3 | 28.5 | 30.5 |

*Source:* The populations of milch animals for 1961,1977 are taken from the Livestock Census Reports. The figure for 1982 is an estimate based on 1972-77 growth in population.

TABLE 3: PERCENTAGE CONTRIBUTION OF INCREASE IN MILCH ANIMAL POPULATION, INCREASE IN PRODUCTIVITY AND THE INTERACTION BETWEEN YIELD AND POPULATION TO GROWTH IN MILK PRODUCTION

| | Period I (1961-72) | | Period II (1972-82) | |
|---|---|---|---|---|
| | Cow | She-buffalo | Cow | She-buffaló |
| 1 Percentage contribution of milch animal population | 71.0 | 169.3 | 36.4 | 28.2 |
| 2 Percentage contribution of milk yield | 17.0 | −58.0 | 61.3 | 61.8 |
| 3 Interaction between yield and population | 12.0 | −11.30 | 2.3 | 10.0 |

## III

## Changes in Feed Supply

Unlike in the case of human food consumption we have no sample survey data to examine the changes in the feed consumed by livestock population. The only way out in this situation is to construct annual feed balance sheets and see how the overall feed availability has been changing over time. With this objective in mind, we estimated the trends in feed supply in India during the last two decades (see Table 4). While interpreting these estimates it is important to keep in mind the following:

(a) In our estimates of feed supply, we have assumed that the increase in feed supply over the last two decades due to increase in the area and productivity of grasslands and that of cultivated green fodder has been insignificant. The quantity of grass consumed by livestock directly by grazing or by harvesting and then feeding livestock, is difficult to estimate as the growth of grass and its accessibility for grazing and harvesting vary from place to place and from season to season. It is possible to make some ad hoc estimates, but it is of little use, since there has been no qualitative improvement in grazing land and the area of grazing land has been declining at a slow rate. In the case of cultivated green fodder, the area has been remaining at 6 to 7 million hectares during the last two decades with very little increase in productivity.[4]

(b) The main source of growth in feed supply in India during the past two decades has been the increase in crop production, especially of foodgrains and oilseeds. The estimates of feed availability from these sources are derived by the following method: (1) Estimates of roughages are obtained by applying the straw-grain ratio to the estimated production of crops;[5] (2) Similarly estimates of rice, wheat and other allied bran are obtained by applying the ratio of bran to grain; (3) The production of oilcake is arrived at by applying the oilcake content of the crushed nuts after taking into account the proportion going to seed, direct consumption, etc. To arrive at the net availability of oilcakes, we have deducted the annual export of oilcakes from its annual production; (4) Following the National Commission on Agriculture we have assumed that about two per cent of the coarse grain produced in the country is used for cattle feed.

The data on production of principal crops are taken from the annual crop estimates published by the Ministry of Agriculture. In order to obtain a more reliable idea of the long term trend in feed supply we have taken quinquennial averages of crop output for estimating the availability of roughages and concentrates. The qualitative changes taking place to feed supply are brought out by converting it into Total Digestible Nutrients (TDN) and Digestible Crude Protein (DCP).

Before looking at the estimated trends in feed supply it is important to see how the available feed is allocated between bovines and other types of livestock. According to the sample surveys conducted by Amble, *et al*, in the mid-sixties almost all the dry fodder was consumed by bovines. But in the case of concentrates, poultry, pig and goats also consumed a part. According to estimates, by Amble, *et al*, about 12 per cent of the total concentrate feed consumed by livestock was accounted by these species. We have no data to check whether the relative claims of bovines and other livestock on the available concentrate supply has been changing over time. However, given the fact that compared to the bovine sector, the other livestock sector constitutes only a tiny fraction, it is reasonable to assume that the allocation of concentrate feed between the two must have remained unchanged over time. Thus in the subsequent discussion to bring out the implication of the increasing feed supply on milk production, we have not done any adjustment in the concentrate supply to obtain the bovine feed availability. While our estimates of the feed available for bovinestock may therefore be on the high side, they may not distort the trends over time.

The estimated availability of roughages which was about 270 million tonnes in the early sixties increased to 385 million tonnes by the late seventies. During the same period, the supply of concentrate feed increased from 12 million tonnes to about 18 million tonnes. It is important to note that the supply of roughages and concentrates showed a significant increase from the mid-seventies onwards. The total availability of TDN was 120 million tonnes in the early sixties and increased to slightly over 170 million tonnes by the late seventies. The supply of DCP has more than doubled; from 1.60 million tonnes to 3.24 million tonnes. Further the ratio of TDN to DCP has shown a declining trend in the seventies indicating qualitative improvement in feed supply.

Along with the increase in quantum and quality of feed supply the availability of feed per bovinestock has shown an increasing trend. The availability of TDN increased from 526 kg in the early sixties to 720 kgs in the early seventies. The corresponding increase in DCP was from 7 kg to 14 kg. In other words, the phenomenon of declining productivity of bovine population due to decline in per capita feed availability that had been in operation in India's bovine economy has been broken in recent years. Because of the faster rate of growth in agricultural output, the availability of bovine feed has been increasing at a more rapid rate than that of the growth in bovine population.

TABLE 4: ESTIMATED FEED SUPPLY IN INDIA ($10^6$ TONNES) FROM CROP PRODUCTION

| Year | Roughages | Concentrates | Total Digestible Nutrients (TDN) | Digestible Crude Protein (DCP) |
|---|---|---|---|---|
| 1961-66 | 273.5 | 12.5 | 119.5 | 1.60 |
| 1962-67 | 272.0 | 11.5 | 119.0 | 1.71 |
| 1963-68 | 279.0 | 11.2 | 123.1 | 1.84 |
| 1964-69 | 285.1 | 12.4 | 126.6 | 1.97 |
| 1965-70 | 293.8 | 11.5 | 129.5 | 1.65 |
| 1966-71 | 316.8 | 13.2 | 140.8 | 1.79 |
| 1967-72 | 318.7 | 13.7 | 141.3 | 2.04 |
| 1968-73 | 323.7 | 13.6 | 143.2 | 1.84 |
| 1969-74 | 281.5 | 14.2 | 139.1 | 2.07 |
| 1970-75 | 311.3 | 15.0 | 138.6 | 2.36 |
| 1971-76 | 317.1 | 15.0 | 141.5 | 2.27 |
| 1972-77 | 323.7 | 14.3 | 144.0 | 2.03 |
| 1973-78 | 370.1 | 15.9 | 150.2 | 2.36 |
| 1974-79 | 385.9 | 16.6 | 157.8 | 2.54 |
| 1975-80 | 390.1 | 17.4 | 160.6 | 2.80 |
| 1976-81 | 388.1 | 16.9 | 166.5 | 2.82 |
| 1977-82 | 384.3 | 17.8 | 173.4 | 3.24 |

TABLE 5: PER CAPITA BOVINE FEED AVAILABILITY (KG/YEAR) IN INDIA

| Year | Roughages | Concentrates | TDN | DCP |
|---|---|---|---|---|
| 1963-64 | 1,198.0 | 54.8 | 526.0 | 7.0 |
| 1965-66 | 1,212.0 | 49.1 | 537.0 | 8.0 |
| 1971-72 | 1,194.0 | 60.4 | 588.0 | 8.8 |
| 1974-75 | 1,345.0 | 59.6 | 605.0 | 9.8 |
| 1976-77 | 1,545.0 | 66.3 | 655.1 | 10.6 |
| 1979-80 | 1,625.0 | 72.5 | 693.0 | 11.8 |
| 1981-82 | 1,600.0 | 74.2 | 711.0 | 13.4 |

## IV

## Impact of Productivity of Milch Animals

In order to understand the implications of the increase in feed supply on productivity of the milch animal herd, it is useful to look at the state of animal nutrition in the country during the early sixties. Analysis of the data on feed consumption of various categories of bovinestock was undertaken by Amble, *et al*, and they compared the actual consumption with the estimated requirements using nutritional norms.[6] They arrived at the following finding:

> Comparisons showed that the animals are very much deficit in respect of proteins, the amount of DCP available being about 70 pe cent of the requirements for animals in milk about half the requirement for dry animals about two-fifths the requirement for adul males, about one-fifth for young stock i cattle and about only one-eighth of the re quirement of buffalo young stock. The posi tion is somewhat better in respect of tota Digestible Nutrients.

Viewed against this background, the in crease in feed supply attains significanc in understanding the trend in milk pro duction. Since the animals had remaine heavily underfed, increase in feed suppl definitely would have contributed to im provement in their nutritional status an increase in their productivity. Howeve the impact of increase in feed suppl depended on the pattern of allocatio followed by the farmers, of the addition feed to specific categories of the bovin stock.

Insight into the pattern of feed co sumption among different categories the bovinestock is obtained from the mi production surveys conducted by the I stitute of Agricultural Research Statisti The data relating to Punjab plains (giv in Table 6) indicate the following:

(1) She-buffalo in milk, which is the dom nant milch animal species in the regio received the highest level of feed inp

in terms of TDN and DCP.

(2) Draught animals received the second place in feed output.

(3) Cows in milk and dry she-buffaloes received the third position and dry cows received the fourth position in feed input.

(4) The lowest level of feed input was for cattle and buffalo young stock.

Similar data are available for most of the important animal husbandry tracts in the country. The pattern observed in the Punjab plains is found to be true in all other regions in the country, where she-buffalo is the dominant milch animal species. But in regions where she-cattle is the dominant source of milk production, cows in milk received the highest level of feed input followed by draught animals, adult females not in milk, and finally, young stock.

What are the factors behind this pattern of bovine feeding? It is an undisputed fact that draught power is essential to sustain food production. Thus the farmer has to give first priority in the allocation of feed at his disposal to maintaining the draught animal stock. However, the working stock is employed only for a few months in a year during cultivation operations; during the rest of the year they remain unutilised. On the other hand, animals in milk give continuous streams of output for at least 8 to 10 months which, apart from contributing to the households nutrition, also fetches cash income by sale of milk. Therefore expensive concentrate feed is given more to animals in milk. Work animals are fed with concentrate feeds during the cultivation seasons. The remaining stock is maintained mostly with roughages supplemented with concentrate feed available after feeding animals in milk and the working stock.

While the rationale behind the farmers' bovine feeding practices may have remained unchanged over time, the increase in feed supply in recent years (especially that of concentrate feeds) may have gone largely for milk production, for the following reasons: (1) The draught animal population in India has remained stationary during the last fifteen years.[8] Bulk of the additional farm power requirement due to increase in cultivated area and cropping intensity was met from mechanical sources especially tractors, oil engines and electric pumpsets; (2) The returns to better feeding of the existing stock of draught animals have not increased over time. Given the fact that the average farm size is very low in India and that it has been declining over time, increase in cultivated area or cropping intensity does not need any increase in the level of feeding of draught animals. Already the utilisation rate of draught animals is very low and any additional increase in the requirement of draught power can be met by increasing its rate of utilisation; (3) At the same time relative to draught animals, the returns to better feeding of milk animals have increased over time. The growth in demand for milk in India has been moving at a faster rate than supply; and in the face of an expanding market for milk, more and more feed resources have been getting into milk production. Because of the increasing claim on feed resources for milk production, in regions where the scarcity of feed is more severe, farmers have even reduced the stock of their draught animals.[9] This process is accelerated in recent years due to increase in the rate of commercialisation of milk production.

Most of the increase in concentrate feed supply in recent years must have gone for feeding animals in milk because of the quick response of concentrate feed input to milk yield. According to a study by John Mellor, *et al*,[10] when the concentrate feed input is very low, the productivity of she-buffalo is also very low, but as the level of concentrate feeding increases, the level of productivity increases more than proportionately (see Table 7). However, at high levels of concentrate feeding increase in productivity in response to increase in concentrate feeding declines at a faster rate. There are a large number of response function studies available for cows and she-buffaloes which show almost similar patterns.

The nature of the response function has significant implication for understanding the impact of increase in concentrate feed supply on milk production. Under average management conditions in which milch animals are reared in rural areas, the level of concentrate feed input is at the lower end of the response function. Thus any increase in concentrate feed input will result in a siginficant increase in the productivity of the milch animal population. Since the supply of concentrate feed has been increasing at a faster rate from the mid-seventies, it must have resulted in siginficant increase in the availability of concentrate feed to milch animal population and consequently to substantial increases in milk production. The data for the period since the mid-seventies do in fact show such a significant increase in milk production.

## V

## Changes in Conversion Efficiency of Milch Animal Herd

While concentrate feed constitues the main source of protein for milch animals, roughages form an important source of energy. In order to bring out how the increase in the supply of roughages along with increase in concentrate feed has contributed to increase in milk production, it is essential to examine the changes in the conversion efficiency of milch animal herd.

Conversion efficiency of milch animals is generally measured in terms of the percentage of feed energy and feed pro-

TABLE 7: RELATIONSHIP BETWEEN LEVEL OF CONCENTRATE FEEDING TO BUFFALOES AND LEVEL OF MILK YIELD

| Concentrates Fed/ Animal/Day (kg) | Milk Yield/Animal/ Day (kg) |
|---|---|
| 0 | 1.2 |
| 0.5 | 1.9 |
| 1.0 | 2.5 |
| 1.5 | 3.0 |
| 2.0 | 3.4 |
| 2.5 | 3.7 |
| 3.0 | 3.9 |

Source: John Mellor, *et al*, (1965).

TABLE 6: FEED INTAKE OF BOVINES (KG/DAY) IN PUNJAB PLAINS

| | | Concentrate Feed | Roughage | DCP | TDN |
|---|---|---|---|---|---|
| 1 Animals in milk | | | | | |
| | (a) Cow | 0.468 | 11.14 | 0.264 | 2.518 |
| | (b) She-buffalo | 1.087 | 16.66 | 0.437 | 4.281 |
| 2 Dry animals | | | | | |
| | (a) Cow | 0.056 | 8.445 | 0.148 | 1.809 |
| | (b) She-buffalo | 0.239 | 12.32 | 0.24 | 2.672 |
| 3 Worth animals | | | | | |
| | (a) Cow | 0.663 | 16.077 | 0.359 | 3.865 |
| | (b) She-buffalo | 0.151 | 15.751 | 0.325 | 2.799 |
| 4 Young stock | | | | | |
| | (a) Cattle | 0.020 | 3.946 | 0.069 | 0.826 |
| | (b) Buffalo | 0.029 | 3.697 | 0.063 | 0.809 |

Source: V M Amble, *et al*, (1965).

tein intake which are converted into milk. The efficiency of feed energy utilisation for cows ranges from 4 to 35 per cent and of feed protein utilisation from 4 to 26 per cent. Among cows, the best turnover (25-30) is observed for high yielding breeds for both energy and protein. For the local breed of cows the corresponding values range from 4 to 6 per cent. For she-buffaloes, the high yielders show poorer conversion rates of 20 per cent for energy and 15 per cent for protein. But buffaloes with lesser outputs fed on roughages and grain by-products show the highest conversion efficiency of 35 per cent and 26 per cent respectively.

The buffalo breeds found in India are the most efficient in converting a large supply of crop residues and grain by-products into milk. They are followed by the high quality milch animal breeds like Jersey, and most importantly the cross-bred cows. It is interesting to note that the primary function of cattle in India historically has been for producing male calves. Thus most of the indigenous breeds of cattle are poor producers of milk. Attempts to improve on the quality of indigenous cattle breeds through cross-breeding and upgrading began in India towards the early part of this century. But it became widespread only in recent years. Now cross-breeding of cattle is an important component of the strategy for increasing milk production.

The conversion efficiency of milch animal herd in India must have been increasing over time, if there were significant increases in (a) the population of she-buffaloes relative to that of she-cattle, and (b) the percentage of cross-bred cows and other high quality breeds in the she-cattle population.

Data on the population of she-cattle and she-buffaloes are available on a quinquennial basis from the Livestock Census. These data for the last two decades have shown very interesting trends (see Table 8). The she-buffalo population has been increasing at a much faster rate than that of she-cattle. While the she-buffalo population increased from 25 million to 31 million during the period 1961-77, the she-cattle population increased from 54 million to 57.5 million. In other words, when the she-buffalo population increased by about 24 per cent, the she-cattle population increased only by 6 per cent. Consequently, a sharp decline is observed in the ratio of cows to she-buffaloes; from 2.16 to 1.83. Such a decline is observed in both the in-milk and the dry categories implying that in the farmers' choice of milch animal, the more efficient species has been receiving priority over the less efficient species. In this context one has to emphasise the fact that the significant increase in the production of crop residues and the possibility of producing more quantum of milk with it by using the she-buffaloes has played an important role in shaping the species composition.

TABLE 8: COMPOSITION OF MILCH ANIMAL HERD

| | | 1961 | 1966 | 1972 | 1977 |
|---|---|---|---|---|---|
| A Cattle $(10^6)$ | | | | | |
| | In milk | 20.66 | 20.96 | 22.08 | 22.95 |
| | Dry | 25.01 | 25.79 | 26.33 | 26.57 |
| | Total | 54.20 | 54.62 | 56.40 | 57.55 |
| B Buffalo $(10^6)$ | | | | | |
| | In milk | 12.46 | 12.90 | 15.07 | 16.73 |
| | Dry | 9.49 | 10.43 | 11.30 | 11.83 |
| | Total | 25.02 | 26.12 | 29.24 | 31.47 |
| C Animals in milk as per cent of total adult females· | | | | | |
| | (a) Cow | 38.1 | 38.3 | 39.1 | 39.8 |
| | (b) She-buffalo | 49.8 | 49.3 | 51.1 | 53.3 |
| D Ratio of cow to she-buffalo | | | | | |
| | (a) In milk | 1.65 | 1.62 | 1.46 | 1.37 |
| | (b) Total | 2.16 | 2.09 | 1.92 | 1.83 |

*Source:* "Livestock Census Reports."

TABLE 9: POPULATION OF CROSS-BRED FEMALES $(10^3)$ IN SELECTED INDIAN STATES (1982)

| | Bihar | Karnataka | Kerala | Orissa | Tamil Nadu | Andhra Pradesh | Madhya Pradesh |
|---|---|---|---|---|---|---|---|
| A Cross-bred cattle | | | | | | | |
| 0-1 year | 15 | 62 | 323 | 32 | 43 | 24 | 9 |
| 1-2½ years | 14 | 65 | 186 | 31 | 73 | 21 | 11 |
| 2½ and above | | | | | | | |
| 1 In milk | 29 | 107 | 471 | 52 | 186 | 19 | 8 |
| 2 Dry | 19 | 61 | 211 | 26 | 111 | 9 | 1 |
| 3 Not even calved once | 4 | 23 | 43 | 17 | 38 | 3 | — |
| Total females | 81 | 346 | 1236 | 158 | 501 | 116 | 45 |
| B Indigenous | | | | | | | |
| 0-1 years | 925 | 780 | 221 | 878 | 722 | 890 | 1876 |
| 1-3 year | 1682 | 951 | 195 | 10090 | 750 | 1159 | 2821 |
| 3 and above | | | | | | | |
| (a) In milk | 1418 | 1355 | 393 | 1614 | 1464 | 1635 | 3613 |
| (b) Dry | 2502 | 1516 | 350 | 1888 | 1275 | 1659 | 4568 |
| (c) Not even calved once | 274 | 221 | 41 | 661 | 414 | 557 | 149 |
| Total females | 6801 | 5410 | 1202 | 6131 | 4625 | 6343 | 12917 |

*Source:* Government of India, Directorate of Economics and Statistics, *Agricultural Situation in India*, No 3, June 1984 and No 5, August 1984, Department of Agriculture and Co-operation, Ministry of Agriculture, New Delhi.

In the absence of time series data on breed composition of the cattle population in India, it is difficult to make any judgment on the changes in conversion efficiency of the milch cattle population. However some insight into this can be obtained by examining the proportion of cows in milk in the total milch animal herd. High quality milch cattle breeds have a lower age of first calving, longer lactation length and shorter inter-calving interval. Therefore as the proportion of high quality breeds in the she-cattle population increases the proportion of animals in milk will also tend to increase. Data on the percentage of animals in milk for recent years are given in Table 8. The proportion of high quality breeds has shown only a marginal increase indicating that the efforts to improve the breeds have not so far made any siginficant dent in raising the conversion efficiency of the she-cattle herd.

Further evidence in support of this argument is available from the latest Livestock Census. For the first time classification of the cattle population by cross-bred and indigenous breeds is available in this Census. Unfortunately such data are not yet released for all the states and for the country as a whole. However the published data for eight states give very interesting results (see Table 9). Some of these states, namely, Kerala, Karnataka, Tamil Nadu and Orissa, have a long history of cross-breeding. In Kerala cross-breeding has been instrumental in significantly increasing the proportion of cross-breds in the she-cattle population; slightly over 60 per cent of the she-cattle in this state is cross-bred. In Karanataka and Tamil Nadu the cross-bred population is less than five per cent. In other states this percentage is less than one.

## VI

## Role of Operation Flood

The fact that there has been a significant breakthrough in milk production in recent years and that its main source is increase in productivity of milch animal herd is evident from our foregoing analysis. We have also shown that the increase in productivity has been facilitated largely by increase in the quantum and quality of feed supply due to rapid increase in agricultural production and, to some extent, improvement in conversion efficiency of the milch animal herd. However, if we look at the existing discussion on the factors responsible for the White Revolution in India, we may see that the above aspects have received only very little attention, the credit for the breakthrough being showered on the Operation Flood Project. Against the background of our analysis, we will now try to bring out the extent to which Operation Flood must have contributed to the breakthrough in milk production.

Operation Flood is the largest single dairy development project so far launched in India. The basic concept behind the project was to increase the rate of commercialisation of milk production by providing on the one hand an assured market for milk to the rural producers by linking rural milksheds with urban milk markets and on the other side to extend to them inputs like artificial insemination for cross-breeding and upgrading, compounded cattle feed, veterinary care, etc, for enhancing the productivity of milch animals. For this a chain of marketing and processing network and infrastructural facilities for extending inputs to producers were established. The organisational structure for implementing these tasks was the Anand Model dairy co-operatives with milk producers as primary members.

The first phase of this project began in 1970 and was completed in 1981. The total investment of this phase (about Rs 1,000 million) was met from the EEC-donated dairy commodities channelled through the World Food Programme. In the allocation of funds among various activities, about 64 per cent was given for building up milk processing and marketing capacity. Production enhancement programme got 26 per cent of the allocation and the remaining 10 per cent was spent on creating supplementary items like storage, long distance transport, project planning, etc.[11] The major achievement of OF I towards the end of the project period were the following:

(1) About 9,000 village dairy co-operatives with 1.3 million farmer members were established in 18 milksheds. The estimated number of animals in the co-operative ambit was 2.1 million.

(2) About 1,800 village co-operatives were provided with artificial insemination facilities. In the eighteen milksheds, about 200 veterinary clinics were also established.

(3) A daily procurement capacity of 2.15 million litres of milk was created in these milksheds. Simultaneously raw milk processing capacity of 3.1 million litres per day was also created.

(4) Indigenous production of milk powder increased from 22.4 thousand metric tonnes in 1970-71 to 64 thousand metric tonnes by 1979-80. Consequently the commercial import of milk powder was stopped from 1975-76.

(5) Work was in progress to bring in nine more districts into the fold of OF I.

(6) In the metropolitan cities of Bombay, Madras, Calcutta and Delhi a total handling capacity of 2.9 million litres of milk daily was created. The procurement of milk to the mother dairies was about 1.6 million litres daily and daily throughput was 2.2 million litres. The mother dairies shared about 55 per cent of the metropolitan milk market and consequently they were able to influence the price of milk.

It appears from above that the progress of OF I was very impressive. The same viewpoint was endorsed earlier by the UN/WFPA Evaluation Missions.[12] However, we have serious doubts on the extent to which OF I has contributed to a rapid increase in milk production in India. The reasons for this are the following:

(1) We have no doubt that in the OF milksheds, production of milk must have increased due to increase in the commercialisation of milk production. Given the fact that better feeding of milch animals would result in increased productivity and that commercialisation of milk production would result in more intensive feeding of milch animals, that is what we would expect.

(2) However under OF I only less than three per cent (slightly over two million out of 90 million milch animals in the country) of the milch animals were covered and therefore whatever be the increase in productivity of the stock it would not affect to any significant extent the trend in milk production for the country as a whole. At the same time the implementation of OF I definitely would have introduced some amount of new dynamism to the sector.

With the launching of the second phase of Operation Flood in 1981, the element of dynamism introduced into the dairy sector through OF I must have gained a faster momentum.[13] This is because of the large scale operation of OF II. About 160 districts (about 45 per cent of the total number of districts in India) distributed over 16 states are covered by this programme.[14] When the project is complete at least 40 per cent of the milch animal population will come into the ambit of the project. Therefore this phase, unlike the first phase, is likely to have a significant impact on the milk economy of the country. In this context, a close look at the OF II strategy keeping in mind the natural evolution of the dairy sector will provide us valuable insight in judging its long term impact.

## VII

## Implications for Future Development

In the natural evolution of India's dairy economy, an important feature we observe is the contribution of the sector to the maintenance of a positive energy balance with the rest of the food system. Production of milk has been largely with by-products from the agricultural sector and some amount of supplementary feeding of grains and oilcakes. And given the fact that productivity of milch animals rises faster with supplementary feeding of concentrates the energy balance in milk production has remained positive. This type of a dairy industry is ideal to the food system, since it competed minimally with man for edible resources. India's success in achieving a significant breakthrough in milk production, keeping intact a positive energy balance, has been primarily because of the rapid increase in agricultural production.

With the implementation of Operation

Flood II, the positive energy balance in India's dairy economy is likely to become negative. The reason lies in the OF II strategy for increasing milk production.[15] The main features of the strategy are the following:

(1) Raising a special herd of milch animals (known as the National Milch Herd) numbering about 10 million in the OF II milkshed areas. This National Herd will be produced by using the advanced breeding techniques of artificial insemination and progeny testing. They are expected to convert scarce feeds (mostly concentrates and green fodder) into milk with greater efficiency than the local type animals.

(2) A comprehensive programme for rearing the calves of these superior milch animals with emphasis on adequate nutrition and health care. Milk replacers and calf starters will be used to ensure rapid growth and early maturity.

(3) In order to meet the feed requirements of the National Milch Herd, a comprehensive fodder production and feed milling scheme is also contained in the strategy. About two million hectares of irrigated area will be diverted by the farmers in the OF II milksheds to the production of green fodder. Feed-milling plants will be set up to supply milkshed areas with the required amount of concentrate feeds.

Thus a Western Model of dairying based on hybrid milch animals fed with grain, oilcake and supplemented with cultivated green fodder is the main thrust of this strategy. The energy balance of this specialised model in the food system will be negative since most of the resources used here can be used directly for producing food for human consumption. Conversion of these resources into milk through animals is an inefficient process. This model stands in contra-distinction with the 'integrated model' of dairy development that has evolved in India. From the point of view of maintaining the energy balance in the food system it is important to move away from the 'western model' to an effective 'integrated model'.

In order to make the 'integrated model' more effective, efforts should be directed towards minimising the pressure of animals on land and at the same time helping increase the productivity per unit of land. Once productivity of land increases, livestock productivity will also tend to increase, since there is a positive linkage between the two. The main features of a strategy to achieve this objective should include the following: (1) Community management of wasteland to produce fooder and wood, (2) Community management of village ponds to increase fish production and that of aquatic plants for fodder, (3) Introduction of gobar gas plants to lessen the need to burn cattle dung and straw as fuel, (4) The introduction of smokeless stoves to reduce the amount of fuel needed for cooking, (5) Larger crop production and hence larger crop by-products by improved manuring through gobar gas plant slurry, (6) Treatment of straw with chemicals to increase its feeding value, (7) Re-allocation to calves of some of the concentrate feeds given at present to cows and bullocks, and (8) Preferential health care to calves. It should be possible to increase livestock productivity substantially without encroaching on any cultivated area specifically for feed production. In the context of this strategy, there are several measures that would improve the reproductive performance of cattle and buffaloes and also their genetic productive potential. It is, however, beyond the scope of this paper to enter into a discussion of such measures.

## Notes

[This is an abridged version of a paper prepared on request by the IDPAD/Dairy Project at the Institute of Social Studies, Hague. Discussions with P S George, P R G Nair, Martin Doornbos, P Terhal and Frank V Dostan were helpful in shaping some of the ideas of this paper. However, the author alone is responsible for the views expressed and the defects that remain.]

1 For a discussion of the various methods used for estimating milk production and its limitations by the Ministry of Agriculture and the Central Statistical Organisation, see, J W Mellor and De Pontives B, 'Effect of Growth in Demand for Milk on the Demand for Concentrate Feeds in India, 1951-66', *Indian Journal of Agricultural Economics*, 19, 131, 1964.

2 The discussion of the methodology used in the Integrated Milk Production Surveys and the estimates of milk production and productivity of milch animals for most of the states in India is available in D Singh, *et al*, 'Monograph on Estimation of Milk Production', Institute of Agricultural Research Statistics ICAR, New Delhi (undated).

3 This decomposition scheme is similar to the one developed by Minhas and Vaidyanathan for decomposing agricultural growth. For details, see, B S Minhas and A Vaidyanathan, 'Growth of Crop Output in India (1951-54 to 1958-61): An Analysis by Component Elements', *Indian Journal of Agricultural Statistics*, Vol XVII, No 2, 1965.

4 The estimated production of cultivated green fodder in India is about 230 million tonnes. This estimate is based on an average yield of 50 tonnes per hectare for irrigated area and 25 tonnes per unirrigated area. See, for details, Government of India, "Report of the National Commission on Agriculture, Part VII, Animal Husbandry", Ministry of Agriculture and Irrigation, New Delhi, 1976.

5 The straw-grain ratios used in our estimates are taken from K P S Nirman, *et al*, 'Estimation of Crop Residues Using Grain to Straw Ratios: Agricultural Situation in India, June 1982'. Our estimates have taken into account the impact of high yielding varieties on straw output.

6 The values of TDN and DCP for various items of feed are taken from K C Sen, 'Nutritive Value of Indian Cattle Feeds and the Feeding of Animals', Indian Council of Agricultural Research, New Delhi.

7 V N Amble, *et al*, 'Milk Production of Bovines in India and Their Feed Availability', *Indian Journal of Vet Science*, No 35, September 1965.

8 For discussion of the growth of draught-animal power in India and the extent to which mechanisation is replacing it, see, R K Sharma, "Draught Power Planning in Indian Agriculture", Ph D thesis, Department of Economics, University of Delhi, 1981.

9 Evidence in support of the reduction in draught animal holdings due to increased pressure on feed resources for increasing milk production is observed in all the parts of Kerala state. For details, see, K N Nair, "Bovine Holdings in Kerala: An Analysis of Factors Governing Demand and Supply", Ph D thesis, University of Kerala, 1981.

10 See, John Mellor and De Pontives B, op cit.

11 For analysis of the disbursement of funds under Operation Flood I and other achievements, see, P Terhal and Martin Doornbos, 'Operation Flood, Development and Commercialisation', *Food Policy*, August 1983.

12 See, UN/FAO World Food Programme, Terminal Evaluation, 'Report on Project India 68—Milk Marketing and Dairy Development', WEP, September 1981.

13 For details of the Operation Flood, see, National Dairy Development Board, "Operation Flood", Government of India, Ministry of Agriculture and Irrigation.

14 For a discussion of the area choice under Operation Flood, see, Surendar Singh and R K Sharma, 'Some Implications of Area Choice in the Operation Flood II Programme', *Economic and Political Weekly*, Review of Agriculture, March 1981.

15 For a critical evaluation of the Operation Flood II Strategy relating to breeding and feeding of milch animals, see, K N Nair and M G Jackson, 'Alternative to Operation Flood II Strategy', *EPW*, December 26, 1981.

# Problems and Prospects of Sugar Industry

### By Bahubali Gulabchand

A SIZEABLE section of the sugar industry continues to be on the sick list. The production which drastically declined last year, is showing some signs of recovery this year, but recovery will be only marginal; the outlook for next year's production, too, does not look very bright. The sugar stock position is none too happy, and instead of exporting sugar it seems that the country will have to be importing sugar to keep up supplies to the free market, as major portion of free sugar has already been released and remaining stock will not go far.

Being an agro based industry dependent on the ready availability of a highly perishable crop like sugarcane, output fluctuations are inevitable. While we must keep on trying our utmost to find ways and means and think of all possible measures that we can adopt to stabilise the sugar production, all we can hope for is to possibly tame violent fluctuations but wide fluctuations cannot be avoided altogether so long as almost every aspect of industry continues to be under the rigid controls. The strategy for management of sugar economy will therefore have to be evolved taking wide fluctuations of production into account.

There is a five year cycle of sugarcane and sugar production. Our production during the first quinquennium was 136.87 lakh tonnes, 157.53 lakh tonnes in the second, 194.63 lakh tonnes in the third, 252.59 lakh tonnes in the fourth and 339 lakh tonnes in the fifth current quinquennium 1981-85. Thus, the rate of growth of production has been going up progressively from 15.09% in the second quinquennium to 23.53% in the third, 29.78% during the fourth and now 34.20% during the current quinquennium. In spite of such growth in production during current five year cycle, we do not have an export surplus but are talking of importing a sizeable quantity of sugar from abroad. This is because we have boosted up the consumption too rapidly and well beyond our means by extravagent releases of sugar, particularly free sugar into market, month after month for past two or three years, irrespective of the precipitous fall in production and thus frittered away most of our stocks built up during high production year. This has also weakened our sugar economy by pushing a sizeable section of the industry, whether in private, co-operative or Government sector into red, by depressing the prices of free sugar to uneconomic levels.

Since 1982-83 a policy of larger releases of free sugar has been continuously followed. The ratio of release of levy and free sugar which was 58:42 in 1981-82 deteriorated to 55:45 in 1982-83. In 1983-84 it was allowed to deteriorate further to 49:51 and for the first time since the adoption of the partial decontrol policy, the free sugar releases exceeded those of levy sugar. Instead of arresting this trend, and taking corrective measures by cutting down on releases of free sugar, this undesirable trend has been continued unabated during the current sugar year also, and the ratio of levy and free sale sugar released this year till end of May has further deteriorated to 45:55.

**Shri Bahubali Gulabchand**
**President,**
**Indian Sugar Mills Association**

The policy regarding sugar consumption, therefore, needs to be reviewed in this light. If the releases of free sugar are to be maintained at present level, it seems inevitable that the ratio of levy and free sugar be modified to 50:50. Alternatively, we will have to keep on importing sugar year after year. Third alternative would be to correct the imbalance in the present policy by bringing down the quantum of free sugar releases to about two thirds of that of levy sugar, i e, reestablishing the 60:40 ratio in consumption of levy and free sugar. This however does not seem to be politically feasible.

The average sugar price in India including the price of free market sugar is one of the lowest in the world. There are very few countries in the world where the consumer price of sugar is ruling as low as it is in India. Sugar is selling in other countries at an average retail price of more than Rs. 6 per kg. Besides, unlike India, there is no dual pricing system in these places and all sugar is sold at the same retail price. The average of retail price of levy and free sugar in India is around Rs. 5.00 or 5.25 per kg. In spite of the present low level of export price of sugar in the international market, no sugar producing country has, in its economic wisdom, allowed the internal prices of sugar to crash or go down, because they realise that any sizeable fall in prices is bound to have a deleterious effect on their sugar production and sugar economy as is happening in India.

Almost every type of policy of control, decontrol, partial decontrol,only distribution control, only price control, etc, have been tried from time to time for bringing about some stability in sugar economy of the country but without much success. Though selection of a right policy is important, it is not so much the question as to which policy is suitable but what is important is how it is administered. The policy of partial decontrol is a healthy mixture of rigidity and flexibility and this policy should be able to deliver the goods, provided, of course, it is properly administered. Unfortunately, the policy of partial decontrol as it is administered is not really a policy of partial decontrol, but it has degenerated into complete control with dual pricing which is not the same as the policy of partial decontrol. As a first step towards the stabilisation of the sugar economy, we will have to strive for adoption of the proper partial decontrol policy by the Government.

(Adapted from the Presidential Address of Shri Bahubali Gulabchand at the 51st Annual General Meeting of the Indian Sugar Mills Association, held on 28th May, 1985, at New Delhi.)

work like Chris Bayly's "Rules, Townsmen, and Bazars" does represent a heroic and fascinating effort to transcend traditional barriers between the economic, the socio-cultural and the political.[29]

A number of major limitations persist. A considerable gap still remains between our understanding of the basic structures and tendencies of the colonial economy—considerably deepened today by recent research—and the much-explored history of political movements in late colonial India, generally subsumed, a little too readily perhaps, under the rubric of nationalism. More precisely, this area of silence relates to the vast and virtually unexplored terrain of forms of popular consciousness and culture, as distinct from ideological currents within the intelligentia on which there has been considerable work of a rather old-fashioned, 'intellectual history' type.[30] The gap is obviously related also to the very evident lack of fruitful dialogue between history, sociology and social anthropology. Our sub-continent provided the subject-matter for some of the earliest classics of anthropological field-work—most notably Radcliffe-Brown's study of Andaman islanders—and yet it is only quite recently that professional historians have started getting interested in tribal societies (and even then, mainly in tribal rebellions). Caste for long remained almost a taboo word among many of us. It occurs only three times in the index of R P Dutt's "India Today",[31] and—to indulge for a moment in an auto-critique—I feel now that a serious lacunae in my study of the Swadeshi movement in Bengal consisted in my inability or unwillingness to relate the data on 'caste movements' of Mahishyas, Namasudras, and others to my overall analytical framework.[32]

Such silences have had manifold consequences. Not only do large tracts of human experience remain unexplored: studies of women, for instance, only just beginning to attract serious historical attention, and even so somehow automatically relegated to women colleagues and usually confined to limited themes like education and social reform. The absence of genuine social history also produces low-order explanation even in apparently much-trodden areas. It is not really possible, for example, to bridge the gap between colonial structure and nationalist or other protest by means of an insufficiently analysed, rigid, and over-general concept of 'class', abstracted from any real empirical analysis of the concrete problems of class-formation through conflict between living human beings in groups.[33] Such 'Marxism' is all too-easily 'refutable', for textbook or programmatic formulas regarding the 'national' bourgeoisie or the working class soon reveal their inadequacies when confronted by micro-studies reality of enormous variations, the persistence and even refurbishing of 'traditional' ties of caste and religion, or the importance often of vertical patron-client linkages. It may be argued, further, that a historiography limited to conventional tools and sources has an almost built-in tendency to become more elitist as it turns more sophisticated, and that this has been happening in our field: for private papers, accepted now-a-days as the most 'authentic' source of all, are bound to have an overwhelmingly official or upper-class origin in a largely illiterate country.

So far as studies of popular movements are concerned, the failure to grapple seriously with problems of consciousness and culture leads repeatedly to inadequate or even trite explanations, in particular the two related poles, trenchantly and effectively attacked recently by Ranajit Guha, of economic reductionism and mobilisation by great leaders/ideologies or skilful manipulators of patron-client linkages.[34] Rebellion is presented either "as an instinctive and almost mindless response to physical suffering of one kind or another",[35] or simply a matter of effective organisation from the top: both tend to exclude the insurgent as the subject of history.[36] It is not that economic pressures, outsider leadership interventions, or even on occasion factional linkages are unimportant or not worth exploring, but surely we need to remember Thompson's withering comment about a simple hunger-protest nexus being as self-evident and as limited as the fact "that the onset of sexual maturity can be correlated with a greater frequency of sexual activity."[37] As for automaticity of the second type, otherwise inert masses responding to politico-ideological stimuli, or coherts of 'clients' meekly trooping off at the command of their 'patrons', Thompson's analysis of 18th century English 'paternalism' and 'deference' appear again extremely relevant: deference "could be seen from below as being one part necessary self-preservation, one part the calculated extraction of whatever could be extracted".[38] Patronage in other words can be a far more complex, nuanced, and varying concept than imagined by the so-called 'Cambridge school'.

The virtual absence of research on popular culture creates problems even for radical-minded historians who would like to avoid any ascription of inertness or passivity to tribals, peasants, or workers. Repeatedly evident here are signs of romanticisation, anachronism, and teleology: an implicit assumption about a kind of innate popular militancy or rebelliousness; a concentration on moments of open rebellion alone; tendencies to view all manifestations of plebian initiative or autonomy as laudable and progressive; the ascription of present-day political and socio-economic concerns to leaders like Titu Mir, Sidhu and Kanhu, or Birsa Munda;[39] and persistent, at times almost desperate, attempts to relate all popular rebellions to general currents of anti-imperialism or social change. Such romanticisation appears particularly inappropriate in a country which has just witnessed the undoubtedly plebian appeal of Bhindranwale as well as the 'popular' Hindu communalist backlash following the assassination of Indira Gandhi.

To make the discussion more concrete, I would like to take up now two examples from areas which have been central to my own teaching and research work: popular, more specifically peasant, nationalism in the 20th century, and the intellectual history of 19th century Bengal. In both fields one notices a repeated tendency for interesting historiographical departures to get bogged down in old and sterile polemics, and it is such mental blocks that have made me increasingly aware of the need for the development of a genuine social history.

'Subaltern studies', with its critique of all varieties of 'elitism', whether colonialist, nationalist, or even 'Marxist', its focus on lower class initiatives, and its pioneering efforts to tackle problems of popular consciousness with the aid of tools adapted from anthropology and structural linguistics, does represent a major breakthrough in our history-writing. A not-uncritical reviewer has even compared the possible impact of Ranajit Guha's "Elementary Aspects" with that of D D Kosambi a generation back. Yet much of the debate provoked by this departure seems to have already acquired a certain staleness, an incapacity to pinpoint the real problems. Personally I am neither provoked nor particularly enthralled by the term 'subaltern'. 'Plebian' (as used by E P Thompson for 18th century England) or 'popular', could have also served much the same purpose, related to the need for some kind of omnibus category in pre-capitalist situations where class-formation is still relatively inchoate. 'Subaltern' does have a certain advantage, however, insofar as it is used to pinpoint basic relationships of power, of domination and subordination—relationships which may often be cross-cutting, involving distinction of caste and gender as well as of class, and in which the 'subaltern' of one specific context may well be simultaneously the dominant group in another. An obvious example might be an exploited intermediate caste male peasant employing low-caste landless labour and lording it over his wife and children.[40] Such terminological issues apart, it is unfortunate that the subaltern studies enterprise is often being viewed through the very old prism of an organisation/autonomy debate, endemic in Indian Marxist circles since the 1920s, with Guha and some of his associates charged with the heresy of 'populism', of denying the role of vanguard elements. At times we seem to be going back to the well-established Gandhi-as-great-man/Gandhi-the-great-betrayer-syndrome, and the dust raised by such sterile debates only obscures some of the real problems with Guha's approach: the extent of relevance of somewhat simplistic binary models, for example, or the dangers of a certain abstraction from specific contexts of time and region involved in a quest for "elementary aspects".[41]

The tendency for new endeavours to get sucked back into old debates has shown itself also in the controversies about the relevance of the 'renaissance' model for understanding 'middle class' intellectual history of 19th century Bengal. Some of us had argued that the analogy was inappropriate, based as it was on a unilinear concept of historical development which gave inadequate attention to the peculiar twisted logic of colonialism. The search for distant progenitors of present-day values, most notably in Rammohun, represented a kind of 'Whig' interpretation which had to be overcome if we wanted to avoid the pitfalls of anachronism and teleology.[42] Attempts were made to situate Rammohun, David Hare, Young Bengal, and Vidyasagar more firmly within their specific contexts.[43] But many mistook all this as some kind of exercise in debunking or iconoclasm, and soon we were back to a great/little man debate, about the 'role', 'progressive' or otherwise, of particular movements or personalities.

I have come to feel increasingly that such polemical bogs can be avoided only through a major broadening of approach, sources and methods, a leap towards genuine social history. The organisation/autonomy debate in the history of mass nationalism, for instance, can be transformed if re-read in terms of a common 'language', permitting a communication and yet susceptible to a variety of nuance of idiom, style and meaning as different social strata interpreted it in the light of their specific and often conflicting interests and traditions. I have in mind something along the lines of W H Sewell's recent fascinating study of the 'language of labour' in late 18th and early 19th century France, in which the "corporate" idiom is revealed to have been capable of a multitude of subtle shifts over both time and social space.[44] There is considerable scope here for methods of semiological analysis, having as their subject-matter both verbal and non-verbal communication: the rich ambience, for instance, acquired by signs like charkha, khadi or salt, the importance of which surely far transcended the immediate material gains they might have brought to their patriotic users.[45] Such approaches may give us new insights into the strength and strange persistence of Gandhi's appeal, despite numerous 'betrayals', by focusing on its deeply religious nature, its dominant idiom of sacrifice and renunciation.[46] The complex intermingling—indeed, often the near-identification—of the language of patriotism with that of religion demands a subtler, analysis than that offered by assumptions about distinct 'secular' and 'revivalist' trends, with 'nationalism' a thing apart from 'communalism', and politicians only 'using' religion.

Starting from a specific area, movement, or even perhaps a single well-documented incident, analysis of this type may go very much deeper: many of the rumours about the Mahatma as miracle-worker collected by Shahid Amin from Gorakhpur, for instance,[47] can make sense only if placed in the context of traditions of popular culture. The problem of interaction between levels of nationalism leads on, therefore, to that of levels within society, culture, and religion—a problem which in the context of Hinduism has already provided the staple for a central and recurrent debate in social anthropology.[48] Historians need to participate in that debate, and make their own specific contributions to it, keeping in mind E P Thompson's warning that while entering into a necessary and fruitful dialogue with anthropology, history cannot cease to remain "a discipline of context and process".[49] Similar problems, about the validity of elite/popular distinctions in culture, as well as the need to recognise both the possibilities of communications across social strata and of autonomous variations or interpretations, have come to occupy a central place in the concerns of social historians in many parts of the world.[50]

The somewhat arid field of the nineteenth century 'renaissance', for long left to middle class self-praise or flagellation, can also be transformed if brought into relationship with this central problematic. I feel that a close reading of the multitude of texts left by our nineteenth century worthies—religious treatises, literary works, autobiographies, the rich collection of vernacular tracts at the Indian Office Library—can still reveal unexpected treasures, particularly if brought into juxtaposition with evidence concerning earlier religious traditions and contemporary popular culture. Recently I have been trying to do some work on one such text, extremely well known in Bengal but untouched so far by professional historians: the *Ramakrishna-Kathamrita*, remarkable, indeed unique, for its verbatim recording of actual conversation, for a period of some six years, 1881-1886, between the saint and his disciples. A conversation, moreover, which represented a leap across social space, for Ramakrishna was a rustic Brahman with a family holding of only one-and-a-half bighas and a little formal learning, his disciples by the early 1880s entirely educated Calcutta *bhadralok*. The *Kathamrita* provides an index to changing *bhadralok* mentalities—for Ramakrishna acquired a middle class clientale only in the later 1870s and early 1880s, more than twenty years after he had settled at Dakshineshwar—and more interestingly, some clues for understanding the mental world of rural Bengal.[51] As such, it can be a valuable supplement to the efforts being made today to reconstruct peasant consciousness from moments of rebellion alone.

As the conversation of a man involved in a process of social ascent, the *Kathamrita* proves to be a valuable text for probing into basic relationships of power. A central image in it is the richly ambiguous figure of the *babu* or *baromanush*: living in idleness, chewing *pan* without care, with well-trimmed moustaches, far away from thoughts of *Iswara*;[52] and yet someone who has to be pleased, whose patronge is essential for survival, whose heart can be won through devotion and love, and who often becomes strangely homologous with divinity itself.[53] Ramakrishna's attitudes towards authority inextricably combine subservience and, not exactly revolt, but certainly resentment: a reminder, perhaps, that a binary model of subordination/revolt is not always helpful. He loved to recall the days of his "madness" or ecstacy when he "had no fear of big people", and had even slapped his patron Rani Rashmoni once for being inattentive during a devotional song.[54] In one, isolated, but remarkable, conversation, Ramakrishna identified himself for a brief moment with the apocalyptic *Kalki-avatar*: "A Brahman's son—he knows nothing—suddenly a horse and sword will come . . . "[55] And yet Ramakrishna also recalled how he had become sure of his stature as a holy man only after the zamindars of his village home paid their respects to him.[56] Struck down by cancer at the height of his prestige among the *bhadralok*, he pleaded with the doctor: "Babu, please make me well . . . Babu! Babu! You must cure me"—like any peasant or poor man begging a favour from a social superior.[57] Subservience and resentment are reconciled in Ramakrishna through *bhakti*, representing a simultaneous internalisation and humanising of *adhikar-bheda*, or hierarchy, social as well as religious. In a series of homologous parables, the social inferior—servant, poor man's son, client—is shown as obtaining the favour of the king, *baromanush* or *babu* through *bhakti* and *seba* (devotion and service), at times brushing aside the *amlas* or intermediaries who try to block his way.[58] *Bhakti*, as perhaps through much of Indian history, seems to provide a kind of 'living-space' for the downtrodden: a living-space which is also a trap, for it has helped hierarchy and oppression to endure by making them appear less unendurable.

The servant can hope to relate himself through *bhakti* to the *babu*, clearly portrayed as a patron of a 'traditional' or 'paternalistic' type—but there is in Ramakrishna a second kind of model of subordination, much less acceptable: *chakri* or office-work, implying *dasatya* (bondage, slavery) under a *manib* (master, employer). What seems to make *chakri* intolerable for Ramakrishna was its connotation of an impersonal cash nexus, embodied above all in new, rigorous, discipline of time. He once told a disciple: "Your face seems to have a dark shadow upon it. That's because you are working in an office. In the office you have to handle money, keep accounts, do so much other work; you have to be alert all the time."[59] One is irresistibly reminded of E P Thompson's seminal essay on the transition from peasant-artisan to industrial time, and the plebian hostility to the change-over to the more rigorous routine of capitalist society.[60] In nineteenth century Bengal, it needs to be added, where the few factories were owned by foreigners and employed mainly non-Bengalees, and there was no capitalist breakthrough in agriculture, the principle locii for the imported ideas of bourgeois time and discipline became the office and the new type of schools and colleges.[61]

Space forbids any further exploration here of the unexpected riches of the *Kathamrita*[62] but I must add that it—together with *Lilaprasanga*, the standard biography of Ramakrishna—is replete with references to popular religious and cultural traditions which become meaningful only when read in conjunction with data collected by folklorists and anthropologists. Sacrilegious though it must sound, the intertwinning of submission and resentment in Ramakrishna's discourse remind one of James Freeman's life-history of Muli, a Bauri pimp of a village near Bhubaneswar whose "ambivalent responses reflect respect for, affection for, resentment of and rebellion against the same person".[63]

## III

So far I have pleaded for a greater openness towards anthropology and more awareness among us all of the work on social history going on in other countries. To avoid any possible misinterpretation, I would like to add now that I do not mean by this any wholesale borrowing, or a surrender of the necessary autonomy of our own discipline. Awareness is required precisely to avoid being swept away by the 'latest' intellectual fashions, which in any case usually reach our country after a considerable time-lag, and then tend to persist long after they have become outmoded elsewhere.[64]

It is necessary to recall, therefore, that the social history boom in the West has been accompanied by considerable, at times extremely trenchant, criticism. A young historian in 1979 went so far as to declare, in a conscious reversal of Hobsbawm, that "this is a bad time to be a social historian".[65]

Both the great possibilities and the real problems of a social history impregnated with anthropology can be brought into focus through the basic concept of 'culture'. Anthropologists have been using it to signify 'a whole way of life', the complex of interlocking institutions, customs, values and myths revealed through field-work: as Keith Thomas argued twenty years ago, the resultant perspective of totality has often given "a better impression of what *l'histoire integrale* might be" than much conventional history-writing.[66] Through anthropology, and today social history influenced by it, "behaviours and beliefs traditionally seen as senseless, irrelevant, or at best marginal curiosities (for instance, magic and superstition) have been analysed at last as valid human experiences".[67] Yet a dialogue with anthropology, as E P Thompson reminded a session of this Congress in 1977, was necessary but bound to be difficult.[68] The Genoveses, themselves major social historians, have bitterly attacked much contemporary social history for its abstraction from political and economic structures and processes, for threatening to develop into a kind of neo-antiquarian description of everyday life.[69] The ghost of Trevelyan's "history with the politics left out" has proved much more difficult to exorcise than Hobsbawm had expected.[70] Ranajit Guha's insistence on the centrality of the 'political' derives its value from an awareness of such dangers, and can be of help provided the 'political' is construed in terms of a variety of complex attitudes and actions generated by fundamental relationships of domination and subordination, and not identified only with open rebellion.

At a more general level, structural functionalism—still the dominant in Indian anthropology—does raise serious problems so far as most historians, and particularly Marxists, are concerned. The emphasis on 'functional' integration, cohesion and solidarity, derived from a combination of Durkheim with field-experience among (mostly) primitive groups, often appears as irrelevant or even some kind of prettifying neo-traditionalism in studies of more developed societies, shot through as they are by sharp conflicts of rank, caste or class. To many historians, it might make more sense to interpret culture as a 'whole way of conflict' rather than an undifferentiated 'whole way of life' common in the same way to all members of a society.[71] What adds considerably to the problem is that dominant schools of anthropology, structuralist as much as structural-functionalist, have a built-in preference for synchrony over diachrony, for more-or-less unchanging and uniform structures, and not processes or events; *langue* rather than *parole*, in Saussurean terminology. Some of Levi-Strauss' techniques may be helpful for us, but on the whole an anthropologist like Clifford Geertz has more to offer to historians, with his quest for 'thick description' of a specific situation, akin to an imaginative literary reading of texts rather than a formal 'decoding' operation.[72] And I feel that there is a lot to learn from Carlo Ginzburg's recent methodological essay on the 'conjectural paradigm', proceeding through a ferretting-out of 'clues', as the approach most suited for history, which "remains a science of a very particular kind, irremedially based on the concrete". Unlike the natural sciences, history cannot really afford to abstract from the qualitative and the individual,[73] and perhaps the same warning is applicable to the kind of anthropology most relevant for historians.

The convergence—despite all problems and tensions—between some of the most interesting types of anthropology and history today is illustrated by the similar conclusions arrived at, quite independently of each other and through work in utterly different styles and intellectual traditions, by E P Thompson in his "Poverty of Theory" (some polemical excesses apart) and Pierre Bourdieu in his "Outline of a Theory of Practice". Both the polemic against Althusser and the critique of structuralist and structural-functionalist anthropology focus on the problem of structure and agency, fundamental to the social sciences since at least Vico onwards: history is made by human beings, yet the products of their labour and thought repeatedly acquire an externality, an objectified or alienated character which dominates the makers and mystifies the cultural into the natural.[74] A 'scientific' and 'objective' focus on structures alone involves therefore living in and a surrender to a fetishicised world. In anthropology, Bourdieu has argued, 'model' and 'rule' have to be replaced by 'strategy', and he tries to arrive at a dialectical understanding of the tension between structure and agency through his basic concept of 'habitus'.[75]

The writings of Thompson or Bourdieu and the current "state of play" between history and anthropology[76] convey simultaneously a vivid awareness of the rich possibilities of work in a creative Marxian tradition, and a sense of acute dissatisfaction with much that passes under that label. Thompson's books and essays are replete with instances of his capacity to give "familiar sociological concepts ... a new dialectical ambivalence: an 'act of giving' must be seen simultaneously as an 'act of getting', a social consensus as a class hegemony, social control (very often) as class control ...";[77] Bourdieu situates himself in a philosophical tradition going back to Marx's "Theses on Feuerbach" and yet both would not doubt be regarded as heretical by many.

Marxism of a certain type has acquired considerable influence over Indian historiography in recent years, and today even dominates a number of areas. But one sometimes fears whether the success has not been too easy, and due largely to the weakness and lack of sophistication of alternative traditions.[78] Certainly Marxism has often reigned among us in considerably simplified forms: a rigid, virtually *a priori* conception of class-interest, derived automatically from economic conditions; and unquestioned acceptance of formulas of base and superstructure; faith in the primacy of the 'economic', balanced by the usual ritual concessions to interaction and relative autonomy; a consequent playing down of problems of culture and consciousness. Yet serious doubts have been raised elsewhere about the value of the base-superstructure model. It was only an analogy, after all, and by no means the only one which Marx experimented with;[79] and in any case it is important to remember that really original thinkers often have difficulties in conveying the full richness of their ideas through a language necessarily borrowed from others (in the case of the founders of Marxism, Hegelian, followed by positivistic). Again, it is surely impermissible to identify the mode of production with the 'economy', since it is very difficult to conceive of any system of productions relation abstracted from culture, law, and politics, i e, elements of the so-called 'superstructure'.[80] One of Marx's most profound insights was precisely that the rigorous separation and 'primacy' of the economic domain ('economic man') was a construct of bourgeois society and ideology.

Thus we need to move towards both "a materialist and relational concept of culture" and "a more culturally embedded analysis of the material world".[81] A social history developing through a fruitful, because critical, dialogue with anthropology can help us "in locating new problems, in seeing old problems in new ways, in an emphasis upon norms and value systems and upon rituals, in attention to expressive functions of forms of riot and disturbance, and upon symbolic expressions of authority, control and hegemony".[82] I feel that it is in such ways that the very rich Gramscian concept of hegemony can develop into a significant tool for historical analysis, and be rescued from the danger, which threatens it now that it has become quite fashionable, of becoming yet another cliche or formula. A Marxist historiography which is content only with the narrowly 'economic' or the 'political' is as emasculated as much contemporary Marxist practice, condemned in the absence of effective counter-hegemonic strategies to oscillate between economism and 'sectarian' adventures or 'reformist' opportunism in politics.

Exploring ever-new realms of lived experience, social history today is contributing to a realisation that "the seemingly most intimate details of private existence are actually structured by larger social relations",[83] bringing history much nearer to its writers or readers in an interaction that can deepen critical awareness of both the past and of ourselves. Focusing on "cultural and moral mediations ... the way ... material experience are handled ... culturally",[84] it enters a world in which agency, values, or moral choice can never be entirely submerged in a more or less passive contemplation of structures. Such awareness is not, however, always very comfortable, and this may help to explain some of the suspicion and hostility which social history seems to arouse at times. I am reminded of a discussion on syllabus revision that took place some months back in my University, in which a very young teacher, passionately pleading for a greater emphasis on social history, argued that history to be really meaningful could not remain unconnected with his everyday life, his relations with parents, loved ones, or neighbours. A senior academic pulled him up sharply for becoming so "individualistic". I do feel, however, that a history detached from such concerns, even when it is radical or Marxist in appearance, can never become more than—at best—a pleasant academic diversion, or—at worst—a way of entering the rat-race for jobs, promotions, and patronage. To adapt and expand a slogan of the women's liberation movement, 'the personal is the political'—and it must become the historical, too.

## Notes

[This paper was first presented as the author's Presidential Address to the Modern India Section of the Forty-Fifth Session of the Indian History Congress at Annamalai on December 27-29, 1984.]

1 Specialised journals in social history, Hobsbawm remarked, were rare till *Comparative Studies in Society and History* (1958). E J Hobsbawm, 'From Social History to the History of Society', *Daedalus*, V, 100, Winter 1971.

2 Elizabeth Fox-Genovese and Eugene Genovese, 'The Political Crisis of Social History: A Marxian Perspective', *Journal of Social History*, x, 1976; reprinted in *Ibid*, "Fruits of Merchant Capital: Slavery and Bourgeois Property in the Rise and Expansion of Capitalism", OUP, 1983.

3 Raphael Samuel and Gareth Stedman Jones, ed, "Culture, Ideology and Politics: Essays for Eric Hobsbawm", History Workshop Series, London, etc, 1982.

4 Thus Lawrence Stone talks about "the replacement of sociology and economics by anthropology as the most influential of the social sciences". 'The Revival of Narrative: Reflections on a New Old History', *Past and Present*, No 85, November 1979.

5 Keith Thomas, 'History and Anthropology', *Past and Present*, No 24, April 1963.

6 Possibly influenced to some extent by Marxian conceptions—see Andre Burguierre, 'The Fate of the History of Mentalities in the Annales', *Comparative Studies in Society and History*, Vol 24, 1982.

7 Fernand Braudel, "The Mediterranean and the Mediterranean World in the Age of Philip II", Volume I, Fontana, 1976. Preface to the First Edition, p 21.

8 As well as to a remarkably uncritical appreciation of Fogel and Engerman's "Time on the Cross". E Le Roy Ladurie, 'History that Stands Still' (1973), reprinted in his "The Mind and Method of the Historian", Harvester, 1981.

9 "The Mediterranean" after all, will remain immortal not for any major revaluations of the Renaissance, the Reformation or the battle of Lepanto, but for its superb and poetic evocation of "man's contact with the inanimate", in which the flowers "come back every spring, the flocks of sheep migrate every year ... the ships sail on a real sea that changes with the seasons", Braudel, op cit, p 27.

10 *Ibid*, p 18.

11 Patrick H Hutton, 'The History of Mentalities: The New Map of Cultural History', *History and Theory*, Vol XX, 1981. See also,

Emmanuel Le Roy Ladurie, 'Recent Historical 'Discoveries' ', *Daedalus*, Vol 106, 1977; Stephen Wilson, 'Death and the Social Historian: Some Recent Writings in French and English', *Social History*, V, 3, 1980; Philippe Aries, "The Hour of Our Death", Peregine, 1981; and, for more critical assessments, Andre Burguierre, op cit; and Stuart Clark, 'French Historians and Early Modern Popular Culture', *Past and Present*, No 100, 1983.

12 Lucien Febvre in 1941 called for "a whole series of studies none of which have yet been done, and as long as they have not been done *there will be no real history possible*. No history of love, just remember that. We have no history of death, or of cruelty. We have no history of joy . . .". 'Sensibility and History: How to Reconstitute the Emotional Life of the Past' in Peter Burke, ed, "A New Kind of History: From the Writings of Lucien Febvre', London, 1973, p 24.

13 Ellen Ross and Rayna Rapp, 'Sex and Society: A Research Note from Social History and Anthropology', *Comparative Studies in Society and History*, Vol 23, 1981.

14 Lawrence Stone, op cit.

15 Jacques Le Goff, 'Is Politics Still the Backbone of History?' *Daedalus*, Vol 100, Winter 1971.

16 Even a historian of the stature of E J Hobsbawm has frequently made a distinction between the 'political' and the 'social', most recently in his article in E J Hobsbawm and T O Ranger, ed, "The Invention of Tradition", Cambridge, 1982.

17 Carlo Ginzburg, "The Cheese and the Worms: The Cosmos of a 16th Century Miller", New York, 1982; Natalie Z Davis, 'Reasons of Misrule and Women on Top' in her "Society and Culture in Early Modern France", London, 1975; E P Thompson, 'Rough Music: le Charivari anglais', *Annales ESC*, Vol 27 ii, 1972.

18 E P Thompson, 'The Moral Economy of the English Crowd in the 18th Century', *Past and Present*, No 50, February 1971.

19 E P Thompson, "Whigs and Hunters: The Origins of the Black Act", Penguin, 1977; Hay, Linebaugh, Rule, Thompson and Winslow, ed, "Albion's Fatal Tree: Crime and Society in 18th Century England", Penguin 1977. Cf. particularly in this collection Douglas Hay, 'Property, Authority and the Common Law'.

20 Leonore Davidoff, 'Class and Gender in Victorian England', in Newton, Ryan, Walkowitz, ed, "Sex and Class in Women's History" History Workshop Series, London, etc, 1983.

21 Hans Medick, 'Plebian Culture in the Transition to Capitalism', in Samuel and Jones, ed, "Culture, Ideology and Politics", op cit; Gerald M Sider, 'Christmas Mumming and the New Year in Outport Newfoundland', *Past and Present*, No 71, May 1976, and 'The Ties that Bind: Culture and Agriculture, Property and Propriety in the Newfoundland Village Fishery', *Social History*, Volume VI, 1980.

22 K K Datta, "Survey of India's Social Life and Economic Condition in the 18th Century", Delhi, 1976, 1978, Chapter 1 contains the reference to Trevelyan; Chapters 2-4 are entiled, respectively, Trends of Religious Thought, Education, and Social Life; Chapters 5-8 (148 out of a total of 221 pages) deal with economic conditions.

23 V A Narain, "Social History of Modern India", Meerut, 1972.

24 Thus Chapter 7, entitled 'Society' has the following sub-headings: urban society; prostitutes; amusements and festivals; cruel practices; expensive practices; opposition to sea voyage; some characteristics of Bengal urban society—drinking, imitation of Englishmen, social reform; advancement of women; abolition of slavery. R C Majumdar, "History of Modern Bengal", Calcutta, 1978.

25 Ravinder Kumar, "Western India in the 19th Century", London 1968; 'Nationalism and Social Change', 'Social Theory and the Historical Perception of Modern India', and 'The Changing Structure of Urban Society in Colonial India' in "Essays in the Social History of Modern India", OUP, India, 1983.

26 A representative, more or less, of each type: B M Cully, "English Education and the Origins of Indian Nationalism", New York, 1940; R P Dutt, "India Today", Bombay, 1947; Anil Seal, "Emergence of Indian Nationalism", Cambridge, 1968; Gallagher, Johnson, Seal, ed, "Locality, Province and Nation", Cambridge, 1973; D A Washbrook, "The Emergence of Provincial Politics: Madras Presidency 1870-1920', Cambridge, 1976, and D A Low's editorial introduction to "Congress and the Raj: Facets of the Indian Struggle", London, 1977.

27 See, for instance, J S Grewal and Inder Banga, ed, "Studies in Urban History", Amritsar, n d.

28 A very partial list: the work, published or in progress, or Majid Siddiqi, Gyan Pandey, and Kapil Kumar on Uttar Pradesh; Walter Hauser, K Suresh Singh, J Pouchapadass, Stephen Hennirgham, Arvindnarayan Das, Saradindu Mukherji, and Alok Sheel on Bihar: Benoy Chowdhuri, Kalyan Sengupta, Hitesh Sanyal, Partha Chatterji, Sunil Sen, Rafiuddin Ahmad and Tanika Sarkar on Bengal; Amalendu Guha on Assam; Biswamoy Pati on Orissa; David Arnold on Andhra and Tamil Nadu; D N Dhanagare, Stephen Dale and Conrad Wood on Malabar; Ghansyam Shah and David Hardiman on Gujarat; Ravinder Kumar and Gail Omvedt on Maharashtra; Hari Sen on Rajasthan; Ravinder Kumar and Mridula Mukherji on the Punjab. Significant work on labour includes R K Newman on Bombay, Ranajit Dasgupta and Dipesh Chakrabarti on Calcutta, Chitra Joshi on Kanpur, and R P Behal on Assm plantations.

29 C Bayly, "Rulers, Townsmen and Bazars", Cambridge, 1983.

30 For the distinction between ideologies and *mentalite*, and the consequent relative decline of intellectual history', see M Vovelle, 'Ideologies and Mentalities', in Samuel and Jones, ed, "Culture, Ideology and Politics", op cit; William J Bouwsma, 'Intellectual History in the 1980s: From History of Ideas to History of Meaning', *Journal of Interdisciplinary History*, XII, 2, Autumn 1981; and Patrick H Hutton, 'The History of Mentalities: The New Map of Cultural History', *History and Theory*, Vol XX, 1981.

31 R P Dutt, op cit, Index, p 524.

32 I have tried to rectify the error to a partial extent in my 'The Conditions and Nature of Subatlern Militancy: Bengal from Swadeshi to Non-cooperation, c 1905-1922', in R Guha, ed, "Subaltern Studies, III", Delhi, 1984.

33 Cf particularly the extremely valuable critique in E P Thompson, 'Eighteenth Century English Society: Class Struggle without Class?', *Social History*, III, 2, May 1978.

34 Ranajit Guha, "Elementary Aspects of Peasant Insurgency in Colonial India", Delhi, 1983, Ch I, and *passim* see also Guha, 'The Prose of Counter-Insurgency", in Guha ed "Subaltern Studies, II", Delhi, 1982.

35 Guha, 'The Prose of Counter-Insurgency', op cit, p 3.

36 Guha, "Elementary Aspects", op cit, p 4.

37 E P Thompson, 'The Moral Economy of the English Crowd in the 18th Century', *Past and Present*, No 50, February 1971.

38 E P Thompson, 'Eighteenth Century English Society: Class Struggle without Class?' , *Social History*, III, 2, May 1978

39 For an effective critique of such anachronism as manifested in the writings of a radical scholar, see Guha, 'The Prose of Counter-Insurgency', op cit, pp 35-38.

40 I do not feel happy, therefore, with Guha's attempt in his introduction to "Subaltern Studies, I" to arrive at a general enumeration of subaltern groups in colonial India by simply subtracting certain 'elites'.

41 I owe many of these points to discussions with two Delhi University students, Saurabh Dube and Dilip Menon, and in particular to Saurabh Dube's 'Peasant Insurgency and Peasant Consciousness', published now in *Economic and Political Weekly*, March 16 1985.

42 See the articles by Ashok Sen, Barun De, Sumit Sarkar and Pradyumna Bhattacharya in V C Joshi, ed, "Rammohun Roy and the Process of Modernisation in India", Delhi, 1975, and Barun De, 'A Historical Critique of Renaissance Analogues for Nineteenth Century India', in Barun De, ed, "Perspectives in Social Sciences, I", Calcutta, etc, 1977.

43 Apart from the articles on Rammohun cited above, there was an unpublished paper by Barun De on David Hare; Sumit Sarkar, 'The Complexities of Young Bengal', *Nineteenth Century Studies*, October 1973, and

Asok Sen, "Iswarchandra Vidyasagar and His Elusive Milestones", Calcutta, 1977.

44 W H Sewell, "Work and Revolution in France: The Language of Labour from the Old Regime to 1848", Cambridge, 1980.

45 Satinath Bhaduri's fascinating Bengali novel *Dhorai Charit Manas*, Calcutta, 1949, depicts villagers in north Bihar identifying the charkha with the *Sudarshanchakra* of Krishna. For the nuances of salt, see Tanika Sarkar, "National Movement and Popular Protest in Bengal, 1928-34", unpublished thesis, Delhi University, 1981.

46 I attempted a preliminary, and I feel now in many ways quite inadequate, analysis of these problems in my 'Conditions and Nature of Subaltern Militancy: Bengal from Swadeshi to Non-Cooperation, 1905-1922', in R Guha, ed, "Subaltern Studies, III", Delhi, 1984.

47 Shahid Amin, 'Gandhi as Mahatma: Gorakhpur District, Eastern UP, 1921-22' in Guha, ed, "Subaltern Studies, III", Delhi, 1984.

48 Cf, for instance, Louis Dumont 'On the Different Aspects or Levels in Hinduism', in Dumont and Pocock, ed, "Contributions to Indian Sociology, III", 1959. For a very similar debate on levels within Chinese religion, see Arthur Wolf, ed, "Religion and Ritual in Chinese Society", California, 1974.

49 E P Thompson, 'Anthropology and the Discipline of Historical Context', *Midland History*, 13, Spring 1972.

50 See, for example, Stuart Clark, 'French Historians and Early Modern Popular Culture', *Past and Present*, No 100; Carlo Ginzburg's preference for the concept of 'popular culture' as against the non-class implications of 'mentalities', in "The Cheese and the Worms", op cit, pp xxiii-xxiv, and the anthropologist Michael Gilsenan's comment that "the different interpretations of and selections from an essentially common body of myth within a society or cult are historically quite critical", 'Myth and the History of African Religion', in T O Ranger and J N Kimombo, ed, "The Historical Study of African Religion", London, etc, 1972.

51 Ramakrishna by virtue of his caste status could never have been a working peasant, but his lack of formal education made him a participant of the folk culture of the peasantry.

52 Mahendranath Gupta, *Sri Sri Ramakrishna-Kathamrita* (henceforward K) 5V, Calcutta 1902-1932, Volume V, p 44, June 2, 1883, My translations, from the 1980-82 edition.

53 K IV, pp 11, 68; KV, p 104.

54 K II, p 2, (October 16, 1882).

55 K IV, p 101, (June 20, 1884).

56 K II, p 49, (June 4, 1883).

57 K IV, pp 254-5, (September 1, 1885).

58 Instances abound: see, for example, K II, p 63 (June 15, 1883); K III, pp 82-3, 190-191, (June 30, 1884, May 9, 1885, June 13, 1885), K IV, pp 11, 67-8 (February 25, 1883, February 2, 1885). Note the contrast between the troublesome *amla* and the distant overlord who can be reached directly through devotion, evocative of peasant dreams in so many countries of the just king or 'little father' of the poor.

59 K I, p 121, (June 15, 1884).

60 E P Thompson, 'Time, Work-Discipline and Industrial Capitalism', *Past and Present*, No 38, December 1967.

61 It may not be irrelevant to mention here that Mahendranath Gupta, who kept the record later published as the *Kathamrita*, was a school-teacher who encouraged his pupils to cut classes to come to Ramakrishna. He was dismissed later by Vidyasagar for neglecting his school duties.

62 The text is a valuable source also for explaining gender relations, for instance. For a detailed analysis of the *Kathamrita*, see my "The Kathamrita as a Text: Towards an Understanding of Ramakrishna Paramhansa", Occasional Paper, Nehru Memorial Museum and Library, New Delhi, 1985.

63 James M Freeman, "Untouchable: An Indian Life History", London, 1979, p 354.

64 Thus Ranke's sublime faith in the total impartiality of historians was still being echoed by scholars like R C Majumdar in the 1960s: the Anglo-Saxon vogue of economic history of the 1930s, reached India about a generation later; French structuralism has just started affecting some of us.

65 Tony Judt, 'A Clown in Regal Purple: Social History and the Historians', *History Workshop*, 7, Spring, 1979.

66 Keith Thomas, "History and Anthropology", op cit.

67 Carlo Ginzburg, 'Anthropology and History in the 1980s: A Comment', *Journal of Interdisciplinary History*, XII, 2, Autumn 1981. See also, in the same issue, Natalie Z Davis, 'Anthropology and History in the 1980s: The Possibilities of the Past'.

68 E P Thompson, 'Folklore, Anthropology and Social History', *Indian Historical Review*, III, 2, January 1977.

69 Elizabeth Fox-Genovese and Eugene Genovese, op cit.

70 Tony Judt, op cit; see also Geoff Eloy and Keith Nield, 'Why Does Social History Ignore Politics?' *Social History*, V, 2, May 1980.

71 Hans Medick, "Plebian Culture . . .", op cit.

72 Clifford Geertz, 'Thick Description: Towards An Interpretative Theory of Culture; The Cereberal Savage; On the Work of Claude Levi Strauss; Deep Play: Notes on the Balinese Cockfight', in Geertz, "The Interpretation of Cultures", London, 1975.

73 Carlo Ginzburg, 'Morelli, Freud and Sherlock Holmes: Clues and Scientific Method', *History Workshop*, 9, Spring 1908.

74 E P Thompson, "The Poverty of Theory", London, 1978; Pierre Bourdicu, "Outline of A Theory of Practice", Cambridge, 1977. See also Peter L Berger, "The Social Reality of Religion", London, 1967, Chapter I; Philip Abrams, 'History, Sociology, Historical Sociology', *Past and Present*, No 87, May 1980; and, for the mythification involved in the reduction of culture to nature, Roland Barthes, "Mythologies" London, etc, 1973.

75 Defined as "systems of durable *dispositions*—an endless capacity to engender products, thoughts, perceptions, expressions, actions—whose limits are set by the historically and socially situated conditions of its production—the freedom it secures is as remote from a creation of unpredictable novelty as it is from a simple mechanical reproduction of the initial conditionings", Bourdicu, op cit, pp 72, 95.

76 Bernard S Cohn, 'History and Anthropology: The State of Play', *Comparative Studies in Society and History*, V, 22, 1980. See also his 'Anthropology and History in the 1980s—Towards A Rapproachment', *Journal of Interdisciplinary History*, Autumn 1981.

77 E P Thompson, 'Folklore, Anthropology and Social History', op cit.

78 The undoubted strength of the British Marxist historical tradition, in contrast, has been attributed by Hobsbawm in part to the formidable level of its adademic adversaries: "The advantage was that we could not get away with bullshit", Interview with E J Hobsbawm, MARHO, "Visions of History", Manchester, 1983, p, 30.

79 Cf, for instance, the "Grundrisse" formulation: "a general illumination which bathes all the colours and modifies their particularity . . . a particular either which determines the specific gravity of every being which has materialised within it"—Karl Marx, "Graundrisse", Penguin, 1973, p 107, E P Thompson cites this passage in his 'Folklore, Anthropology and Social History', op cit. Cf also his 'The Peculiarities of the English', *Socialist Register*, 1963, and Raymond Williams, 'Base and Superstructure in Marxist Cultural Theory', *New Left Review*, November-December 1974.

80 E P Thompson, "Whigs and Hunters", Penguin, 1977, p 261.

81 Gerald M Sider, "The Ties that Bind . . .", op cit.

82 E P Thompson, 'Folklore, Anthropology and Social History', op cit.

83 Ellen Ross and Rayna Rapp, "Sex and Society . . .", op cit.

84 Interview with E P Thompson, MARHO, "Visions of History", op cit, p 20.

# Administered Interest Rates in India

L M Bhole

*The rate of interest is an important price in any economy. If it is determined mainly by the market forces, it may help in taking appropriate decisions about saving, investment, allocation of resources, financial and monetary policy, etc. However, the level and structure of interest rates in India have remained very closely regulated by the authorities. The present study examines the working of this administered system of interest rates, and discusses the issues and considerations which need to form the basis of future interest rate and monetary policies for the Indian economy.*

THE plan of the study is as follows: In Section I, after stating the background and the content of the present system, we briefly refer to the nature, criteria, and feasibility of an alternative system of interest rates which, according to us, would be appropriate for India. Section II discusses the features and rationale of the present system by reconstructing its scope, techniques, authority, timing, and its effects on interest rates and credit control mechanism. The reasoning and empirical evidence in support of the case for an alternative system are presented in Section III. The lessons from experiences of some countries in operating the similar systems of controlled interest rates are mentioned in Section IV. Summary and conclusions are presented in Section V.

## I

## The Background and Anticipatory Remarks

The performance of the Indian economy during the past three decades of economic planning has been far below the needs and expectations. There has been ratcheting upwards of inflation and unemployment accompanied by near stagnation in the rate of growth. It has been characteristic of the Indian economy that instead of experiencing 'trade offs' between different economic objectives, there has been a deterioration on all fronts. All this has happened in spite of the adoption of economic planning, and a fairly high rise in the rates of saving and capital formation. Such a poor outcome of our tryst with destiny is naturally making many a people restless and compelling them to seek solutions to the predicament just described.

To the extent the monetary and financial factors are relevant in economic development, efforts are being made to understand better the working of the Indian monetary system so that appropriate policies can be devised for maximising its contribution to the development process. Among other things, a clear consensus is now emerging in favour of the urgent need for an increase in the productivity of investment in place of the earlier emphasis on the increase in merely the quantum of investment. Everybody now appears to be concerned about the high and increasing capital-output and capital-labour ratios, widespread low rates of utilisation of the already existing production capacities, unduly long lags between investment expenditures and flows of output, and the misuse of capital in other ways.

It is in this context that we have undertaken a comprehensive review of the working of the present interest rates policy in India in all its major aspects. Over the period of time, more and more interest rates have been brought under more and more detailed administrative and discretionary controls. As a result, the system with the following characteristics has evolved during the past many years: (i) The rates of interest have been kept at unnaturally low levels. (ii) The regulation of one interest rate has led to the regulation of another rate. In other words, a ceiling on one interest rate has begotten another ceiling. For example, the regulation of banks' lending rates has necessitated the regulation of their deposit rates; and the latter, in turn, has forced the regulation of interest rates on deposits with non-banking companies. (iii) Because the interest rates have been controlled and kept low, the need has arisen for the imposition of widespread and detailed quantitative ceilings or restrictions as a means of allocation or distribution of finance and fighting inflationary pressures. Thus, the system of administered interest rates comprises the presence of discretionary controls on the level and variations of interest rates, the maintenance of these rates at lower levels than what they would otherwise have been, and the existence of the quantitative restrictions on the disbursements of credit.

We have attempted to establish in this study a connection between this sytem and the financial and real performance of the Indian economy. It has been argued, with some empirical evidence, that it has resulted in an inappropriate saving and investment behaviour, maldistribution of financial resources, the accentuation of the problems of inflation, unemployment, etc, and the weakening of the effectiveness of monetary policy. Therefore, a case has been made for freeing interest rates from the administrative controls, and for the need to establish their appropriate level which at present would be much higher than what it has been so far. It is not a case for usurious or exhorbitantly high interest rates, but for 'appropriately' or 'correctly' high rates of interest. In doing this, we are sharing the perspective developed in this respect by Myrdal, Shaw, Mckinnon, and Brahmananda,[1] and restating the case for free and higher interest rates. This restatement may be regarded as valuable and useful because it is far more comprehensive, up-to-date, and based on empirical evidence from the Indian economy as never before.

The system of administered interest rates is a special case of the wider system of prices and physical controls which have come to pervade most of the developing economies. It is hoped that our analysis would be useful in re-evaluating the utility and advisability of the continuation of these other controls also.

Before we proceed to explain our position, it is necessary to refer briefly to the criteria which can help to determine the appropriateness or otherwise of a given system of interest rates, what are the alternative systems which can take the place of the present system, and the feasibility of the system chosen from them.

In a wider sense, the objectives of economic planning should serve as good criteria for judging the suitability of any given sub-system in the economy. However, from the point of view of the immediate relevance and concern, given the capital scarcity, interest rates policy should be such (a) that savings are adequate, and they are held in forms which are conducive for both their use in the growth process and control by monetary authorities for the purpose of economic stabilisation; (b) that available savings capacity is harnessed for investment in essential and productive purposes, and the efficiency of investment is maintained consistently at a high level. Interest rates should induce socially desirable allocation of resources and pattern of investment.

Stated slightly differently, interest rates system should be such as to help the financial system to adapt flexibly to the evolution of the requirements upon it, and to meet these requirements adequately and equitably so that individual groups of borrowers and lenders are not arbitrarily discriminated and disadvantaged, all the possible economies in administrative and other costs are realised, and the opportunities for corruption and arbitrariness are absolutely minimised.[2] The system should be simple and open also.

It is possible to think of at least three types of system of free interest rates: (i) a completely *laissez-faire*, (ii) a system in which the quantity of money is closely controlled by the authorities and interest rates are left to find their own levels as advocated by the 'monetarists', and (iii) a system of 'indicative' regulation of interest rates accompanied by the minimum of discretionary controls. It is this last type which we have in mind when we argue for free and flexible interest rates system for India.

A completely *laissez-faire* system of freely floating interest rates, without any type of government intervention in financial markets, is obviously unrealistic for India where formal economic planning has been of much higher degree and serious hue. At the same time, it is to be firmly grasped that it is equally unrealistic to expect that direct, discretionary, all-pervasive state intervention would help to deal with the imperfections in financial markets. A policy of discretionary controls to deal with market imperfections is a logical contradiction, it is a sure way of perpetuating imperfections, albiet from a different source.

The monetarists have been recommending that interest rates should be allowed to float freely in the markets, and the task of regulation should be performed by the Central Bank by fixing a monetary rule. It will be shown later how such a system is beset with certain practical operational difficulties because of which, apart from other weaknesses of the monetarist approach, the acceptance of such a system is also inadvisable.

Our plea, therefore, is for a system wherein, instead of fixing almost each and every interest rate, the authorities operate more through the instruments of monetary control—not this or that technique but a whole set of them used in a mutually reinforcing manner—such as the bank rate, open market operations, changes in the quantity of money, etc, to determine the market rates of interest and flows of money and credit. Such a system works through automatically functioning operational controls, and changes in interest rates therein are induced rather than administratively fixed There is, as Myrdal has pointed out, a far greater use of price mechanism and a very high degree of automatism, i e, people's behaviour is mostly guided by relative rates of cost and returns rather than administrative discretions. However, price mechanism is first adjusted, again mostly through changes in price signals under the control of authorities, so that now it provides the specific inducements and inhibitions which are 'correct' with reference to the goals and targets of economic policy.[3]

Such a system is quite feasible and in tune with the philosophy of economic planning. As, Oscar Lange has pointed out, the price system, including interest rates, is an important incentive serving to induce the private sector to do things required of it in the plan. But also in the public sector, the need for incentives exists which again requires a proper price system.[4] It may also be reminded that in the initial years of planning in our country, there was a clear preference for and emphasis on maximum reliance on the price mechanism and the minimum use of physical controls for implementing economic plans. It is, therefore, a misconception that planned or socialistic countries need to keep interest rates low and operate through a maze of discretionary controls. The over-reliance on the present system of interest rates is an aberration which definitely needs to be corrected sooner than later.

## II

## The Reconstruction of the Present System—Its Features and Rationale

### EVOLUTION, SCOPE, TECHNIQUES, ETC

A large variety of interest rates exists in any economy at any given time. For example, in India, there are deposit rates of commercial banks, co-operative banks, postal savings organisation, non-banking companies, then there are lending rates of these and term-lending financial institutions; further, there are rates on industrial and government securities. All these rates can be classified as loan rates and rates of return on savings (in case of 'direct securities', loan and savings rate are the same) or as short-term and long-term rates. Under perfect competition, the respective levels of all these rates, and the interrelationships between them (i e, their structure) would be determined on the basis of market forces reflecting productivity of borrowed capital, risk and uncertainty, premium for abstinence and liquidity preference, maturity, time preference, etc. The various degrees of imperfections in the money and capital markets would modify the rates but they would still be determined mainly by the market forces.

Under the administered interest rates system the interest rates are fixed or made to rule at a given level through fiat or discretionary administrative controls with almost no reference to the factors embodied in the supply of and demand for funds. Such a system has now come to prevail in India, through gradual evolution over the period of time. Till about 1958, all the interest rates were more or less free; in the month of October of that year, however, a ceiling on the deposit rates of commercial banks was introduced through the voluntary agreement between some Indian and foreign banks. Under this agreement, a separate maximum rate was fixed for deposits of different maturities. Even then, there was a great deal of flexibility and variations in the deposit rates paid by different banks which were party to the agreement; the rates paid by other banks naturally differed from one another, and from the banks bound by the agreement. This system lasted for six years.

In September 1964, it was replaced by the regulation of deposit rates by the RBI in terms of the Banking Regulation Act, 1949. With this change, the system of regulation became more general and it involved, unlike previously, the fixation of both the minimum and maximum rates. Under this system which continues to prevail now also, while the maximum rate is prescribed on deposits of maturities upto 90 days, the minimum rate is prescribed on deposits of maturities beyond 90 days. In practice, the minimum and maximum rates have mostly turned out to be the fixed rates actually paid by the banks on respective maturities, i e, no bank pays less than the maximum or more than the minimum rates stipulated by the RBI.[5]

The deposit rates of co-operative banks came under the perview of these regulatory measures not until 1974. Since then, co-operative banks also have been paying on their deposits interest rates prescribed by the RBI. They are now allowed to pay interest rates which are higher by certain percentage point(s) (normally, one-half of one per cent) over the rates prescribed for the respective maturity of deposits of commercial banks. As a result of this policy interest rates of commercial and co-operative banks have come to be linked, and changes in them have been effected simultaneously since 1974.

The lending rates of commercial banks have also been controlled by the RBI in terms of the Banking Regulation Act, 1949 since 1960 in the form of prescribing minimum, maximum, dual, and differential interest rates. It prescribes different minimum and maximum rates depending upon the size of banks, the size and purpose of advance, the type of borrower, the nature of security, etc. Similarly, there are separate minimum rates for the general credit and the advances under the selective credit controls, respectively.

The lending rates of co-operative banks were regulated indirectly or through 'suasion' till 1980. As co-operative banks, at all levels of their three-tier structure, depend on the RBI for concessional financial resources, while they were always 'expected' to charge only the 'reasonable' rates to the borrowers from the agriculture and allied activities, in case of finance for production and marketing activities of the cottage and small-scale industries, the terms of concessional refinance stipulated certain conditions about the rates to be charged by them to these borrowers. In 1980, the loan rates of co-operative banks also came to be statutorily regulated and now all the lending rates of these banks are under the direct statutory control of the RBI.

Interest rates on deposits accepted by non-banking non-financial companies, and non-banking financial and miscellaneous companies, which were completely free till recently, have become subject to a ceiling fixed by the Government of India and the RBI, respectively with effect from the beginning of the financial year, 1981-82. There are certain notable points about this regulation. Firstly, unlike in the case of bank deposits, in place of different ceiling rates for deposits of different maturities, there is only one ceiling rate which is stipulated, and the companies are free to pay any interest rate upto the ceiling irrespective of the maturity of deposits. As a result, the companies have a greater degree of flexibility than the banks in respect of the mobilisation of deposits. Secondly, while the cost of deposit-resources of non-banking financial companies is regulated, their lending rates, unlike banks, are not subject to regulation. This also puts such companies in a favourable position *vis-a-vis* banks.

There is a ceiling on the level of call rate also which is imposed by the Indian Banks' Association since 1973. Interest rates on post-office saving bank, time, and other deposits, other small savings media, Treasury bills and government dated securities are all directly fixed by the Government of India. Interest rates on industrial debentures and dividends on preference shares are subject to a ceiling prescribed by the Controller of Capital Issues. The loan rates of the statutory financial institutions, although not subject to any direct control, also can be said to be regulated through 'suasion'. To the extent that these institutions supply credit to the public sector, small scale units, units in the backward regions, and for other priority purposes, their interest rates are bound to be influenced by the thinking of the authorities about the 'appropriate' cost of finance; and this influence must be strong because of the government ownership of these institutions. Similarly, institutions like IDBI impose ceilings on rates to be charged by the primary lenders who obtain refinance and rediscounting facilities from them. It is only the rates of return on ordinary shares and units, bazar bill rate, and hundi rate which appear to be free from any formal and direct control of the authorities in India.

Thus, almost every interest rate in India is now very closely administered in the form of fixation of either the specific, or minimum or maximum (ceiling) or dual or differential level by the government or RBI or Controller of Capital Issues or the Indian Banks' Association, etc, through the exercise of statutory powers or voluntary agreements or suasion. While the effect of such a policy on the behaviour of interest rates themselves is discussed in the following subsection, its wider effects on the economic activity as a whole will be analysed subsequently.

### Effects on Interest Rates and Credit Control Mechanism

Statistical series over a long period of time are available in India only for a few interest rates, although the situation here is probably not as bad as in many other developing countries. It may be mentioned here that the RBI used to publish only a few money rates of interest in its Annual Report on Currency and Finance till 1972-73; this practice underwent a welcome change with effect from 1974-75 when it started publishing data on many short-term and long-term interest rates in the 'Structure of Interest Rates in India' Table. But even now, this Table does not include information about interest rates on the post-office and other small savings media including provident fund, interest rates in the co-operative banking and credit structure, commercial banks' saving deposit rate, interest rate which the RBI pays on excess reserves, etc. This short-coming needs to be corrected. The

Table 1: Interest Differentials in India

| Rates on / Year | 51-52 | 55-56 | 60-61 | 65-66 | 70-71 | 75-76 | 80-81 | 81-82 |
|---|---|---|---|---|---|---|---|---|
| 1) TB-call money | 0.17 | −0.23 | −1.59 | −2.76 | −2.88 | −5.95 | −2.52 | −4.36 |
| 2) Bank rate (1 year) deposit | 1.46 | 0.95 | 0.56 | 0.0 | −0.38 | 1.0 | 1.0 | 1.5 |
| 3) SBI Advances (1 year) deposit | 2.27 | 1.45 | 1.56 | 1.50 | 2.87 | 6.0 | 8.5 | 8.0 |
| 4) Bank deposit: | | | | | | | | |
| i) (3-year)-(1-year) | — | — | 0.25 | 0.25 | 0.50 | 1.0 | 2.0 | 1.5 |
| ii) (5-year)-(1-year) | — | — | 0.75 | 1.0 | 1.25 | 2.0 | 2.0 | 2.5 |
| iii) (5-year)-(3-year) | — | — | 0.50 | 0.75 | 0.75 | 1.0 | 0.0 | 1.0 |
| 5) Debenture coupon (5-year) deposit | — | — | 3.0 | 0.0 | 0.75 | −0.5 | 3.5 | 4.0 |
| 6) 5 to 15 years government bonds (5-year) deposit | — | — | −0.62 | −1.74 | −2.67 | −4.25 | −3.73 | −4.59 |
| 7) Government bonds: | | | | | | | | |
| i) Medium term/short term | — | — | 0.24 | 0.11 | 0.48 | 0.12 | 0.9 | 0.54 |
| ii) Long term/medium term | — | — | 0.2 | −0.19 | 0.57 | 0.0 | 0.69 | 0.81 |
| 8) IDBI loans-SBI advances | — | — | — | 0.50 | 0.0 | −3.0 | −3.58 | −2.5 |
| 9) IDBI loans-Debenture coupon | — | — | 0 to −0.5 | 1.0 | 0.5 | 0.5 to 1.0 | 0.5 | −1.0 |

*Notes:* Deposits refer to commercial banks' fixed deposits; IDBI loan rate refers to its prime lending rate; TB is Treasury Bills.

behaviour of a few selected nominal and real rates of interest over the period of more than a hundred years (1870-1983) is depicted in Figures 1 and 2.

(i) It would be observed from Figure 1 that there has been quite a bit of increase in interest rates during the sub-period 1950-83, but the major part of this increase has occurred after 1974.[6] Incidentally, it may also be noted that there have been very few marked fluctuations in interest rates during this period. The American experience,[7] and our own in the past show that when interest rates are free, they tend to fluctuate much more in upward and downward directions.

An increase in interest rates just mentioned has been the result of periodic 'mark-ups' but we do not know how the authorities have, from time to time, decided upon the extent, frequency, timing, etc, of these 'mark-ups'. We do not have any enunciation from the authorities about the principles or considerations and the weightage given to them, which underlie their 'mark-up' decisions. It appears that decisions in respect of changes in interest rates are mostly being taken quite haphazardly, in an *ad hoc* manner, and inadequately. Consequently, the levels of interest rates, differences in different rates, and changes in both of these have usually not been related to the considerations of risk, liquidity, maturity, demand for and supply of funds, commodity prices, etc. The concept of adjacency of different financial assets in the sense of the existence of well-defined differentials in interest rates (returns) on them when they are arranged in the descending or ascending order on the basis of their major attributes does not appear to have much meaning in India (see Table 1). For example, it is difficult to understand why interest rates on time deposits of the same maturity with the post-offices and banks should differ much, and why such a difference, if it exists, should fluctuate greatly from year to year. The post-office deposits rates have been mostly higher than the bank deposits rates, and their difference has varied between zero to 2.0, and −0.5 to 2.75 percentage points in case of one to three-year, and five-year deposits, respectively during 1969-70 and 1981-82. Similarly, interest rates on small savings media have been higher than those on the government securities of comparable maturities. There is no reason why the coupon rates on the bonds of IDBI, IFC, EXIM Bank, etc, should be higher than those on government securities. While the lending rates of the EXIM Bank have ranged between 9 to 12 per cent, those of commercial banks have ranged between 4 to 18 per cent. The phenomenon of short-term interest rates exceeding the long-term rates unrelated to the cyclical swings in business activity is also to be explained in terms of the discretionary controls in this context.

TABLE 2: INTEREST RATES IN INDIA AND OTHER COUNTRIES

| Country | 1977 DR | 1977 MMR | 1977 GBY | 1981 DR | 1981 MMR | 1981 GBY |
|---|---|---|---|---|---|---|
| 1) India | 9.0 | 10.18 | 6.32 | 10.0 | 8.61 | 7.15 |
| 2) US | 6.0 | 5.54 | 7.67 | 12.0 | 16.38 | 13.72 |
| 3) UK | 7.0 | 8.06 | 12.73 | 14.0 | 13.29 | 14.74 |
| 4) Germany | 3.0 | 4.37 | 6.20 | 7.50 | 12.11 | 10.38 |
| 5) France | 9.5 | 9.22 | 9.61 | 9.5 | 15.26 | 15.66 |
| 6) Canada | 7.50 | 7.33 | 8.70 | 14.66 | 17.72 | 15.22 |
| 7) Sweden | 8.0 | 9.96 | 9.74 | 11.0 | 14.35 | 13.49 |
| 8) Italy | 11.50 | 14.03 | 14.62 | 19.0 | 19.60 | 20.58 |
| 9) Japan | 4.25 | — | 7.33 | 5.5 | 7.69 | 8.66 |
| 10) New Zealand | 10.0 | — | 9.23 | 13.0 | — | 12.83 |
| 11) South Africa | 9.0 | 7.87 | 10.96 | 13.50 | 9.80 | 12.56 |
| 12) Pakistan | 10.0 | 10.87 | 9.27 | 10.0 | 9.27 | 9.40 |

*Notation:* DR = Discount Rate of the Central Bank;
MMR = Money Market Rate;
GBY = Government Bond Yield.

*Source:* International Monetary Fund, International Financial Statistics, various issues.

TABLE 3: FEATURES OF SAVINGS BEHAVIOUR IN INDIA (ANNUAL AVERAGES)

| Feature / Period | 1951-52 to 54-55 | 1955-56 to 59-60 | 1960-61 to 64-65 | 1965-66 to 69-70 | 1970-71 to 74-75 | 1975-76 to 79-80 |
|---|---|---|---|---|---|---|
| 1) Net savings as percentage of NDP | 5.82 | 8.34 | 10.3 | 11.80 | 14.28 | 19.48 |
| 2) Corporate saving | | | | | | |
| a) as percentage of total saving | 7.91 | 5.98 | 8.09 | 3.17 | 6.24 | 3.26 |
| b) as percentage of NDP | 0.46 | 0.49 | 0.81 | 0.37 | 0.91 | 0.64 |
| 3) Houshold saving | | | | | | |
| a) in financial assets as percentage of NDP | 1.16 | 3.17 | 3.65 | 3.37 | 4.96 | 7.48 |
| b) in physical assets as percentage of NDP | 2.96 | 3.31 | 2.78 | 6.14 | 6.23 | 7.47 |
| c) in currency as percentage of total household saving | 7.17 | 20.49 | 26.20 | 25.36 | 19.66 | 17.74 |

*Source:* Rao, V K R V, "India's National Income, 1950-80", Sage Publications, New Delhi, 1983.

(ii) In spite of some increase, interest rates during the era of regulation can be said to have been artificially maintained at lower levels than what they otherwise would have been and what they should have been. The following theoretical and empirical evidence supports this viewpoint:

(a) The very objective of imposing discretionary controls has explicitly been to keep interest rates at lower levels as in the cases of deposit rates, rates on finance for fixed investment, rates on government debt and loans to the priority sectors, etc.

(b) Sometimes controls were introduced precisely when interest rates determined by the market forces reached the levels which were 'regarded' as 'unduly' high by the concerned authorities. In such cases, interest rates have been definitely kept at lower levels through the imposition of ceilings. For example, the call money rate. The experience in other countries such as UK and US shows that whenever the policy of pegging of interest rates was abandoned, there was a sharp increase in those rates.

(c) The rates which have not been subject or amenable to regulations have been consistently higher than the controlled rates. For example, the bazar bill rate, SBI hundi rate, and other rates in the unorganised sector of the financial markets.

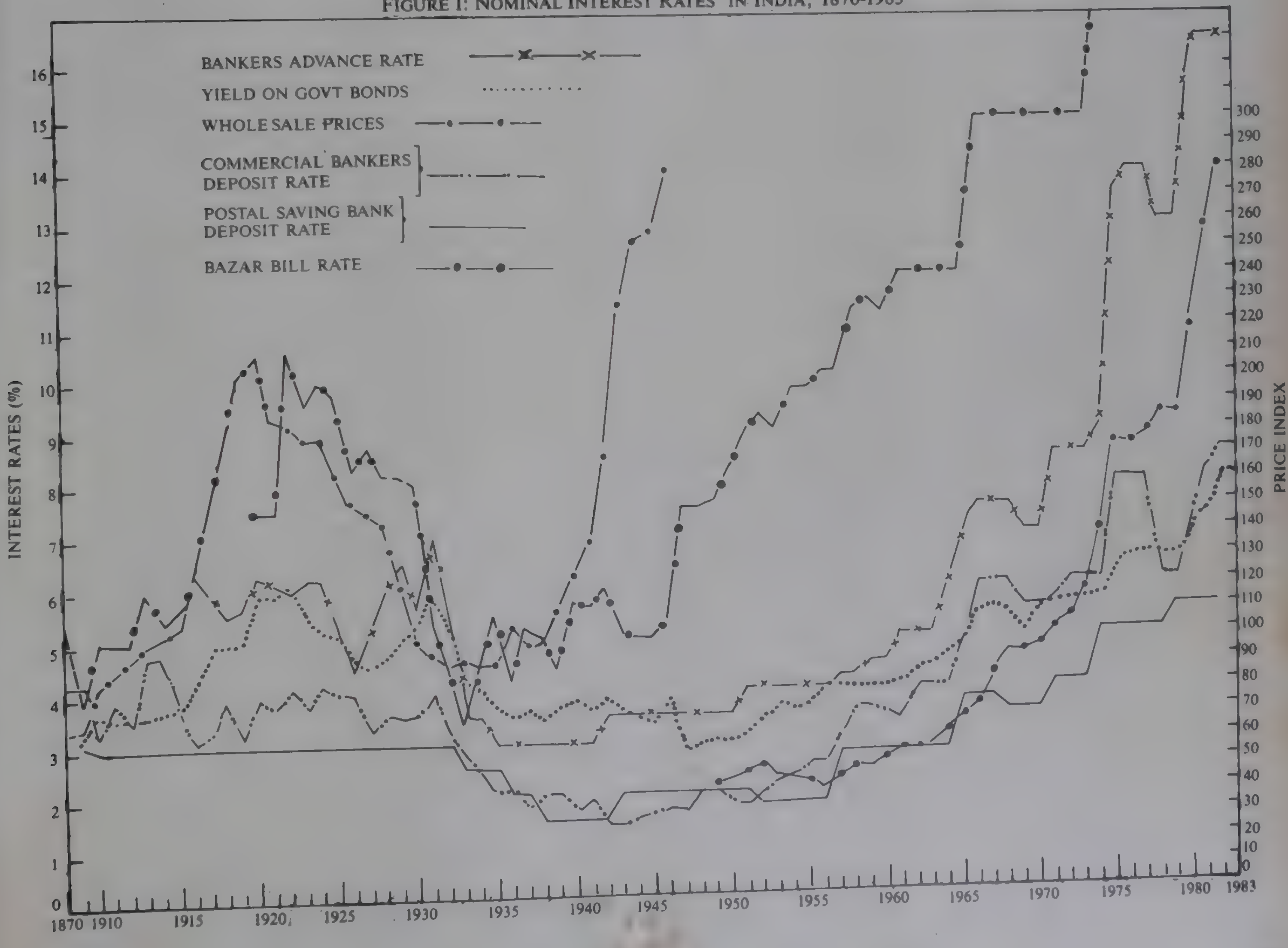
(d) While judging whether interest rates in a given period are high or low, they have been very often compared with their historical level. The application of the idea of historicism to interest rates has given rise to notions such as the 'band of feasible rates'[8] or the 'gears of interest rates'.[9] It is argued that there is some 'normal' level of and changes in interest rates the idea about which can be obtained from the level of and changes in interest rates which occur in quiet times and which are consistent with the maintenance of organised markets. The rates of interest cannot rise or fall in any given period very far from this 'normal' level, except for a brief period. Some people in India have conveniently and successfully made a case for lower interest rates on the basis of such notions. They have argued that interest rates in the post-independence period have been higher than their historical level, and, therefore, they should be (further) reduced.

The current interest rates policy cannot be determined mainly on the basis of a historical approach because it is a static one. But even by historical standards, interest rates in India have been held at lower levels after 1950. It would be clearly observed from Figure 1 that excepting the period of 1933-50,[10] banks' advances rate, for example, has been lower during 1951-70 and only slightly higher during 1970-75 than its own level during 1870-1933. The same thing is also more or less true of other controlled rates such as banks' deposits rates, government bond yield, etc. These rates can justifiably be deemed to have been effectively still lower (than what data show) if we take into account, as we must, the fact that the expected or planned rates of economic growth and capital formation have been far higher after 1950 than in the historical period. While the rate of gross capital formation during 1861 to 1929 was about 5 to 7 per cent,[11] it was about 12 to 20 per cent during 1951-75. If the relevant factors such as the relative demand for credit and finance, the size of government borrowing programme, deficit financing, balance of payments difficulties, the rate of inflation, etc, were freely allowed to influence interest rates, the latter would have been much higher than their historical as well as current levels. Further, if the history of interest rates is important, how can we forget the history of interest rates in the unorganised and semi-unorganised sectors of the economy?

(e) If the interest rates are not administered, the secular and cyclical changes in the commodity prices act as a major determinant of variations in the nominal interest rates so that the real interest rates maintain appropriate positive levels. As it would be seen in Figure 2,[12] the real rates of interest in India during the post-1950 period have been mostly negative; and whenever they were positive, they were mostly around the low level of 2 to 4 per cent per annum.[13]

It is likely to be pointed out that the real rates of interest were negative in the earlier period also when the rates were not controlled. It has to be accepted that whenever the rate of inflation has been very high (around 25 per cent and above), it has not been possible for the nominal interest rates to keep pace with such price changes even though there were no controls on their movements. This long-term experience in India suggests that the Fisher effect may not be observed in the period of hyper-inflation, and the principle stated in the previous paragraph may be valid only in periods of normal mild inflation. Having accepted this, it may still be noted that before 1951, real interest rates were negative only during war-years;

FIGURE 1: NOMINAL INTEREST RATES IN INDIA, 1870-1983



they were positive and at quite high levels (after 10 to 18 per cent) in many other years. Thus, it is possible to explain, at least partly, negative or low-positive levels of real interest rates in the planning era in terms of discretionary controls on their movements.

(f) The interest rates in India have tended to be lower than in many other countries. Subject to the imperfections of international comparison of interest rates on account of differences in the nature of financial assets, definition, financial organisation, etc, it is clear from Table 2 that interest rates in India have often been maintained at much lower levels than in capital-abundant countries such as US, UK, Canada, France, Germany, Sweden or countries with similar inflationary experience, *viz*, Italy or countries with similar controlled interest rates systems, *viz*, New Zealand and South Africa. In the light of this evidence, the argument sometimes heard in certain quarters that India is a country with the highest interest rates can be said to be politically motivated.

(iii) Apart from maintaining interest rates at low levels and haphazardly determined differentials, the present policy has resulted in the sacrifice of the simplicity in the working of interest rate mechanism. The authorities have had to administratively announce the fixation of an unbelievably large number and vast range of interest rates. We have not one but a band of bank rates, we also have a large number of bank deposits and advances rates directly fixed by the authorities. The interest rates structure has consequently assumed an exceedingly complex and unmanageable character—the fact which has now been admitted by the RBI itself. The so-called simplification which it introduced in March 1981 is nothing more than tinkering with the existing system[14] because it has completely retained the principle of direct fixation of almost every single interest rate in the economy.

(iv) The direct administration of interest rates has been progenitive of a complex system of quantitative credit controls or ceilings as a means of monetary policy and distribution of available finance among different borrowers, sectors, uses, etc. The controls on the price of finance have begotten controls on the quantity of finance also. From the point of view of the monetary policy, the system has been caught in a vicious circle—the discretionary controls on interest rates have led to the need for imposing quantitative credit ceilings or targets which, in turn, have resulted in the atrophy of those techniques of monetary control which are appropriate for and consistent with the competitive, efficient, and dynamic financial organisation, and this has further perpetuated the dependence on the quantitative or physical or selective or discretionary techniques of monetary control.

## THE RATIONALE OF THE PRESENT SYSTEM

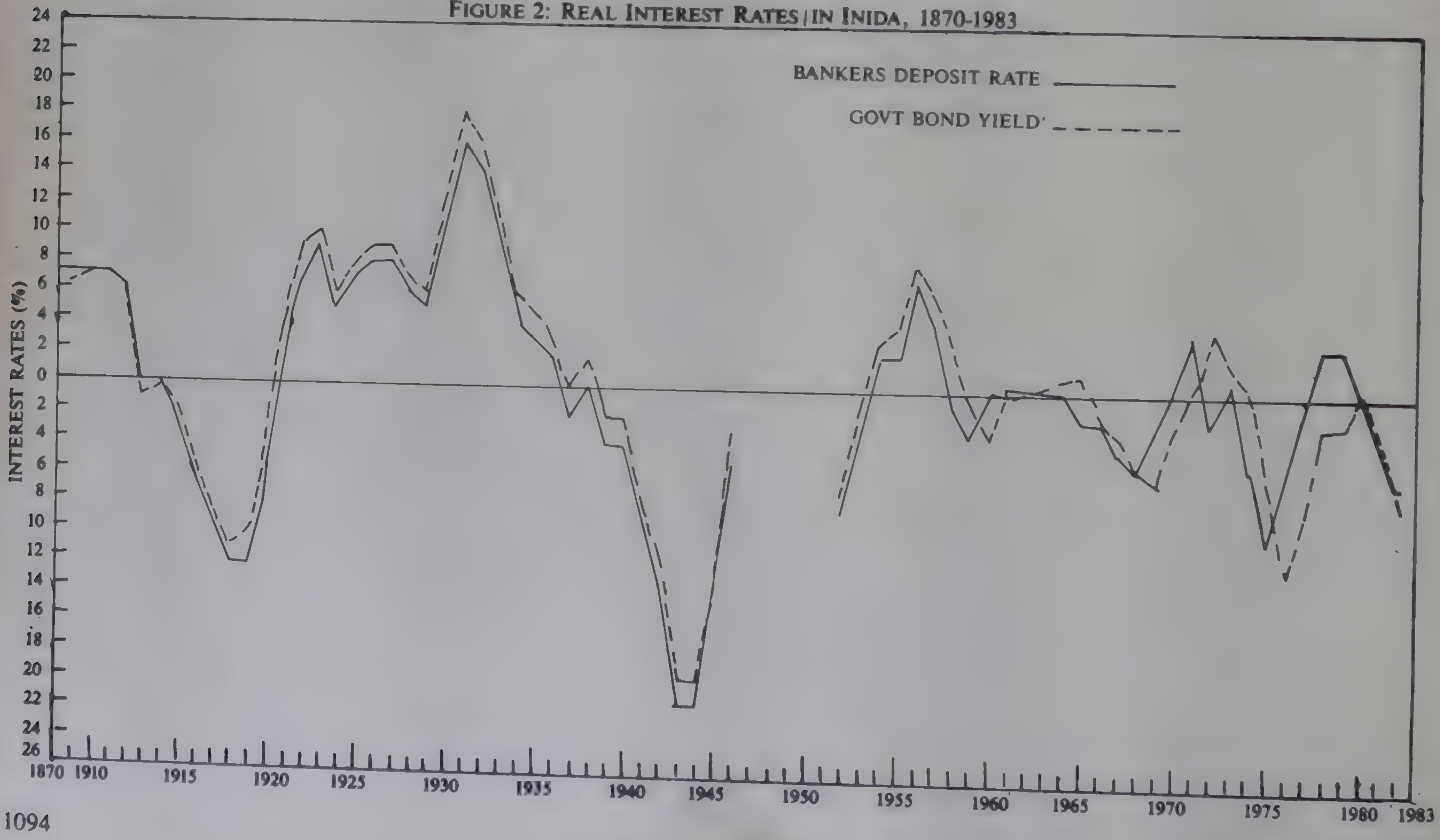
Why have the authorities here and elsewhere imposed controls on the level and movements of interest rates? Before we discuss the considerations which prompt such an action, let it be noted that usually it is the result of a fear that otherwise interest rates would be much higher than 'desirable'. In other words, the direct regulation of interest rates is mostly resorted with a view to maintain them at low levels which, in turn, are regarded necessary for certain reasons. In such cases, the reasons for keeping interest rates low and for administering them tend to coincide.

The present day policy of controlled interest rates can be said to have been historically preceded by the anti-usury laws which either completely prohibited the charging of any interest or which sought to control it to a particular level. Such a policy was largely based on the moral and other extra-economic considerations, while the present day policy has come to depend upon quite a complex set of arguments for its introduction and continued existence.

(i) In many developing countries including India, low interest rates have been regarded desirable in order to induce a higher rate of capital formation, particularly fixed capital formation. This explains why the long-term interest rates have been kept at such low levels. The belief in the theories of economic development which give paramount importance to the high rate of capital formation as the most critical development factor has shaped such a policy.

It is curious that while one view has

FIGURE 2: REAL INTEREST RATES IN INIDA, 1870-1983



argued for low interest rates for encouraging investment (which implies interest-sensitivity of investment), another view has argued for the same policy because demand for investment and bank credit is said to be inelastic to changes in interest rates. In more general terms, it has been argued that in developing countries, price incentives are weak and few people there calculate and take decisions in terms of cost and return. In such a situation, high interest rates merely lead to an increase in transactions, velocity of money, increase in difficulties of the productive sectors, particularly more vulnerable sectors such as small-scale industries, small borrowers, exports, etc, and increase in cost inflation. All this happens without curbing investment because, in sheltered markets, increased interest costs would be passed on to consumers in the form of higher prices.

(ii) The exigencies of government finance have perhaps constituted the most weighty consideration behind the actual adoption of the system of administered interest rates. In planned economies and welfare states, since the government and public sector are expected to play a very big role in economic activities, the financing needs of the government turn out to be on a huge scale. The government raises funds *inter alia* through the sale of government securities and small savings media. It is argued that if the interest rates are kept low and stable through controls, the cost of public debt would be low, and there would be a stability on the government securities market which is conducive for debt placement. Further, the Indian experience shows that under the present system, the government is in a position to manipulate rates in such a way as to induce the flow of funds in the media it desires to promote more. In the past few years, the Government of India has been paying higher interest rates on small savings than on comparable long-term marketable debt because thereby it can reduce the amount to be floated on the market which has certain inconveniences as compared with the non-marketable debt.

(iii) It is also argued that in a planned economy, the priorities and objectives of development are determined by the authorities. For example, they may desire to encourage exports, setting up of industries in backward or zero-industry areas, etc. If the course of development is to be in keeping with such priorities, the provision of credit with certainty and at low cost to the priority areas becomes necessary. This is achieved through the system of administered interest rates.

A related argument is that money and capital markets in economies like India's are characterised by varieties of imperfections. As a result, certain types of borrowers are discriminated against with regard to the availability, cost, and other terms of finance. In order to remove such discrimination against and disability of certain borrowers, the discretionary control of not only the cost but also the availability of finance becomes necessary. In a wider sense, such a policy is said to help to improve the distribution of income in favour of low-income and disadvantaged groups of society. The policies such as 'differential interest rates' have been adopted specifically for such a purpose.

(iv) Many reasons—sometimes quite contradictory to each other—have been advanced for controlling interest rates on bank deposits and advances. It is felt that if deposit rates are free, there may be unduly keen competition among banks for resource mobilisation which would increase their cost, reduce their profitability, and, in certain cases, lead to bank failures. Inter-bank agreement in India, Regulation Q in US, and inter-bank cartel in UK have been the result of such a reasoning. However, there has also been an another view that deposit rates of banks need to be regulated because otherwise they would reap exhorbitant profits by not raising these rates *pari passu* with an increase in their lending rates. The regulation Q also had the objective of limiting the expansion of bank credit which banks could bring about by the vigorous mobilisation of deposits by offering higher rates of interest.

In India, some of the reasons behind

TABLE 4: THE EFFECT OF INTEREST RATE ON INVESTMENT DECISIONS IN INDIA

| Sr No | Independent Variables | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Intercept | AV | R | AC | PE | FE | TX | $R^{-2}$ | D W | Functional Form | Sector |
| 1) | −2755.5 | 0.139*<br>(173.18) | 434.8<br>(20.17) | — | — | 0.686*<br>(25.82) | — | 0.995 | 1.53 | Nominal | EE |
| 2) | 1859.2 | 0.114*<br>(21.53) | 47.15<br>(2.18) | — | — | −1.21<br>(8.12) | — | 0.585 | 1.25 | Real | EE |
| 3) | −191.2 | 0.328*<br>(21.03) | 109.74<br>(6.75) | — | — | 0.559*<br>(0.82) | — | 0.973 | 1.20 | Nominal | PS |
| 4) | 1160.6 | 0.266*<br>(21.1) | −13.85<br>(1.4) | — | — | 0.726*<br>(3.97) | — | 0.761 | 1.28 | Real | PS |
| 5) | −17.87 | 0.032<br>(1.88) | −0.45<br>(0.15) | 684.5<br>(2.76) | — | — | 0.32**<br>(4.1) | 0.90 | 1.45 | Nominal | PCS |
| 6) | −1277.7 | Eliminated | 284.34<br>(83.23) | — | 6.05<br>(0.22) | — | — | 0.766 | 0.87 | Nominal | EE |
| 7) | 144.94 | 0.021**<br>(4.28) | −10.26<br>(0.57) | —<br>— | 6.68<br>(0.21) | — | — | 0.12 | 1.74 | Real | EE |
| 8) | −1863.5 | −0.18<br>(4.3) | 393.3<br>(10.84) | — | Eliminated | — | — | 0.6 | 1.33 | Nominal | PC |
| 9) | 217.8 | 0.11*<br>(4.4) | −13.26<br>(0.68) | — | −17.64<br>(1.22) | — | — | 0.09 | 1.33 | Real | PC |
| 10) | 5.09 | −0.02<br>(0.13) | −0.14<br>(0.85) | 16.41<br>(0.01) | 0.73*<br>(16.49) | — | — | 0.44 | 1.74 | Real | PCS |

*Notes:* Functions 1 to 5 and 6 to 10 are for total fixed investment and inventory investment, respectively; AV = Accelerator variable measured by Gross Domestic Product or Gross Public Sector Product or Sales; R = The long-term or short-term rate of interest; AC = Availability of Credit; PE = Price expectations measured by one-year lagged inflation rate; FE = Foreign exchange availability; TX = Tax factor; Figures in brackets are F-ratios; EE is Entire Economy; PS is Public Sector; PCS is Private Corporate Sector.

the control of deposit and lending rates of commercial and co-operative banks which have been officially mentioned[15] are: (a) To avoid unhealthy competition for both borrowing and deposit accounts. (b) To maintain a kind of uniformity of interest rates on these accounts of all types of banks. (c) To keep deposit rates in alignment with the lending rates of banks and with other market rates of interest. (d) To aid deposit mobilisation. (e) To lengthen the maturity structures of deposits by widening the spread between the long-term and short-term rates of fixing the minimum rate(s) for long-term maturities and ceiling rate(s) for short-term maturities. (f) To impinge upon both the demand for and supply of bank credit. While the prescription of minimum lending rates was meant to ensure that increases in RBI refinance/rediscount rates were transmitted to the ultimate borrowers, the ceiling rates were expected to discourage banks from borrowing more from the RBI because now they would not be in a position to transfer higher refinance cost to the borrowers. (g) To enable the authorities to avoid frequent changes in the bank rate and to achieve the results of changes in the bank rate by changing deposit and lending rates directly.

It may bear repetition to say that the case for regulation of rates being considered here involves contradictions. The deposit rates are to be allegedly regulated because the free rates would both reduce and increase banks' profitability; the regulation would both increase and decrease the deposit resources of banks; the regulation of lending rates would both ensure and hamper the transmission of higher refinance cost to the ultimate borrowers.

(v) It has been argued that when interest rates are free, changes in monetary techniques such as discount rate, open market operations, etc, might not bring about any material changes in the entire interest rates structure or they may be accompanied by undesirable movements in the market rates. It is pointed out that the authorities lack empirical evidence about the extent and direction of changes in market rates when the traditional techniques of monetary control are employed. In other words, the effectiveness and predictability of monetary measures are very limited when interest rates are free. On the other hand, if the market rates are changed directly with or without changes in the bank rate, etc, the effect of such a policy on the economic activity would be greater and more certain. In short, the administered system of interest rates allegedly enhances the predictability and efficacy of monetary policy.

TABLE 5: CAPITAL-OUTPUT RATIOS IN INDIA AT CONSTANT (1960-61 = 100) PRICES

| Period | Average C/O Ratio | Incremental C/O Ratio |
|---|---|---|
| 1950-54 | 2.50 | 3.51 |
| 1955-59 | 2.71 | 4.85 |
| 1960-64 | 2.92 | 3.28 |
| 1965-69 | 3.43 | 5.41 |
| 1970-74 | 3.88 | 11.48 |
| 1975-77 | 4.20 | 6.42 |

*Note:* The Figures are averages for the respective periods.

*Source:* Rao, V K R V, op cit, p 154.

We shall examine the foregoing arguments and discuss our case for free and higher rates of interest in the next section. It may only be noted here that these arguments suffer from a lack of consistency, and they largely arise from beliefs in certain theories of economic development which are quite questionable, profession of the philosophy of planning and socialism, distrust of market forces due to the alleged existence of imperfections and low price elasticities, presence of multiple vested interests, and simply myopia.

## III

## The Case for an Alternative System

The reconstruction of the system of administered interest rates—designated by some as the system of "financial repression" or the one lacking "financial deepening"—has highlighted some of its defects and has indirectly shown the need for "financial reform" by replacing it with the system of free and higher interest rates. We now develop this subject further by discussing directly the beneficial effects of the alternative system on various spheres of economic activity such as the volume and pattern of savings, efficiency of the financial system, efficiency of investment and allocation of resources, efficacy of monetary policy, and by showing the weaknesses of some of the arguments which have been advanced in support of the existing system. While doing this, in addition to presenting qualitative arguments, we have attempted to furnish econometric evidence on a few major relationships or propositions posited in Shaw and Mckinnon model referred to earlier. However, given the nature of the subject-matter, the discussion has to be primarily qualitative. This has been shown by the lack of success of the attempts of Fry[16] and Galbis[17] to estimate this model for the Asian and Latin American countries, respectively.[18] In order to indicate the relevance of the econometric part of our study, it would be useful to state here for ready reference the gist of this model, and the hypotheses to be tested by us.

It has been argued that savings at a given level of income are a function of the real rate of interest, and administratively determined nominal interest rate holds the real rate below its equilibrium level. This holds saving and investment below what they would be at high real rate of interest. The ceiling on interest rates also results in non-price rationing of investible funds. The raising of nominal interest rates increases saving, investment, and the average efficiency of investment. This leads to increase in income and further increase in saving. The impacts of such a policy on growth are multiplicative. Accordingly, we shall test the following hypotheses:

(i) The rate of saving is expected to be positively related to the rate of interest. If this is empirically validated, the case for higher interest rates becomes strong provided the objective of economic policy is to increase the rate of saving.

(ii) Normally, the rate of interest is expected to be negatively related to investment. When this happens, investment decisions are taken on the basis of rational cost considerations and the efficiency of investment is high. But in the economy with the system of administered interest rates, since interest rates are kept low, they may be positively related to investment. If this is found to be true, it would mean that investment activity and the allocation of capital are not being conducted in an efficiency manner.

(iii) It follows from (ii) that the capital formation in low interest economies would be found to be playing an insignificant role in the determination of national income.

(iv) The low rates of interest result in low rates of economic growth.

Empirical results of the testing of these hypotheses would be reported at the appropriate points in the discussion of our case to which we now return.

### PROMOTION OF SAVINGS

In developing countries, there is definitely a case for higher interest rates because they play an important role in raising the rate of savings, and in the institutionalisation or financialisation or activisation of those savings. The strength of this argument depends upon the magnitude of interest elasticity of savings. We, therefore, estimated a few savings functions for the entire Indian economy for the period 1951-52 to 1979-80 the two of which are reported below:

$$\begin{aligned} GSR = 5.61 &+ \underset{(1.696)}{0.0671}\ GDP + \underset{(7.28)}{0.0048} \\ & PCGDP^{*} + \underset{(6.52)}{0.7987}\ R^{*} - \underset{(4.67)}{0.155} \\ & PE^{*} + \underset{(0.834)}{0.187}\ GSR_{-1} \qquad \ldots (1) \\ & \bar{R}^2 = 0.89008;\ D\ W = 2.13469 \end{aligned}$$

$$\begin{aligned} GSR = 5.11 &+ \underset{(5.78)}{0.0042}\ PCGDP^{*} \\ &+ \underset{(5.749)}{0.7576}\ R^{*} - \underset{(3.022)}{0.1129} \\ & PE^{**} + \underset{(2.218)}{0.2868}\ GSR^{**}_{-1} \qquad \ldots (2) \\ & \bar{R}^2 = 0.88689;\ D\ W = 2.11339 \end{aligned}$$

Where, GSR is the gross saving rate; GDP is the growth rate in gross domestic product; PCGDP is the per capita GDP; R is the one-year deposit rate of interest; PE is the measure of price expectations; $GSR_{-1}$ is the one-year lagged dependent variable; figures in brackets are F-ratios; all variables are in nominal terms; the functions are in non-logarithmic form; * and ** indicate the level of significance at 1 to 5 and 10 per cent, respectively.[19]

It would be seen that these fits are very good and the rate of interest has quite high and significant coefficient; it may be noted that the performance of rate of interest is better than that of income. This and the fact that the price expectations are shown to discourage savings strongly suggest the need for a higher interest rates policy in India.

It may be counter-argued that this is unnecessary in view of the good savings performance of the Indian economy in the past 30 years. The rate of gross savings has increased substantially over this period from about 10 per cent in 1951-52 to about 21 per cent in 1979-80. It may be argued that if interest rates in India are regarded to have been low, they have apparently not discouraged people from saving. We feel that this is an euphoric view of the matter, and it would be harmful if interest rates are continued to be kept low on the basis of such a reasoning. There are many other important features of savings behaviour in India which show the need for an increase in the reward for savings in future. Table 3 contains an useful information on some of these aspects of savings in India.

Firstly, it is necessary to note the time profile of an increase in the saving ratio. While it took as many as 20 years to increase by merely six percentage points during 1950-51 to 1969-70, it increased by 2.48 and 5.20 percentage points during the next two five-year periods, respectively. Thus, if we exclude the last ten years of the period under discussion, particularly the last five years which experienced a substantial increase in interest rates, the rate of growth in saving in India has been very small indeed.

The two other major factors, apart from an increase in interest rates, which have contributed to a substantial increase in the saving rate during 1970s have been the phenomenal increase in the number of bank branches and the amount of foreign remittances. From the point of view of the future, while the contribution of one of them is subject to a high degree of uncertainty and fluctuations, that of the other has almost reached its limit. Therefore, it has been rightly pointed out that we cannot take for granted the continuing increase in the rate of saving in the last quinquennial period and the establishment of a trend rate of growth which includes this period.[20] In such a situation, the offering of an attractive rate of return retains a crucial importance in the policy of promotion of savings.

Secondly, deposits with commercial and co-operative banks account for about half of total household sector savings in financial assets. Further, current account deposits constitute about 20 to 30 per cent of total bank deposits. Now, to the extent that a part[21] of the current account deposits is the result of created credit rather than genuine saving, the figures on saving ratio in India need to be adjusted downward to obtain a realistic estimate of the level of genuine savings in the country.

Thirdly, in spite of good progress in the institutionalisation of savings so far, there is still a great scope for further progress in this respect. The proportion of household saving in the form of currency is still quite high; it has been around 18 to 26 per cent of total household saving. Similarly, the physical assets still account for about half of total household saving. If this preference for idle saving is to be reduced, the return on financial assets must become attractive both in nominal and real terms.

Fourthly, the contribution of the corporate sector in this context has been extremely poor. Its saving rate has been about 0.5 per cent, and its contribution to total saving has declined from 7.91 per cent to 3.26 per cent over the period under study. The easy availability of cheap credit from banks and term lending financial institutions has definitely been one of the important causes for this poor savings performance of the corporate sector. The estimation of the determinants of saving of the Medium and Large Public Limited Companies (equation 3) and Medium and Large Private Limited Companies (equation 4) shows that, given the profits after tax or cash flow, while the companies have disregarded interest rate (which has the wrong sign) as a relevant factor, they have changed their retention policy in the light of the availability of external funds.[22]

$$\begin{aligned} RR = 33.99 &+ \underset{(27.84)}{2.65\ PAT^{*}} + \underset{(0.931)}{0.07\ FWI}\ R \\ &- \underset{(0.23)}{0.06\ ES} - \underset{(0.10)}{0.68} \\ &- \underset{(0.64)}{0.14\ P} + \underset{(0.34)}{46.57\ T} \\ & \bar{R}^2 = 0.9645 \qquad \ldots (3) \end{aligned}$$

$$\begin{aligned} RR = 82.52 &+ \underset{(14.5)}{11.98\ CF^{*}} - \underset{(4.16)}{1.10\ FWI} \\ &- \underset{(10.82)}{3.77\ ES^{*}} - \underset{(0.03)}{0.77\ R} \\ &+ \underset{(5.98)}{0.23\ P^{*}} + \underset{(4.53)}{2.21\ T^{*}} \\ & \bar{R}^2 = 0.8977 \qquad \ldots (4) \end{aligned}$$

Where, RR is the retention ratio; PAT is profits after tax; CF is the cash flow; FWI is the investment in fixed and working capital; ES is the external sources of funds, R is the debenture yield; P is the price level; T is the time variable; figures in brackets are F-ratios; functions are in nominal non-logarithmic form; and the period of study is 1961-62 to 1974-75.

Finally, in spite of a substantial increase, can we say that the rate of saving in India has been at the required level? If it was so, there would not have been the need for so heavy and increasing dependence on foreign capital, credit creation, deficit financing, and the credit rationing on a continuous basis. It is true that a greater efficiency in the use of financial resources and physical capital would have reduced this dependence. However, as we shall show, the level of efficiency just referred to also has been low partly on account of lower interest rates. Thus, higher interest rates become necessary both to increase (or to maintain) the rate of saving and to improve the efficiency of investment. If the former alone occurs unaccompanied by the latter, it involves a permanent sacrifice for the consumers because savings then do not contribute to the acceleration of the growth of income.

## EFFICIENCY OF THE FINANCIAL SYSTEM

The present system has been promotive of inefficiency because the interest rate mechanism as an impersonal, neutral, and anonymous allocator of finance has been replaced by the arbitrary and discretionary means of doing the same. The command over financial resources now depends upon the ability to offer security, political pressure, the bigness of size and ability to outmanoeuvre both other seekers of credit and credit controls, benefits to the loan officers, etc. The resources allocated in such a manner are very often used for either low-yield safe investments or for socially less useful or even detrimental purposes. There is also very often an over-capitalisation of units. The reality of this point is so well-established in India that we need not further belabour it here. The evidence accumulated by, among others, the Dutt Committee, Dehejia Committee, Tandon Committee, etc, is enough to emphasise the need to change the present system.

It is high time to realise that imperfections in markets cannot be corrected by imposing a set of other imperfections merely because the latter emanate from the authorities. The misuse of the differential interest scheme, the appropriation of credit meant for a variety of small borrowers by the big borrowers through devices such as creating fictitious or linked (captive) small units, etc, point to the dangers of non-price rationing of credit. It is acceptable that some kind of action was necessary to help farmers, small village and cottage industries, other small borrowers in the face of market imperfections. But it could have been done within the ambit of the usual legal powers of the government, through 'suasion', and through creating certain 'counterrailing' institutions which functioned on the basis of normal economic and cost considerations.

The entire array of interventions by the authorities has led to the development of an inefficient financial system in an another way also. The ceiling on the bank deposit rates has adversely affected the growth of bank deposits. If there was no large-scale expansion of bank branches, it is doubtful whether banks would have experienced the rate of growth of deposits which they actually did (between 16 to 24 per cent per year) after nationalisation. On the other hand, deposits with the non-banking companies have grown at comparable or even higher rates in many years; these deposits have grown at the annual rate of 20 to 78 per cent during 1978-82; this rate perhaps would have been still higher if there was no ceiling on the amount of deposits which each company could accept. This along with the fact that the authorities had to impose a ceiling on interest rates on company deposits also shows that the policy of regulating bank deposit rates has been wrong. The new development in the making, i e, the entry of banks into a more complex and risky business of lease finance within the existing set-up or by setting up subsidiaries reflect banks' desire to bypass the existing regulations on them to provide funds to the corporate sector, and to benefit from the opportunities to lend at higher rates of interest.

The foregoing suggests that non-price credit rationing and ceiling on interest rates result in sub-optimal allocation of funds, the growth of financial institutions or arrangements which tend to divert the flows of funds from channels which are directly amenable to the supervision and influence of the Central Bank, reduction in the profitability of banks,[23] negation of the intentions of the authorities with regard to the sectoral distribution of credit, etc. The experience in the UK in this context has been very much similar. As pointed out by Johnson also, it is, therefore, necessary to reinstate price competition and high rates of interest on both sides of the balance sheets of banks, other financial institutions, and all the users of finance.[24]

### EFFICIENCY OF INVESTMENT

Interest rates policy has a very immediate and decisive influence on the volume and efficiency of capital formation and on economic growth *via* the former. It is natural that in an inefficient financial system like India's promoted by the system of administered interest rates, the process of capital formation should have been greatly wasteful. There is much incontrovertible evidence which establishes this point.

Firstly, investment decisions in India have not been affected by interest rates in the theoretically expected manner; because of the low level of interest rates, they have been positively related to investment. Our unprecedentedly comprehensive study[25] of the interest elasticity of different components of fixed and inventory investments in seventeen industries, the private corporate and public sectors, and the entire economy, during the period 1950-51 to 1977-78[26] and its sub-periods has proved this beyond doubt. A few of a large number of investment functions estimated by us which have been presented for ready reference in Table 4 clearly show that interest rate is mostly positively related to investment, and it has been mostly insignificant statistically whenever it had the negative sign.

Secondly, it can be shown in different ways that an increase in capital formation has contributed little to fostering appropriate techniques of production and increasing labour employment; and that the creation of capital on a massive scale has not resulted in the commensurate growth of output. This is firstly reflected in the high and increasing capital-output and capital-labour ratios which prominently characterise the Indian economy. Accor-

TABLE 6: THE ROLE OF INVESTMENT IN THE GROWTH OF OUTPUT IN INDIA

| Sr No | Dependent Variable | Independent Variables | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Intercept | I | MS | Time | Pop | $\bar{R}^2$ | D W | Functional Form |
| 1) | NDP | 4.41 | Eliminated | −0.071<br>(2.72) | 0.009*<br>(128.4) | — | 0.9911 | 2.13 | Log-nominal |
| 2) | PSP | 4.22 | −0.021<br>(0.05) | −0.092<br>(0.94) | 0.006*<br>(12.69) | — | 0.8838 | 1.65 | Log-nominal |
| 3) | SSP | 4.08 | 0.04<br>(2.62) | −0.21<br>(4.56) | 0.01*<br>(56.24) | — | 0.9836 | 0.69 | Log-nominal |
| 4) | GDP | −24.59 | 1.155*<br>(8.26) | −0.322<br>(2.22) | — | 8.27<br>(1.93) | 0.27197 | 2.40 | Non-log-nominal |
| 5) | GDP | 1.74 | −0.418<br>(1.62) | −0.011<br>(0.006) | — | 4.15<br>(0.799) | −0.016 | 2.19 | Non-log-real |

*Notes* :The functions 1 to 3 and 4 to 5 are for the period 1950-51 to 1975-76 and 1951-52 to 1979-80, respectively. NDP = Net Domestic Product; PSP = Primary Sector Product; SSP = Secondary Sector Product; GDP = Gross Domestic Product; I = Investment; MS = Money Supply narrowly defined; Pop = Population; Time = Trend variable; Figures in brackets are F-ratios.

ding to one estimate, the capital-labour ratio has increased from Rs 3,185 in 1950-51 to Rs 8,542 in 1980-81; the index of this ratio has increased from 100.0 to 268.0 during the same period.[27] Similarly, while the average capital-output ratio has increased from 2.5 during 1950-54 to 4.2 during 1975-77, the incremental capital-output ratio has increased from 3.51 to 6.42 during the same period (see Table 5).

The second way of showing the wasteful use of capital in India is to study changes in its productivity and that of other factors of production. Brahmananda has estimated that the index of net output productivity of capital has declined from 100.0 in 1950-51 to 68 in 1980-81. Further, on the basis of his study of rates of growth in total factor quantity, net domestic product, and total factor productivity in the Indian economy as a whole and in its various sectors during the planning era, he has shown that " . . . the contribution of improvements in total factor productivity to sectoral growth seems to have become less and less as we move from the first decade to the third decade . . . both traditional and modern activities seem to be losing the productivity growth momentum. The most distressing finding is that . . . registered manufacturing and mining, the two sectors on which huge amounts of capital have been invested, indicate a negative contribution from total factor productivity growth."[28]

In order to clinch this issue, we have estimated the sectoral and aggregate output functions to study the contribution of capital formation to changes in output. They are reported in Table 6. Investment is shown, except in one equation, to be an insignificant or irrelevant determinant of output. It is the trend element which seems to explain variations in output in India. Incidentally, it may be noted that changes in money supply also are irrelevant in this context.

In short, investment activity in India has been taking place irrespective of changes in interest rates. The capital allocation and labour employment decisions do not seem to have been governed at all by the criterion of optimality for production, employment, etc.[29] The productivity of capital has been low in spite of a very young capital stock in the economy barring traditional industries. The present interest rate policy must share the blame for this state of affairs in our country,

The high and free rates of interest would contribute in bringing about a change in this picture. They would lead to an efficient diffusion of modern technology in the sense that the extent relative factor abundance would be taken into account when new techniques are adopted through increased investment. Interest rates have a role to play in promoting employment and appropriate technology by discouraging premature modernisation or mechanisation not only in the industrial but also in the agricultural sector. In this context, while the adverse effects of low interest rates in the industrial sector are well-received, their similar consequences in the agricultural sector tend to be overlooked. It is to be noted that just as there is a need to wean savers and investors in rural areas from assets such as gold, currency, etc, there is also a need to wean the farmers who are already well to do and also whose cash flows are improving as a result of the adoption of new seeds and fertiliser technology away from the mechanisation of agriculture which positively displaces hired labour exacerbating the problems of unemployment and underemployment, i e which increases the social cost. Now, higher interest rates on financial assets would help here because the farmers would then find high-yielding alternatives from outside their own enterprises.

The importance of the role of higher interest rates in allocating resources economically and using them more efficiently or productively can be guaged or appreciated from the changing attitude of the authorities in communist countries to the relevance of interest rate policy there. On the basis of his study of the working of monetary systems in these countries, Wilczynski has evidenced that in the beginning, interest rates were virtually ignored in these countries as a weapon of economic policy. Budgetary allocations of finance to enterprises were made without any charge and where interest rate was charged, it used to be very low. This led to extravagant demands for capital, widespread hoarding, and underutilisation and a wasteful neglect of capital assets. However, the adoption of the intensive growth strategy (as distinct from the extensive one) which heavily depends upon increases in productivity of capital forced these economies to make interest rate an indispensable instrument of sound economic management. Accordingly, in the early 1960s, they introduced capital charges on enterprises and appreciably increased interest rates on saving bank deposits, consumer credit, bank credit to enterprises, and foreign credits.[30]

### EFFICIENCY OF MONETARY CONTROL

From the point of view of the working of monetary policy, the case for the abandonment of the present system and the replacement of interest rates as targets/indicators and instruments in its place rests on the following theoretical, operational, ethical and other grounds.

The monetary authorities in India have been using bank credit, money supply, bank borrowings from the RBI, seasonal return flows of funds, the growth of resources of banks and their being in 'liquidity blind', etc, as targets/indicators of monetary policy. They have not been in a position to make a conscious and active use of interest rates as targets/indicators because of the policy of administered rates. This has been inconsistent with their theoretical belief with regard to the transmission mechanism of monetary policy,[31] and it has severely undermined the effectiveness of monetary policy in India.

It may be possible to discard the use of interest rates as targets/indicators and instruments of monetary policy if one believes in the exogeneity of money supply, and if the money supply is, in fact, exogeneous. The monetarists do not, for example, bother about interest rates because they hold that the Central Bank can, by itself, completely control changes in money supply. In India, both the conditions just mentioned are not fulfilled. The monetary authorities here do not believe, and rightly so, that in the conduct of monetary policy, money supply alone matters and they can fully control its variations. Further, our empirical study of the process of money supply determination during the period fo 1950-51 to 1979-80 has clearly shown that money supply in India is not at all exogeneous.[32] It has, therefore, been both logically inconsistent and wrong on the part of monetary authorities to have rendered interest rates useless as targets/indicators and instruments of monetary policy, and thereby paved the way for the inefficacy of their own policy.

Under the present system, while maintaining that it does not believe in the monetarist approach to monetary policy, in practice, the RBI perforce has been paying almost exclusive attention to money supply and bank credit as targets/indicators of monetary policy. There are reasons why this system ought to be changed if the monetary policy is to be more effective than it has been so far. Notwithstanding its importance in the Indian monetary system, the concentration of efforts to regulate mainly the bank credit has unnecessarily narrowed the ambit of monetary policy: The technique of discretionary quantitative ceilings has further narrowed down this scope because these ceilings are applicable only to certain types of bank credit to the private sector; they exclude bank credit provided for public food procurement, fertilisers and exports credit, and the credit for all purposes by banks other than scheduled commercial banks. Under the alternative system, the policy would be more effective because changes in interest rates have a more general relevance and pervasive influence; and such changes when brought about through changes in the bank rate, open market operations, etc, would be accompanied by changes in other crucial intermediate variables such as money supply, size and composition of the government debt, etc.

Operationally, it is difficult to turn off and on the flows of bank credit (and money) instantaneously as a result of which there may be an undeterred growth of bank credit for sometime even after the tight money policy is announced. This is particularly so when the cash credit/overdraft system of bank credit characterises the monetary system predominantly. Under such circumstances, there is a need for more rapid and larger increases in interest rates for the effectiveness of monetary policy. If the interest rates are also held down artificially in these circumstances, the monetary policy is bound to be ineffective as it has happened in India.

Another operational reason for freeing interest rates is that, as opposed to the quantity of bank credit (and money supply), the information about them is instantaneously available, and it is far more accurate. They, therefore, serve as excellent indicators of goings-on in the monetary system. The effective conduct of monetary policy requires that the authorities receive information on various indicators on week to week basis but at present, banking data are available to the authorities in the final accurate form after quite a significant time-lag. It is well known that these data are substantially revised even after two years or more after their first publication. With the reaching out of bank branches and the working of other financial institutions in the remote areas and given the slow communication and information processing arrangements, it has become impossible to lay hands on the relevant information with the speed required. It is, therefore, necessary to use interest rates as targets/indicators of monetary policy and to free them if they are to perform this role accurately. The experienced central bankers even in the economy such as US have made a strong plea for making a judicious use of interest rates in the conduct of monetary policy because while they are easily and accurately available, there are a number of random forces and estimating errors present in most short-period adjusted data on money and credit; and there are few weeks, even months, in which the reported movements in monetary and credit aggregates are not primarily the result of statistical 'noise'.[33]

The question of monetary control through administered *versus* free interest rate system has engaged attention of the concerned people in UK since long. A careful study of the debate on this issue in that country of the mother of central banking brings out a consensus against the system of discretionary regulation of interest rates and credit ceilings. In 1950s, the Radcliffe Committee was of the opinion that in normal circumstances credit rationing should be avoided because it is subject to substantial slippages, and it would lead to the loss of efficiency in the capital market. Recently, a number of authors[34] have argued against such a system because it is a conspicuous but uncertain way of reducing aggregate effective demand; it reduces the scope of monetary control; it does not guarantee that the rationed out units are the ones which are the least productive; and it is always likely that rationed out units would find their way around loan ceilings. It should be emphasised here with full force that the Bank of England also has always been against such a system. In its testimony to the Radcliffe Committee, it had made clear its distaste for and disinclination against the use of such a system, and it has maintained this position since then. The following quotation from the then Governor of the Bank of England ought to persuade Indian monetary authorities to review their policy of administered interest rates:

> " . . . quantitative restrictions should be used only when severe restraint is necessary. We are far from happy that we have had to use them so severely and so long not only because of their inherent disadvantages but also because of the strain which their prolonged use places upon the very happy co-operative as distinct from legalistic relationship which exists between Central Bank and commercial banks. It is not an economical and efficient system in which one side is continually looking for loopholes in the control and the other side continually trying to plug them. For all that, the longer ceiling restrictions are in force, the greater the strain on the system."[35]

The foregoing discussion should also show that the argument in support of the present system that it improves the predictability of the response of banks and other components of financial markets in respect of volume and terms of finance supplied by them in the event of changes in Central Bank policy does not stand scrutiny. As far as only interest rates are concerned, although it is true that they surely change when monetary policy is changed (because such changes do not depend upon indirect response-mechanism but are directly effected through fiat), the effectiveness of monetary policy is not increased because the stipulated interest rates do not adequately reflect changes/differences in relevant economic and other determinants of interest rates; and, in addition, changes in interest rates are accompanied by discretionary directives about credit disbursements which also, as shown earlier, are often determined by extra-economic considerations. If interest rates are freed and an active use of more than one technique of monetary control is made, the effect of changes in monetary policy would be greater because it would spread to the entire economic system.

It may be argued that although this is theoretically true, are there reasons to believe that the suggested mechanism of monetary control would actually work in India in this manner? There are two parts of this mechanism, the effect of changes in monetary policy instruments on market interest rates and other intermediate variables; and the effect of the latter on real variables or economic activity. Would both of these effects actually occur in Indian conditions? How widespread would they be? Would they not remain confined to the small segment of the monetary system, say the organised sector?

These are undoubtedly weighty issues and the strength of the case for the system of free interest rates depends upon their appropriate resolution. However, a number of considerations and much evidence in this regard do point towards a great potential for the success of an alternative monetary policy at the present stage of development of the Indian monetary system. We have accumulated considerable experience in the use of bank rate technique, and we do not have evidence to show that market rates would not respond to its changes if they are as bold and frequent as necessary. The government securities market in India has become quite well-developed in terms of its size, diversity of maturity structure, etc, and the Central Bank possesses enough legal powers to operate in this market. The stock of Treasury bills also happens to be significantly large. The potential for the effective conduct of OMO also, therefore, does exist provided the objectives of debt management policy are changed which, as it will be shown shortly, is quite possible. The experience in the recent past few years of the use of Cash Reserve Ratio (CRR) technique has shown that it can be an effective tool of monetary policy. In short, unlike in the past when the RBI has tended to rely very heavily on any one technique of monetary control in a given period, if more than one technique is harnessed in a well co-ordinated manner, the RBI would be in a position to influence the behaviour of intermediate variables such as market rates of interest, money supply, bank reserves, central bank refinance, etc.

Similarly, our study of the behaviour of different variables related to the aggregate effective demand has demonstrated that there is potential for transmitting the effect of monetary policy changes to economic activity also. We have already stated earlier that if the investment has not been restricted so far by changes in interest rates, it has been so because of the low level of the latter. Consumption and saving have been found to be responsive to changes in interest rates. It is often feared that the expenditure of the public sector is not responsive to monetary management. That this fear is exaggerated is indicated by the discovered negative, although statistically insignificant, relationship between interest rates on the one hand, and government consumption expenditure and government borrowings on the other. Further, the demand by public sector enterprises to help them to reduce their debt/equity ratios, and the recent action by certain public sector trading corporations, *viz*, Cotton Corporation of India to reduce inventories because *inter alia* mounting interest costs have increased their operating losses certainly reflect the possibility of responsiveness of even public sector spending decisions to monetary variables.[36]

Let it be emphasised that since the Indian monetary system has become fairly well-matured and well-integrated,[37] the spread effects of the bold monetary policy changes are now going to be really wide and quick. This is true of both the 'organised' and 'unorganised' sectors. In fact, it is not really meaningful at this stage of the development of Indian economy to talk of the dichotomy of the 'organised' and 'unorganised' sectors of the money market; this traditional bugbear of Indian monetary policy is now only of a historical value. The constituents of the so-called 'unorganised' sector namely, agriculture, small scale and cottage industries, other rural activities, retail trade, etc, have now become quite well-linked with the 'organised' sector through the spread of commercial and co-operative banking, operations of special financial institutions such as SFCs, SIICs/SIDCs, etc, creation of industrial estates, growth of agricultural marketing organisations such as FCI, CCI, State Marketing Federations, Monopoly Cotton Procurement, etc.

In summary, the alternative system proposed here would make monetary management in India more effective and efficient because the decisions at all different stages of the transmission process have now become amenable to the influence of policy changes.

### EFFICIENCY AND EQUITY IN GOVERNMENT FINANCES

Two major motivations for administering interest rates have been to ensure cheap availability of funds to the government, and to the 'priority sectors' and 'economically weaker and small' borrowers. The ideological form of the latter has been to state that the present system helps in bringing about equality and social justice. We deal with these aspects in this and the following sections.

The provision of cheap finance to the government is a totally unjustifiable argument for the continuation of the present system. To ensure availability of cheap credit to the government or to any borrower for that matter cannot be made the central objective or function of the Central banking policy. Further, the objective of debt raising activity of the government has to be to increase employment and output with stable prices and not to obtain command over resources at cheap cost irrespective of the consequences of such a policy. Since it is by now well-established that government finances in general and debt management in particular have been the important sources of instability in the economy, and conflict with the working of monetary policy, it would be wise if the goal of holding down interest cost is not allowed to take a precedence over the other goals mentioned above. An additional reason for doing this is that the government with socialistic persuasion should not exploit its monopolistic or statutory position to appropriate, as it now does, large amount of funds at an unnaturally low cost.

Once interest rates on public debt are competitively raised, given its other investment characteristics such as safety, liquidity, etc, the government would be able to raise the major part of its financial requirements without compulsion. There would also be an increase in efficiency not only within the public sector but also in the economy as a whole because of chain effects of such a measure. The resultant increase in the debt-servicing burden should not frighten and, therefore, dissuade the government from doing this because since government debt is held mainly by government institutions, it would mean only an accounting change. Further, the government is in a position to meet this burden from borrowing ever more from the public without facing the risk of bankruptcy. But in the process, the higher rates would compel a more economical and efficient use of resources, and would also have a higher income effect.

### PRIORITY SECTORS' NEEDS

The provision of finance to priority sector borrowers is a sensitive and ticklish problem. There is no doubt that the interests of these essential but disadvantaged economic units ought to be served well by the financial system. But are higher interest rates really unsuitable for and against the interests of these borrowers? Has their disadvantage consisted in cost or availability of credit? Do they have capacity to pay higher interest rates? A dispassionate and non-ideological review of these issues would lead one to conclude that the case for higher interest rates is defensible even in this respect.

It appears to us that banks and financial institutions had been guilty of not making adequate credit available to these units rather than of charging higher interest rates to them. The objective of increasing the availability of funds to them, therefore, has been right. But, as pointed out earlier, there is really no need to adopt the measure of prescribing quantitative credit ceilings and targets to do this. The existing legal framework, moral suasion, and the minimum of directives can achieve this. This increased flow of credit, however, should be made at appropriate and not subsidised rates of interest. The higher interest rates themselves would augment the supply of funds to these borrowers *via* increase in the resources of the financial system and greater willingness of banks, etc, to lend to them. The experience in Indonesia of increasing interest rates during 1960s and 1970s has been that it led to an increase in the resources of banks which, in turn, led to their search for borrowers in the small-scale, trading, and other sectors.[38]

As to the capacity of these borrowers, the rates in the 'unorganised' sector admittedly do not reflect such capacity; they have been certainly exploitative, but is there really a need to go to the other extreme and supply funds at excessively subsidised rates? We deem such a policy to be unnecessary and unwise. It is to be noted that the capacity to pay higher rates is to be decided with reference to the rate of return not on current methods of production and cultivation but on the improved ones. Just as the high rates in the 'unorganised' sector have resulted in low investment because no worthwhile project can be implemented at such a high cost of credit,[39] the deleterious effects of low rates in the form of unproductive use of funds, encouragement of inappropriate and conspicuous technology, etc, also should not be overlooked. The best policy would be to charge interest rates between the exorbitant rates in the 'unorganised' sector and currently prevailing highly subsidised rates on institutional credit.

There are also very crucial practical considerations for abandoning the present system. Firstly, the cheap credit is being appropriated on a large scale by the untargeted groups of borrowers because of the existence of various loopholes in the system, corruption, imprecise nature of definition of small-scale units, bogus registration of small units, creation of captive small units by large units, ingenuity and influence of big units and rich farmers to obtain benefits not meant for them, etc. Secondly, in spite of the low official rates, the effective or implicit cost of credit to these borrowers in many cases actually works out to be very high indeed because they have to make underhand payments to obtain loans and the prices of goods to be purchased with sanctioned credit are 'marked up' to benefit certain functionaries and vested interests.

### INCOME DISTRIBUTION AND SOCIAL JUSTICE

This is a far more complex and wider issue but we cannot completely slur over it because the administered system of interest rates has been prominently projected as one of the means of delivering social justice. While, the discussion in the previous section (6) partly serves to indicate the weakness of this argument, the other major points are briefly discussed below.

The interest rates policy is hardly the right policy for tackling the problem of income distribution. The government budgetary policy would prove more potent in this context. Even in its supplementary role, it is the higher rather than lower interest rates which would serve the objective of income distribution better. The higher interest rates on bank deposits, small savings, provident funds, etc, would directly benefit the lower and middle income groups. In the ultimate analysis, these groups are 'surplus-spending units' to a greater extent than 'deficit-spending units' as a result of which their position is bettered more by the higher interest rates on financial savings than by the lower lending rates.

To the extent that the higher interest rates would encourage the adoption of labour intensive techniques, and since the elasticity of substitution of labour for capital is most likely to be high in developing countries, the higher interest rates policy would serve the cause of social justice better *via* the greater employment generation and consequent increase in the share of wages in national income. Moreover, to the extent that such a policy would be instrumental in curbing inflation, the lower and fixed income groups would be benefited.

The Indian economy is characterised by a plethora of price and distribution controls, the systems of industrial and import licensing, etc. These institutional arrangements have been very much loaded in favour of the well-to-do, well-connected, and the elite. Now, the possession of a licence, a quota, a permit, opens the doors of banks and financial institutions. Therefore, it is the already rich and economically powerful people who benefit from the lower interest rates. Under the present set-up, they reap double benefits—they appropriate high yielding investment opportunities, many of which are of speculative character, and they are also in a position to appropriate directly or indirectly cheap credit to finance those opportunities. In the inflationary situation, their gains have multiplied because they have benefited both as debtors and investors. In contradistinction, the poor, the low, and the middle income people have been impoverished both because of the decline in their purchasing power and low and fixed interest rates on the media of savings which are within their reach and which they prefer to hold. Thus, the case for the higher interest rates is strong from the point of view of social justice also.

## IV

## The Experiences of Other Countries

The adoption of the policy of low and controlled interest rates appears to be quite common in other countries also. Such a policy has existed in US, UK, Japan, Australia, New Zealand, South Africa, Malaysia, Indonesia, South Korea, Taiwan, and Latin American countries in one period or other and in one part of the financial system or other. It has taken its extreme form in the communist nations. In the non-communist world, however, the controls in India have been probably much more pervasive and direct than in other countries. The knowledge of experiences in these countries, despite the limitations to which inter-country comparisons are subject, would definitely prove instructive in formulating appropriate policy in this regard. We have, therefore, already referred to some of these experiences at the relevant junctures. Some of the other major lessons which emerge from the study of these experiences are briefly discussed below.

There does not appear to be any fixed—either positive or negative—correlation between the system of interest rates and the performance of the economy with regard to saving, investment, price stability, and growth. While South Korea and Taiwan have achieved quite good results with the flexible and high interest policy, Malaysia and Singapore performed well with the low interest rate strategy.[40] Similarly, Japan has performed exceptionally well although it has been pursuing the low interest rates policy.[41] In the Commonwealth, New Zealand, Australia and UK with controls have probably done as well as the free system of Canada.[42]

But there has been unmistakably a high degree of dissatisfaction with the working of the administered rates system wherever it has been practised. Except in Japan, the good performance in such systems mentioned above has not been good enough when compared to the potential which existed in those economies. Therefore, they have either abandoned or considerably modified the administered interest rates system. The changes in the philosophy and policy in this regard which have occurred in the socialistic countries have already been referred to. Among the non-communist world, the US abandoned the policy of supporting the government borrowing operations at fixed interest rates in 1951 through the Treasury-Federal Reserve Accord in that year; and there has been a widespread criticism of the Regulation Q in that country. Similarly, the policy of interest rates cartel, and ceilings on bank credit in UK has been under severe criticism (the dissatisfaction with it of the Bank of England itself has been shown earlier), and it was finally discontinued in 1971 under what has come to be known as the 'new approach' to monetary management propounded by the Bank of England in its document 'Competition and Credit Control'.

Japan could achieve excellent results in spite of low interest rates because of higher saving ratio and higher productivity which, in turn, were mainly due to socio-economic forces, absence of deficit financing, etc.[43] What is, however, to be noted is that the Bank of Japan has been in favour of abandoning the administered rates system although it has not been able to do so because of government opposition to it on the basis of considerations which can easily be expected to have had a 'political' content. It has been pointed out by Patrick that the Bank of Japan preferred to have a more flexible market-determined interest rates structure, which would have resulted in raising of interest rates to a higher level than in the past. But the government insisted upon a policy of relatively low rates in order to maintain cost of exports low and to develop the long-term capital market. In spite of overall good results, such a policy has been regarded as highly misguided one because it has actually led to worsening of the balance of payments and the need for progressively tighter monetary policy during the post-war years.[44]

Among the Commonwealth countries, in New Zealand, the system is shown to have inexorably led to an increasingly complex and pervasive constraints on the financial system, and to a stifling of competition as a result of which the country suffered from the ineffective and heavily lagged responsiveness to real needs, and from the failure to curb effective demand. The situation in Australia was more or less similar till 1963-64 when the system was liberalised in the sense that interest rates were raised to a much more appropriate level and a greater use of OMO was resorted to. On the basis of a comparative study of the economies of New Zealand, Australia, South Africa and Canada, it has been recommended that New Zealand and Australia should emulate the example of Canada and eliminate the use of direct controls on interest rates.[45]

The Latin American countries also have found that ceilings on interest rates, etc, became more and more repressive in an inflationary period; inflation required upward movement of the ceiling rate but the administratively determined increases in rates proved to be ad hoc and inadequate. The indexation of interest rates did not help for a variety of reasons. Therefore, many countries opted for the strategy of free interest rates at one point of time or the other. For example, while Uruguay and Nicaragua freed the rates in 1976, Argentina, Brazil, and Chile did so during 1967-76.[46]

## V

## Summary and Conclusions

We have discussed in this study the evolution of the system of low and administratively fixed interest rates and the discretionary ceilings of credit allocation, the alleged justification for the adoption of such a system, and its effects on the behaviour of interest rates, the working of monetary control, and the economic activity in India. We have shown that this system has been harmful and, therefore, it should be replaced by the alternative system of high and free interest rates with the dependence on more than one technique of monetary control used in a well co-ordinated manner. Such an alternative system would be very much conducive to increasing the rate of saving, efficiency of investment, efficiency of the financial system, efficiency of monetary control, and, as a result, efficiency of overall economic activity. The alleged justification that the vast needs of government finance, and the fulfilment of planning objectives such as meeting the financial requirements of the priority sectors and promoting equitable distribution of income require the present system of administered interest rates has been shown to be altogether unconvincing. The experiences of countries in the socialistic block, Commonwealth, Latin America, and Asia also support the case for the alternative system. There are no reasons why its adoption cannot be feasible in India.

### Notes

[This study has been prepared for the Committee to Review the Working of the Monetary System. The author is thankful to the Committee for giving him an opportunity for working on this topic. The views expressed herein are those of the author.]

1 Brahmananda, P R, "Interest Policy in India", S K Muranjan Memorial Lecture, mimeo, 1982; Mckinnon, R I, "Money and Capital in Economic Development", The Brookings Institution, Washington, 1973; Myrdal, Gunnar, "Asian Drama", Vol II and III, Appendix 5 and 8, Allen Lane, The Penguin Press, London, 1968; Shaw, E S, "Financial Deepening in Economic Development", Oxford University Press, 1973.

2 National Board for Prices and Incomes, 'Borrowing and Lending', in Johnson, H G (ed), "Readings in British Monetary Economics", Clarendon Press, Oxford, 1972.

3 Myrdal, G, op cit, pp 904-905.

4 Quoted by Myrdal, G, op cit, p 909.

5 The description by the RBI of its own policy in this respect is confusing. Sometimes it states that it stipulated the maximum rate, at other times it states that it stipulated the minimum rate on a deposit of a given maturity. See Reserve Bank of India, "Functions and Working", Bombay, 1983, pp 87-91.

6 For further discussion of this point and general features of the behaviour of interest rates in India, see, Bhole L M, "Financial Markets and Institutions", Tata McGraw-

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Hill Publishing Co, New Delhi, 1982, Chapter 20.

7 Homer, S, 'Factors Determining the Secular Trend of American Interest Rates', in Prochnow, H V, "The Five-Year Outlook for Interest Rates", Rand Mcnally and Co, Chicago, 1968.

8 Homer, S, op cit.

9 Hicks, J R, "Value and Capital", Oxford University Press, Oxford, 1939, p 262.

10 The period of 1933-50 happens to be the phase of lowest interest rates in India which could be due to the general depression and exigencies of war finance. In the case of the banks' advances rate, there is a statistical explanation also. During 1935-50, this rate has been represented by the bank rate which is not strictly comparable with the bank rate of the Imperial Bank before 1935, and SBI advances rate after 1950.

11 Goldsmith, R W, "The Financial Development of India, 1860-1977", Oxford University Press, Delhi, 1983.

12 See also, Bhole, L M, op cit, Chapter 20.

13 The real interest rates have been calculated as the nominal rate ± the three-year moving average of rates of change in wholesale prices (1913 = 100 for the period 1870-1946, and 1970-71 = 100 for the period 1949-83).

14 Reserve Bank of India, "Report on Currency and Finance, 1980-81", Vol I, p 106.

15 Reserve Bank of India, "Functions and Working", Bombay, 1983, pp 87-91.

16 Fry, M J, 'Money and Capital or Financial Deepening in Economic Developments?' in Coats, Jr, W L, and Khatkhate, D R (eds), "Money and Monetary Policy in Less Developed Countries", Pergamon Press, New York, 1980.

17 Galbis, V, 'Money, Investment and Growth in Latin America, 1961-73', *Economic Development and Cultural Change*, April 1979.

18 Some of the equations estimated by Fry are too simplistic to be taken seriously; some of the relationships estimated by him and Galbis are not really relevant in settling the controversy of high *versus* low interest rates, *viz*, hypotheses of complementarity between demand for money and investment, and the effect of inflation on economic growth; and notwithstanding elaborate specifications, the estimated equations by Galbis do not contain the interest rate variable which drastically reduces the utility of his study in this context.

19 This notation is followed in all regression results in this study.

20 Rao, V K R V, "India's National Income, 1950-80", Sage Publications, New Delhi, 1983, p 136.

21 We do not know what part of current account deposits arise out of created credit but, given the fact that these deposits are mainly held by the business and industrial account-holders, it may not be wrong to assume that they arise largely out of created credit.

22 For further discussion in this regard, see Bhole, L M, 'Retained Earnings, Dividends, and Share Prices of Indian Joint-Stock Companies', *Economic and Political Weekly*, Review of Management, August 1980.

23 It is sometimes argued that where banks are a predominant financial intermediary, interest rates ceilings are justifiable because the competitive bidding of interest rates would raise the cost for all banks without significantly improving their resource-position *vis-a-vis* each other. This is a very weak argument because it neglects the potential for the growth of other intermediaries and also the interests of savers.

24 Johnson, H G, 'Problems of Efficiency in Monetary Management', in Johnson, H G (ed), op cit.

25 Bhole, L M, "Responsiveness of Investment and Other Expenditures to Changes in Techniques of Monetary Control", Research Project Report submitted to the Indian Council of Social Science Research, New Delhi, July 1983.

26 The period of study for the public sector was 1960-61 to 1977-78.

27 Brahmananda, P R, "Productivity in the Indian Economy", Himalaya Publishing House, Bombay, 1982, p 213.

28 Brahmananda, P R, op cit, p 125, and p 143.

29 Brahmananda, P R, op cit, p 215.

30 Wilczynski, J "Comparative Monetary Economics", Macmillan, London, 1978, pp 130-133.

31 For a discussion on the theory of monetary policy in India, see, Bhole L M, Research Project Report, op cit, Chapter 2.

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## Roche Products

ROCHE PRODUCTS is going ahead with modernisation of both its plants at a cost of about Rs three crore. Meanwhile, the company's production of vitamin A has been affected due to shortage of raw materials. The overall sales in the current year have been about 10 per cent higher compared to the corresponding period last year, according to R Setlur, Chairman. The company has obtained a price increase in vitamin A, but its applications for increases in prices of formulations are still pending with the government. Setlur told shareholders at the first annual general meeting after dilution of foreign equity that price fixation continued to be the most difficult problem facing the company and the industry. The subject had been considered at length by the Working Group and Steering Committee of the Pharmaceutical Development Council and the government was presently seized of the problem. There seemed to be a general concensus that the price control should be at a minimum level. He hoped in the new regulations steps would be taken to ensure automatic revision of prices necessitated by increases in input costs.

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NEW TEXTILE POLICY: END OF HANDLOOMS

'RESURGENT DEMOCRACY' IN LATIN AMERICA

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WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol XX No 27 July 6, 1985

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# Sabotaging Relief for Bhopal Victims

FIRST the medical establishment with its ostrich-like attitude, inane arguments and general insensitivity and now the Madhya Pradesh government using its muscle arm, the police, appear determined to stall and sabotage all efforts to provide medical relief and detoxification measures to the gas victims in Bhopal. The latest move towards achieving this objective has been the arrest and illtreatment of several activists and doctors in Bhopal and the closure of the Jan Swasthya Kendra (People's Health Clinic) which had been set up jointly by three voluntary groups, the Zaherili Gaskand Sangarsh Morcha, the Citizens' Relief and Rehabilitation Committee, and the Trade Union Relief Fund. On the night of June 24 all the doctors and several Morcha activists were picked up under preventive detention laws, harassed, manhandled, threatened, abused and locked up in a dirty cell. While some of the doctors were released the following day others were detained on a variety of charges for a longer period. Some of the Morcha activists were rearrested during the massive demonstration by the gas victims in front of the state legislature on June 25, demanding relief. The same day the Jan Swasthya Kendra was seized and activists were barred from entering the premises. The clinic now appears to have been handed over to the Union Carbide authorities, though the doctors have been released.

The clinic was inaugurated on June 3 on unused Union Carbide land forcibly occupied by a group of agitators and gas victims with the support of eminent citizens such as J Swaminathan and B V Karanth. A make-shift tin structure was constructed and the main focus of the clinic's activities has been the administration of sodium thiosulphate as per the recommendations of the Indian Council of Medical Research (ICMR). The clinic has also kept accurate and reliable records which have conclusively shown the drastic improvement achieved because of sodium thiosulphate detoxification. The clinic was run by a relay of doctors deputed from voluntary and activists groups from different parts of the country. For instance, one Bombay doctor had volunteered his services for two months and the Drug Action Forum, Calcutta, and the West Bengal Junior Doctors' Association had been sending groups of doctors in relays and doctors from BHU and medical colleges in New Delhi had also been helping out at considerable cost to themselves in terms of career and service problems.

According to one report, over 600 gas victims had received NaTS (sodium thiosulphate) injections in the first ten days. Most of those who had received the complete course of six NaTS injections had reported relief from persistent bodyache, sleeplessness, lack of appetite and also breathlessness. The only other centre administering NaTS is the government-run 30-bed hospital and medical centre at the DIG Bungalow near the Union Carbide factory. But the number of patients who are being administered the injection remains at a pilot project level which is marginal. Hence the closure of the People's Health Clinic will now mean that hundreds of those who had only received a part of the full course of injections will have to run from pillar to post to obtain the rest.

According to medical surveys conducted in Bhopal there are thousands of gas victims who need to receive NaTS. In these circumstances the state government's action of intimidating and arresting doctors and closing down the clinic deserves to be severely criticised. Even worse, the police have seized medical records which are not only of value in proving conclusively the efficacy of NaTS but are very important to the further treatment of the patients.

These measures have already aroused the anger of many civil liberties groups and health and science groups. The Medico Friends Circle has sent telegrams of protest to the prime minister and the MP chief minister and to the ICMR. Other groups have issued statements strongly condemning the action and demanding the return of the clinic to the groups concerned with all records intact.

The clinic needs to be urgently reopened. This would also mean that the state government and the police should stop harassment and intimidation of doctors many of whom are from outside Bhopal. One hopes that these actions which directly interfere with the process of delivering medical services as per the recommendations of a national council of research, will motivate the doctors' organisations to register protest. It would be a great pity if these measures by the government are allowed to succeed in intimidating and preventing doctors from coming to Bhopal where their services are badly needed.

## *Punjab*

### Faint Thaw

THE government claims to have made a number of 'concessions' to the Sikhs recently. Among these is the decision to release Sikh detenus against whom there are no serious charges and to review the detention of those below 20 years of age. It is questionable to what extent these steps—like the earlier belated decision to order a judicial enquiry into the massacre of Sikhs after Indira Gandhi's assassination—can be regarded as concessions at all. On the contrary, it would be quite legitimate to see them as bearing out the charge of the government's critics that there had been large-scale indiscriminate arrest, ill-treatment and detention of Sikh young men, including teenagers, in the army's and the Punjab administration's anti-terrorist operations. The Punjab Governor himself acknowledged in early June that acts of terrorism in Punjab were linked to the Sikh youth's sense of "alienation, anxiety and hurt" and advised local officials to avoid harassment of "innocent Sikhs".

What is, however, significant in recent developments in Punjab is that the Akali Dal leaders have desisted from dismissing out of hand the 'concessions' offered by the government. One can detect in this signs of an important change in the approach of the Akali Dal leadership under Harchand Singh Longowal. Longowal appears to have decided to give up being on the defensive in the face of the challenge from the ostensibly more 'radical' group led by the late Bhindranwale's father, Joginder Singh. Instead he seems to be proceeding increasingly on the premise that, despite the bitterness and even hostility among Sikhs in Punjab over the government's actions since Operation Bluestar, support for terrorism and terrorists is still very limited and that there would be popular support for efforts towards a political settlement through talks with the government. For the Akali Dal's political fortunes as well, the Longowal leadership seems to have concluded, if it was not to face recurrent challenges from so-called radical elements, such as the Joginder Singh group, it was best to work as speedily as possible towards a political settlement. Till recently the Longowal group appeared to fall between the two stools of being basically committed to a negotiated political solution and at the same time feeling compelled to engage in a competition for radicalism to ward off challenges from elements within the Akali Dal and outside which struck seemingly radical and uncompromising postures. This had led Longowal, immediately after his release from detention, to make the near-fatal error of joining in the lionising of the late Bhindranwale.

It is possible, at the same time, to discern some change in the government's attitude. This change is to be seen not so much in the so-called 'concessions' announced recently but in some signs of rethinking on the tactics, followed unremittingly hitherto, of seeking to erode popular support for the Akali Dal by encouraging challenges to the Akali leadership from more radical quarters. Initially the government appeared to be pursuing the same tactics in its attitude to the most recent emergence of the Joginder Singh group, but there seems to be a change of late. It may not be entirely wishful to suggest that the Congress leadership is beginning to realise that the building up of extremist elements among the Sikhs (such as Bhindranwale or Joginder Singh) in pursuit of the policy of weakening the Akali Dal, quite apart from its disastrous larger consequences for Punjab and the country as a whole, has not served the interests of the Congress(I) in terms of winning over to its side the Sikhs who may be disenchanted with the Akali Dal.

While signs are thus more propitious for some movement towards a political solution than they have ever been as long as the government was bent upon pulling down the Akali Dal by playing the extremist card against it, both the Akali Dal and the government carry a heavy burden of the events of the recent past. Given what the Sikhs have had to endure in Punjab and outside in the last one year, the Akali Dal, despite its leadership's apparent resolve to take the extremist bull by the horns, cannot afford to be seen to go too far in its eagerness to enter into negotiations with the government without some evidence of intent on the government's part to consider its demands seriously. On the side of the government, considering what a crucial role the Congress(I)'s anti-Akali and anti-Sikh propaganda played in winning Hindu votes for the party throughout northern India in the last Lok Sabha and Assembly elections, the party leadership is bound to calculate carefully the likely political costs of entering into negotiations with the Akali Dal—which in the Congress(I) leadership's election propaganda just a few months ago had been portrayed as representing the worst type of communal and extremist threat to the country's integrity and security.

## *World Economy*

### Another Recession?

A FLASH estimate by the US Commerce Department suggests that the US economy grew at a real annual rate of 3.1 per cent in the second quarter of 1985. The Commerce Department has at the same time announced a revision of the first quarter figure from 0.7 per cent annual rate to 0.3 per cent.

The news that the US economy has picked up growth has been greeted with much relief by the US Administration as well as by other countries. After achieving an exceptional growth of 6.8 per cent in 1984, it was feared that the US economy might be heading for a recession, as its burgeoning trade deficit siphons off the stimulus to the rest of the world. There are widespread fears that as the US economy slows down, the US Administration will find it increasingly difficult to resist protectionist pressures.

On the announcement of the flash estimate for second quarter, the US Commerce Secretary said that "the worst of the slowdown is probably behind us ... We should be back on a higher growth path by summer's end." It is not clear, however, that one can say confidently that growth in the US economy has picked up. The 'flash' estimate is based on very partial data, and is subject to significant revisions; many analysts believe that it will be revised downwards. The second quarter figure seems to have been boosted by the surge in consumer spending, as a result of late repayment of tax refunds.

Even if the second quarter growth rate were to be near the 'flash' estimate, the US economy would have to grow at an annual rate of over 6 per cent during the second half for growth in 1985 as a whole to reach the US Administration's forecast of 4 per cent. The recent decline in the value of the dollar and the fall in interest rates have created a more favourable climate for US growth. However, the basic situation remains fragile, as both the value of the dollar and interest rates show tendencies of firming up as soon as US growth revives. It is also not clear that the US can recoup its lost competitiveness in manufactured goods quickly enough, even if the dollar were to depreciate. US manufacturing output has remained stagnant since about mid-1984 and corporate profits have been under a squeeze. Many observers believe that US growth will fall below an annual rate of 3 per cent in the second half of 1985.

The pace of US economic growth has become quite critical to the rest of the industrial countries—and, for that matter, to the rest of the world—as it is the US economy which provided much of the stimulus for the recovery in the past couple of years from the deepest and longest recession in the post-war period. It is estimated that the US has accounted for just over 70 per cent of the increase in aggregate demand in the whole OECD area in 1983 and 1984, against its weight in output of some 40 per cent. Japan and Canada have relied on the US boom for increased exports; and many developing country debtors have managed to stay viable only because of increased exports to the US market. A marked slowdown in US growth—and contraction in its trade deficit—could mean another major recession in the world, unless the other industrial countries undertake a compensatory expansion. But there is little evidence that they will.

## *Politics*

### The Other Terrorism

THE Indian people are justifiably having a feeling of utter revulsion, which is shared by other nations, over the mindless, brutal terrorism which appears, from various indications available so far, to be responsible for the plunging of the Air India liner with 329 persons on board in the Atlantic Ocean. Earlier, the setting up of booby traps in the form of the so-called transistor bombs in and around Delhi had also caused a similar wave of horror in this country and had prompted the Government of India to enact an extremely stringent and harsh law for the suppression of terrorism. Yet a different kind of endemic terrorism seems to be provoking very little reaction—either from the powers that be or from the enlightened public opinion.

About a month ago, *Telegraph*, Calcutta, had on May 26 carried a full page investigative report with photographic illustrations about this different kind of "sheer terror of the state". It wrote:

> In village after village, near as well as remote from urban centres, in the western, central and eastern UP, the revelation is the same: the people of India live in stark, palpable terror of the state that is supposed to serve them. They are so utterly scared of the policemen and the administrator that when they see a jeep or a car approaching they hide in the field.

The report then goes on to narrate a number of specific cases in a number of UP districts in which people, certified by common consent in most instances as "harmless and decent" men, were openly grabbed by the police right in the presence of other villagers, then removed to another place a few kilometres away and shot out of hand. The police then officially recorded these murders as "encounters with dacoits and criminals". The report cites in this connection the following cases of murders by the police in recent months:

(i) of Brijmohan Passi, Chandrika and Chirchiri who were seized by the police from Sadupur Mahariya in the Sitapur district on April 16;
(ii) of Lore from the Bharatpur village of the same district on March 13;
(iii) of Chhabinath Singh of Jangaon, seized from the Puja Hotel in Hardoi town on February 12;
(iv) of Ram Dass of the village Makhdoom in Mathura district on March 25;
(v) of Balbeer, Gyan Singh and Gandhi Babu of the village Budhera in Agra district on March 28.

The report then concludes:

> Everywhere we go, the police version is the same—the police party was passing through such and such village, happened to encounter a gang of dacoits and in the cross-fire so-and-so was killed. But everywhere there are enough witnesses to prove that the police picked up 'so-and-so' at one place, and murdered him in premeditated fashion at another.

The reporter's probe revealed that in most cases, either the unsatisfied demand by the policemen for illegal gratification or instigation by the powerful patrons of the policemen among the ruling party was responsible for the elimination of the helpless victims.

These lawless murders take place, not in the hills and jungles of some peripheral areas, but in the heart of the heartland of the 'world's largest democracy'. In the month that has passed since the publication of the full-page report, it does not seem to have made the slightest impression on the government.

The recently enacted anti-terrorist law is applicable to attempts "to strike terror in the people or to alienate any section of the people". The law also provides that "persons in the service of the government" will come under the purview of the Act. The involvement of the government servants, ie, policemen, in these crimes has been noted above. About alienating the people, the *Telegraph* report says:

> The villagers expect nothing better from the government. 'What have we got to do with the *sarkar*, only *dalals* (informers) and criminals keep in touch with it', we are told at one village. At another, we learn about the true extent of alienation.

Yet the government is unmoved! Should we still expect that the heavy anti-terrorist guns of the government are designed to shoot one way only?

## *West Asia*

### Limits of US Power

THE 39 US hostages held by the Lebanese Shii hijackers of the TWA flight were released on June 30. The seventeen days for which the hostages were detained exposed the limitations of US power. The US is now trying to retrieve lost ground by trying to bring about a boycott of Beirut airport by international airlines and by threatening to withdraw landing rights in the US of airlines which defy the US boycott of Beirut. The US Administration has also declared that none of the hijackers would go 'scot-free'.

For seventeen days, however, the US was shown to be powerless and was left with no option but to respond as the hijackers wanted. The show of military power and ordering of the ships of the Sixth Fleet to close in on Lebanon proved ineffective since the hijackers knew that the US was in no position to launch a military raid on Beirut. In the event of such a move, the Amal leadership which acted as mediator threatened to pull out and withdraw the assurance of the safety of the hostages. Eventually, President Reagan had to concede that the US policy of "swift and effective retribution" had been stymied. Even in the US, public opinion was directed not so much against the hijackers as at the unhelpful attitude of Israel.

The hijacking was linked to the 766 Lebanese prisoners taken to Israel in April by the Israeli forces withdrawing from Lebanon. Drawing a parallel between the two actions, the Lebanese Amal leader, Nabih Berri, said "when a few dozen [hostages] are held, the world is turned upside down. When hundreds of our sons are arrested it is nothing." The hijacking also put US-Israeli relations under strain, though for a short while. Israel struck a posture of regarding the hijacking as purely an American affair and of insisting on a public request by the US before it would release the Lebanese prisoners held by it. Finally, the US had to request the Red Cross and Syria to intervene on its behalf. Announcing the release of the US hostages, the Amal leadership claimed that it had "guarantees from Syria and President Hafez Assad" for the release of the Lebanese prisoners.

The hostage crisis in Beirut has raised questions about the universality of international laws. The hijacking in itself was illegal, but what means do small countries like Lebanon have to counter the illegal acts of a military power such as Israel? Had not the US hostages been taken would it have been possible to compel Israel to release the Lebanese prisoners? And what about the United States' own publicly acknowledged

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efforts to overthrow the lawful government of Nicaragua by arming and financing terrorists and saboteurs?

The US demand for an international boycott of Beirut airport is partly also a response to the fact that even traditionally pro-US groups in Lebanon such as the Falangists have recently drawn closer to Syria which has indeed emerged as the dominant outside power in Lebanon, despite the military superiority of Israel. The US action puts pressure on different Lebanese groups and creates strains among them. There has been fighting between Druzes and Shiis in Beirut over control of Beirut airport and many Lebanese groups, while criticising the US boycott, have called for improving security around the airport to minimise the possibility of hijacking.

## *Philippines*

### Marcos's Growing Desperation

**BY declaring to a Paris-based TV team his intention to call in foreign, obviously US, troops to contain any threatened sweep of the communist-led armed struggles, President Ferdinand Marcos of the Philippines hardly blurted out a closely-guarded secret. This statement only serves to reveal his sense of desperation over the growth of the militant challenge to his oppressive regime.**

**Marcos's concern is not difficult to understand. The communist-led guerilla force, the National People's Army (NPA) is fast forging ahead. Its strength of armed fighters is reported to have gone up by 50 per cent from 20,000 in end-December 1983 to 30,000 in the beginning of 1985, spread out in 59 out of the 79 provinces of the Philippines.**

**Caught in the turmoil arising from the increasing polarisation of the nation between Marcos and his military backers on the one hand and the steadily growing strength of the militant armed opposition on the other, various intermediate Filipino forces are today engaged in manoeuvring for vantage positions in the country's power struggle. The political spectrum in-between the two extreme points represented by Marcos and the NPA is constituted by three broad alliances: At the Right end and the National Alliance Council (NAC) is a rallying point of conservative politicians who would retain their links with the USA while seeking the ouster of Marcos; next comes the Convener Group (CG) formed in November 1984 by Corazon Aquino, the widow of the murdered Opposition leader, Benigno Aquino, and some other liberal and business leaders. The CG is committed to electoral battles against Marcos only, though its platform includes the demand for the dismantling of the US bases on Filipino soil and demolition of the repressive state structure. Farthest to the Left within the intermediate spectrum stands the newly formed New National Alliance (NNA) headed by, among others, the former Senator Jose Diokno, a veteran fighter for democracy and national independence. The NNA calls for strengthening the "unity of the people, more than just politicians".**

**With the increasing signs of nervousness among the Filipino ruling circles and their US backers in the wake of the steady advance of the armed guerillas, the intermediate forces are now getting drawn into a feverish race for sucuring vantage points *vis-a-vis* the others. Marcos's open threat of inviting the foreign troops may add sharpness to this competitive struggle.**

## BUSINESS

# Oilseeds and Oils Economy Adrift

THE emerging scenario covering various facets of the oilseeds economy provides an interesting study and it raises issues which are well worth pondering over. Oilseeds and oil prices are appreciably lower than a year ago. While the government deemed it necessary to adopt measures to impart stability to the market, it never bothered to prune edible oil imports which are being maintained at a record high level.

The solvent extraction industry has been operating at less than half of its installed capacity and the incidence of sickness has been on the increase. Even so, new units have been coming up rather rapidly, more particularly in the co-operative sector or under the auspices of government agencies.

Exports of de-oiled meal have been on the decline—only soybean meal has been faring well—but no serious effort has been made to step up domestic demand which could offset the decline in exports with the result that the production of de-oiled meal and consequently the availability of solvent extracted oils have been adversely affected.

The vanaspati industry is fed with massive quantities of solvent extracted oils from abroad—imported oils are all solvent extracted—but the use of indigenous solvent extracted oils is banned. Only very recently, the industry has been permitted to use solvent extracted mustard oil the supply of which is very limited as there is little demand for mustard/rapeseed extractions.

Totally unconcerned about the foreign exchange implications of continued dependence on imported oils, the vanaspati industry keeps pleading for assured supply of imported oils and that too on the basis of output in the penultimate month. The industry is known for its ingenuity in manipulating production figures to avail of larger quantities of cheap imported oils.

Control over vanaspati prices and curbs on the usage of indigenous oils, apart from being irrational, accord ill with the government's avowed policy of liberalisation of the economy. But neither is the industry in favour of decontrol nor is the government in a mood to do away with controls. The absurdity of pursuing a policy which seeks to fix the price of vanaspati—refined and hydrogenated oil—at below that of liquid oil prices is all too obvious.

Resumption of futures trading in casterseed after a lapse of some eight years is being interpreted as a belated recognition on the part of the government of the role that futures markets can play in facilitating orderly marketing, ensuring efficient pricing, affording insurance cover against price hazards and assisting export promotion. If futures trading could really do all that one would like several commodities to be covered by hedge trading facilities. There is, however, no convincing evidence that the ban on futures trading has affected price stability or harmed the cause of exports.

No aspect of the oilseeds economy interests the common man more than the behaviour of oil prices, especially of edible oils. Unfortunately, discussions on this issue have generally betrayed confused thinking and a total lack of concern for the consumer, reflecting largely the dominating influence of the oil industry and the farm lobby.

Oilseeds and oil prices have registered sizeable declines over the past 12 months. Going by spot quotations in Bombay at the end of June and a year ago, castor oil is down by 37.3 per cent, rice bran oil by 33 per cent, mahuva oil by 24.5 per cent, cottonseed oil by 21.4 per cent, linseed oil by 20 per cent, kardi oil by 18.8 per cent, groundnut oil by 17.2 per cent and sesame oil by 15.6 per cent. There have been reports at times about distress sales in soyabean and mustardseed in certain centres.

Responding to alarm signals flashed by the vegetable oil industry as also by the champions of the growers' cause, the government took a series of measures to impart stability to the market. These measures included reduction in the allocation of imported oils to the vanaspati industry as also under the public distribution system, permission to use mustard solvent oil in vanaspati manufacture, procurement of mustard seed at the official support price and doubling of the stock limits for all edible oilseeds taken together held by the wholesaler and retailer.

Deep concern over the decline in oilseeds/oil prices gives one the impression as if the country has achieved a major breakthrough in oilseeds production and the era of acute vegetable oils shortage is over. Thanks to the impressive increase in mustard/rapeseed production to around 35 lakh tonnes due to certain special factors and record production of cottonseed and soyabean, oilseeds production in 1984-85 (excluding cottonseed) is expected to exceed the Sixth Plan target of 130 lakh tonnes by about five lakh tonnes. This is not saying very much really. For even on the basis of the Seventh Plan target of 170 lakh tonnes of oilseeds, the per capita availability of edible oils will work out 6.75 kg a year which is substantially below the minimum nutritional requirements.

The point has often been made that if the declining trend in oilseeds/oil prices is not checked it will adversely affect production. Not many people seem adequately aware that the Indian consumer has to pay much more for edible oils/fats than his far more affluent counterpart abroad. Vegetable oils in India have long been quoted well above international prices. But who cares for the poor consumer? What is a remunerative price for the farmer is a debatable issue. If the farmer does not get a fair price even in an economy characterised by acute shortages, it is the deficiencies in the marketing infrastructure which are mainly to blame. Agricultural production depends essentially on the availability of key inputs—water, quality seeds, fertilisers, pesticides, efficient tools, etc. Prices have a relatively less important role to play in the peculiar Indian environment.

Improvement in the overall supply position which has brought about the decline in oil prices is attributable primarily to massive imports of edible oils year after year. Interestingly enough, imports have been stepped up even as domestic production has gone up. Imports of edible oils totalled 9.98 lakh tonnes in the 1981-82 crop year, 11.50 lakh tonnes in 1982-83 and 16.34 lakh tonnes in 1983-84. Imports in the current year (1984-85) are unlikely to be less than in 1983-84. If the government is really earnest about increasing domestic production it should drastically reduce imports to meet only the requirements of the public distribution system. The supply of imported oil to the vanaspati industry must be stopped and the industry should be made to depend on indigenous oils, especially solvent extracted oils and minor oils.

The solvent extraction industry keeps complaining year after year about its declining fortunes and the increasing incidence of sickness. But still it has witnessed phenomenal growth over the years. This phenomenon is not all that intriguing as it appears. The industry comprises units engaged in processing a wide range of products—groundnut, mustard/rapeseed, cottonseed, linseed, sunflowerseed, kardiseed, soybean, rice bran, etc, and each commodity has its own demand-supply equation. The fortunes of the industry have been closely linked with exports of expellers/extractions. Except for soybean meal and rice bran extractions, exports have come down very sharply from their highest levels for a variety of reasons.

The fiscal year 1984-85 was extremely critical for the industry. Exports suffered seriously in terms of volume as well as value, more particularly in terms of unit price realisation, reflecting improved world protein supply position on the one hand and reduced demand on the other. Prospects for the current year seem even worse. De-oiled meal prices have come down by nearly 30 per cent over the past 12 months and prospects of a recovery in prices are generally rated very poor. Most observers expect prices to decline further.

The solvent extraction has been hit hard not only by the dismal export prospect but also by the continuing shortage of raw material, namely, expeller cake, which is being increasingly diverted for use as cattle-feed. According to A B Godrej, the outgoing chairman of the Solvent Extractors' Association, "the industry cannot revive from its sickness and the production of solvent extracted oils will be badly hit" unless the government comes to its help by way of "granting cash assitance of a minimum of 20 per cent of the FOB value of exports". The All India Cottonseed Crushers' Association also has pleaded for an increase in the cash compensatory support on cottonseed extractions as well as expellers to 30 per cent. Not only this, it has also asked for official support for checking the diversion of cottonseed from decorticated crushing to undecorticated crushing. The utilisation of AICOSCA members' installed capacity for decorticated crushing is stated to have declined to a mere 10 per cent. This reflects poorly on how the association is conducting its affairs.

There is nothing that India can do to influence international markets which are becoming increasingly competitive. The solvent extraction industry will have to depend increasingly on the home market. Sustained efforts will need to be made to promote the use of extractions instead of expellers for feeding cattle. The potential is immense.

Despite the declining fortunes of the industry—it is the old units which have been the worst affected—new units have been set up rather rapidly over the past few years, a few in the private sector and others in the co-operative sector or under the auspices of the government agencies. Central and state subsidies, easy availability of land and financial assistance and various tax benefits—all these have contributed to the creation of new capacity. In view of the heavy under-utilisation of installed capacity, the need for stricter appraisal of new projects can scarcely be over-emphasised.

It is contended that the resumption of futures trading in caster will help achieve, among other objectives, increase in exports. The international environment being what it is there is little chance of castor oil exports this year reaching anywhere near the 1984-85 figures of one lakh tonnes valued at Rs 115 crore—an all-time record achieved in a year when the export trade did not enjoy any hedging facility. The usefulness of hedge trading depends partly on the structure of the hedge contract and partly on how speculative activity is contained within healthy limits.

The point needs to be made that if the government is keen on boosting exports, there is no reason why the trade should be debarred from exporting castor oil to the rupee currency area countries, especially when it has acquitted itself well in exporting oil to the admittedly more difficult free currency markets. Private trade does seem to have performed rather better than STC in selling castor oil abroad.

## *Sugar*

## Getting Out of Control

THE spurting price of sugar in the open market—sugar is retailing this week at around Rs 8 per kg—may well reach an unprecedented peak in the coming festival season.

The industry had estimated right from the start of the current sugar year, i e in October 1984, that the demand-supply gap would be about two million tonnes. Obviously the Union government too must have been well aware of this situation, at least after the crushing period had ended. At the end of May 1984 the stocks totalled 3.7 million tonnes. This quantum will possibly meet the requirements till October 1985, given the normal monthly releases of about 0.7 million tonnes. So it was evident that at least two million tonnes of the sweetener would need to be purchased from abroad to provide for the first couple of months of the 1986 sugar year, when there is little fresh produce being milled, as well as for the additional releases made for the festivals. Yet the government has so far decided to import only 0.9 million tonnes (involving a foreign exchange outlay of over Rs 180 crore). The government will hence have to buy more sugar from abroad unless it is willing to risk a phenomenal rise in price.

The decision on the quantum of import has not been taken at one go, so as to dampen speculative activity over the commodity, but in small bits; like the decision last month to import a further 0.1 million tonnes. The government has been ostensibly doing this to clinch barter deals with the suppliers of sugar. But whether or not such deals are favourable to India, especially when the effect of the shooting domestic price of sugar is also taken into account, is a moot question.

Then there is the seemingly paradoxical situation of the price of sugar pushing upwards despite larger releases of sugar into the open market. The jump of over Rs 100 per quintal in the wholesale price witnessed in the last couple of weeks is to an extent an outcome of the manner in which the imported sugar is being distributed. Of the 0.38 million tonnes ordered to be released into the open market in June by the government, 0.13 million tonnes was from imported stocks and the rest from the mills. As much as three-fifths of the imported quota released for the month was auctioned off by the Food Corporation of India. The auctioned sugar was grabbed by traders, paying prices between Rs 574 and Rs 600 per quintal. This obviously aggravates the prevailing scarce condition in which the traders then hope to make their killing. The rest of the rleased 50,000 tonnes of imported sugar was to be sold through the state governments. Some of the state governments were reluctant to lift their quotas; the Maharashtra government, for instance, reportedly surrendered its allocation of 11,000 tonnes. The net result of the cornering at the auctions and the state government's reluctance was a sharp fall in the effective supply of free sale sugar from 0.36 million tonnes in May to around 0.25-0.30 million tonnes in June, i e, essentially the quantum that the mills were ordered to release during the latter month. Here the assumption of course is that the mills obeyed the release orders, even though there are reports of mills also holding on to stocks for speculative gains. The mills too would have gained from the higher returns secured for their free sale quotas, since the 'smaller' release in June considerably accelerated the rise in price of sugar which was in any case steadily rising due to the environment of scarcity.

Till March 1985, i e, till the Assembly electins were over, the sugar policy was oriented towards containing the free sale price. Now the attitude of the Union and some state governments appears to have changed to helping the traders and millowners in their speculative activities.

## LETTERS TO EDITOR

# Bhopal Victims: Treatment and Relief

IT appears that D R Varma (May 11) had not been aware of the developments in the wake of the Bhopal tragedy, when he criticised Padma Prakash's recommendation (April 6) of Sodium Thiosulphate (NTS) therapy for a group of gas victims. Padma Prakash did not try to shift the debate "from the real issue of systematic rehabilitation of these victims to one of finding some miracle treatment". The real issue of rehabilitation has not only been very much at the centre of the debate, but still remains the central issue around which all other demands are voiced by the victims. Padma Prakash did a very good job emphasising the issue of medical relief which not only still plagues the victims but has continuously been underplayed and often ignored by the government and a few official medical personalities.

On the other hand, it appears that Varma, like so many in our country, posits the question of medical relief in opposition to that of rehabilitation as if one is an alternative to the other. His arguments against NTS therapy are based on dubious premises. He assumes that only MIC was leaked during the disaster, which is only Union Carbide's version, but no one has yet established that Hydrogen Cyanide or Phosgene were not leaked out. His other assumption that infection "will occur more frequently in the gas victims" has already been proved wrong in Bhopal. Very few of the victims suffered from secondary infections and even the animal carcasses took an unusually long time to putrefy. Finally, his conclusion that routine administration of NTS is potentially harmful is a misleading statement for the simple reason that no one has advocated routine administration of NTS and concerned scientific opinion is almost universal that the NTS is one of the safest drugs. Controlled study has revealed substantial clinical improvement and NTS administration has been found to be followed by increased excretion of Thiocyanate in the urine. It is not yet certain whether the cyanide inactivated the Haemoglobin in the red blood cell or got attached to any other cell organelle.

Varma's veiled innuendo regarding the doctors of Bhopal for their "ramdom trial of drugs" should have been directed towards Union Carbide which had suppressed all information about the exact nature and biological behaviour of the gas(es) and the medical management of their poisoning. In fact, the concerned doctors had to collect such information from other available sources after much delay and to proceed with trial and error at every step of medical relief.

SUJIT K DAS

Convener, Drug Action
Forum, West Bengal.

## CPI(M) and Its Cadres

IF Saroj Mukherjee (May 18) has to deny having used the word 'stepmotherly', he has to direct his denial to other quarters. He was reported to have used this very word, given in direct quotes by me, in an *exclusive* interview published in *Telegraph*, Calcutta, of April 23. On this and the other point of the failure of the CPI(M) ranks to discharge their share of responsibilities, Mukherjee said in his reply to the very first question of the *Telegraph* correspondent as published in the newspaper:

> One of the problems has been the leadership's failure to politically educate the low-level cadres. The result is that they have always been on the defensive in their struggle against the Centre. They have got to launch an offensive. But they cannot since they don't know how to do it. Only political education can make them see things in their proper perspective. During the Lok Sabha polls the cadres could not explain to the people how the state was suffering *due to the Centre's stepmotherly attitude*. For example, they should point out that the Centre has been ignoring our demand for nationalisation of the jute mills despite the struggle of the jute workers. They should underscore the Centre's failure to ensure the distribution of at least 14 essential commodities at fair prices. (Emphasis added.)

Subsequently, while denying that the CPI(M) cadres in West Bengal were isolated from the people, Mukherjee reiterated:

> As I have already said, the problem is that the cadres cannot answer political questions properly. This has been a major lapse.

Even a formal admission of the failure of the leadership to educate the ranks is at the same time a polite and 'correct' way of underscoring the failure of the ranks to get educated. This is more so in this particular interview as the only specific issue of political education mentioned by Mukherjee is that of the Centre-State relations, which is almost the sole issue on which the CPI(M) leadership in West Bengal harps most of the time.

Saroj Mukherjee seems to be fully satisfied that the West Bengal CPI(M) leadership has done its bit of introspection. This correspondent may be pardoned if he exercises his own judgment in evaluating this claim and finds the introspection very much inadequate as the party has not re-examined the basic framework of its current policies.

One need not respond at this stage to Mukherjee's speculation whether the quotes from Ajoy Ghosh in my piece were out of context, insinuating though it is.

OUR CORRESPONDENT

Calcutta.

# The UN System

### Romesh Thapar

WHEN Indira Gandhi, as Chairperson of the Non-Aligned Movement, sent her Foreign Office emissaries to the various Capitals of the world requesting Heads of State to attend a summit meeting at the United Nations last year, the response could not have been more depressing. There was no interest because there was no agenda. Even President Mitterrand of France, who had been prevailed upon to attend by the personal appeals of the Indian PM, didn't ever decide what was the purpose of it all.

Interestingly, our Foreign Office has over these post-Indira months avoided a self-critical exercise on that aborted operation. The reason is obvious. Who is going to say that it was a mistake to project the Chairperson in an opportunistic way? Even the non-aligned States know what the game is about and want to remind India that Chairpersonship was thrust upon it only because Iraq was caught in the tentacles of a Khomeini-type war. In other words, the third world is not for exploitation. Rajiv Gandhi must have learned this the hard way during the festivalising in Russia, North Africa, Europe and the USA.

But a self-critical exercise of value to the PM could have been possible if it had somehow steered the argumentation into the critical area that should be the concern of the Non-Aligned Movement—the reorganisation and restructuring of the United Nations and its agencies. After all, these non-aligned nations today command almost mandatory power within the organs of international diplomacy and could, with sensitivity and skill, find answers to the veto power of the so-called Great Powers in the interests of peace and development. However, such an exercise requires the kind of hard work which we do not seem any more capable of. Even the aged spark plugs of the Foreign Office, associated annually with a variety of UN Commissions and Committees (and paid handsomely for this!), are not really prepared to raise the questions and issues that catalyse change. The younger activists in the system are also not able to launch off on such an exercise without solid political support.

We are caught in a stalemate at a time when moves are afoot to make the UN and its agencies more important than they already are. The corruption within the UN system, and the unprincipled vested interests which now control the thinking and action of the various networks, have given the USA the opportunity to justify its threat of financial boycotts. More such actions could develop, and with the support of the allies of Washington. The response of the third world is terribly confused and peripheral.

Interestingly, UNESCO and UNCTAD, two thorns in the side of the affluent West, are under assault. Many of the charges are valid. The salary bills and the mafias that have come to rule these organisations are a disgrace and no one in his right senses can defend the prevailing situation. But the palliatives that will be offered will be carefully doctored to restore the supremacy of the West, and this will become inevitable unless the non-aligned get beyond demonstrative exhibitionism.

India, as Chairperson of NAM, should be moving to establish an independent commission of experienced persons from the third world to draft proposals for the reform of the UN system, reform that will link to the qualitatively new challenges which are facing our world. Considerable skill is available in the field to the non-aligned nations, and there will be many in the West who individually would only too willingly be associated with such an effort. Why are we so insensitive to this need? Are we only interested in the inane propaganda of the PR visits? Does a real initiative to discuss the future of the United Nations system cause boredom?

Frankly, the flunkeys who hang around the centres of power haven't even tried to gauge the interest. This is certainly true of India, and I presume we would have noted certain vibrations if other nations had begun to tick on these problems. In the old days, when power and influence were very limited, a Nehru, a Nasser, or a Tito could re-focus the attention of world statesmen. In later years, at another level a Palme, a Trudeau or a Boumedienne, could do likewise. What ails the political performers of today?

The task is very much easier. The global confusion is extraordinary. The UN system is unable to make even a dent on any problem of immediate concern to the people. Block voting has made a mockery of the procedures. The pre-programming is such that even the speeches of various representatives could be prepared by computers. And, yet, there is grave turmoil wherever one turns, from ecological challenges, to nuclear threats, from technological blackmail to hidden discriminatory trading. And even the last blatant colonialism—of the oceans—is being attempted by the powerful. With majority voting power, the non-aligned world makes no impact.

As in politics, so in diplomacy, rhetoric has taken over. There are no detailed and persuasively phrased position papers because even those equipped to prepare them are robbed of accepted international perspectives. No research is being sponsored to build the necessary background knowledge of the changed global situation. Even speculative scenarios on the possible tangles developing around us and further away are seen as foreign-inspired intellectualising. It is no wonder, then, that we move only in charismatic frameworks.

For what it's worth, an activisation of the global problems which should concern the NAM might yield dialogues of immediate value to this sub-continent and prepare the way for those understandings which we have long sought in our region. The present charisma peddling of Indira's son is a worthless and barren exercise, and the sooner we begin to puncture it the better. In fact, we would not be damaging India, but improving its image as something beyond the manipulations of a single family.

But, let us remember, that the job will not be done by political operators claiming to be professionals. Specialists are called for, persons capable of expressing themselves without that eye fixed on the political patron. It is necessary to say this because ruling non-aligned coteries tend to stop the search for talent within their backyards. What with heavy security, these are now rather under-populated.

A breakthrough in this area is of vital concern to the non-aligned world, and it can be achieved if our Foreign Office is directed precisely. *June 28.*

## Gujarat Binil Chemicals

GUJARAT BINIL CHEMICALS, a joint sector company, is setting up a Rs 299 lakh project for the annual manufacture of 2,200 tonnes of engineering thermoplastics like acrylonitrile butadiene styrene (ABS) at Ankleshwar, a notified backward area in Bharuch district of Gujarat. To raise a part of the finance required for the project, the company is making a public issue of 4,85,100 equity shares of Rs 10 each at par. Of this issue, 48,500 shares have been reserved for preferential allotment to non-resident Indians. The subscription list for NRIs will open on June 25 and for the Indian public on July 2. The issue is managed by the State Bank of India. V B Desai is advisor to the issue. The company has been promoted by two non-resident technocrats, Anil K Kumar (Managing Director) and Bipin Dalal in association with GIIC, a Government of Gujarat undertaking. ABS is a versatile material widely used in automobiles, electronic and electrical appliances, communication equipments, refrigeration linings, moulded luggage, textile machineries, shoe industry, etc. The technology to be employed is a semi-continuous polymerisation process which ensures flexibility in changing from one product to another without any product loss. This is the only multi-purpose plant in India at present capable of producing, in addition to ABS, other thermoplastics like SAN, HIPS, etc. The close loop system and the automatic control panels enable the plant to produce the finished product of desired quality without any process loss.

# STATISTICS

| **Index Numbers of Wholesale Prices** (1970-71 = 100) | Weights | Latest Week (15-6-85) | Variation (Per Cent) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85++ | In 83-84 | In 82-83 | In 81-82 |
| All Commodities | 1000 | 356.2 | 1.6 | 6.3 | 3.1 | 7.0 | 9.5 | 2.6 | 9.3 |
| Primary Articles | 417 | 334.7 | 2.5 | 2.7 | 3.9 | 4.8 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 318.4 | 4.5 | 6.1 | 7.1 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 301.9 | −2.0 | −5.1 | −2.8 | 2.3 | 15.1 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 562.5 | 1.2 | 9.1 | 1.4 | 2.6 | 7.6 | 7.5 | 20.7 |
| Manufactured Products | 499 | 339.2 | 1.0 | 8.6 | 2.9 | 6.0 | 8.7 | 0.6 | 5.2 |

| **Cost of Living Index** | Base | Latest Month | Variation (Per Cent) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Over Last Month | Over Last Year | Over March 1985 | In 84-85 | In 83-84 | In 82-83 | In 81-82 |
| For Industrial Workers | 1960 = 100 | $594^4$ | 1.4 | 6.3 | 1.4 | 6.4 | 12.6 | 7.8 | 12.5 |
| For Urban Non-Manual Employees | 1960 = 100 | $540^1$ | 0.7 | 6.9 | — | 8.1 | 10.3 | 8.0 | 11.9 |
| For Agricultural Labourers | July 60 to June 61 = 100 | $518^4$ | 0.2 | 1.6 | 0.2 | 0.2 | 11.4 | 5.2 | 12.4 |

| **Money and Banking** | Unit | Latest Week (7-6-85) | Variation Rs Crore (Per Cent in Brackets) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85++ | In 83-84++ | In 82-83 | In 81-82 |
| Money Supply ($M_3$) | Rs Crore | 1,04,618 | 1,292<br>(1.3) | 15,006<br>(16.7) | 3,276<br>(3.2) | 15,443<br>(18.0) | 13,031<br>(17.9) | 10,115<br>(16.1) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 53,454 | 1,519 | 9,983 | 4,489 | 8,460 | 5,757 | 4,748 | 4,965 |
| Bank Credit to Commercial Sector | Rs Crore | 70,658 | 326 | 9,701 | 1,219 | 9,447 | 8,830 | 8,247 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 2,819 | −507 | 1,589 | −180 | 1,419 | −104 | −977 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 73,419 | 891<br>(1.2) | 11,422<br>(18.4) | 2,233<br>(3.1) | 10,590<br>(17.5) | 8,550<br>(16.4) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets** | Rs Crore | 6,739 | −508 | 1,412 | −222 | 1,463<br>(26.6) | 943<br>(20.7) | 911<br>(27.2) | −1,468<br>(−30.4) |

| **Index Numbers of Industrial Production** (1970 = 100) | Weights | Latest Month | Average of Months* | | Variation (Per Cent) | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | 1985 | 1984 | In 1985++ | In 1984++ | In 1983 | In 1982 | In 1981 |
| General Index | 100.00 | $216.9^3$ | 208.3 | 200.3 | 4.0 | 6.6 | 4.5 | 4.5 | 9.3 |
| Basic Industries | 32.28 | $248.5^2$ | 257.8 | 243.2 | 6.0 | 11.7 | 5.5 | 8.0 | 14.5 |
| Capital Goods Industries | 15.25 | $228.3^2$ | 222.9 | 227.0 | −1.8 | 9.2 | 4.3 | −0.9 | 8.1 |
| Intermediate Goods Industries | 20.95 | $162.1^2$ | 167.1 | 156.5 | 6.8 | 1.7 | 7.9 | 1.9 | 3.7 |
| Consumer Goods Industries | 31.52 | $162.1^2$ | 168.3 | 169.0 | −0.4 | 1.3 | 0.4 | 5.8 | 8.2 |
| Durable Goods | 3.41 | $210.2^2$ | 209.7 | 181.4 | 15.6 | 13.0 | 0.1 | 3.6 | −0.1 |
| Non-Durable Goods | 28.11 | $156.3^2$ | 163.3 | 167,5 | −2.5 | 0.5 | 0.5 | 6.5 | 9.3 |

| **Foreign Trade** | Unit | Latest Month (March 85) | Cumulative for* 1984-85+ | Cumulative for* 1983-84+ | 1984-85 | 1983-84 | 1982-83 | 1981-82 | 1980-81 |
|---|---|---|---|---|---|---|---|---|---|
| Exports | Rs Crore | 951 | 11,297 | 9,872 | 11,297<br>(14.4) | 9,872<br>(10.8) | 8,908<br>(14.2) | 7,803<br>(16.3) | 6,711<br>( 3.9) |
| Imports | Rs Crore | 1,414 | 16,485 | 15,763 | 16,485<br>(4.6) | 15,763<br>( 9.8) | 14,356<br>(5.0) | 13,671<br>( 9.2) | 12,524<br>(40.6) |
| Balances of Trade | Rs Crore | −463 | −5,188 | −5,891 | −5,188 | −5,891 | −5,448 | −5,868 | −5,813 |

| **Employment Exchange Statistics** | Unit | Latest Month (March 85) | Cumulative for* 1985 | Cumulative for* 1984 | 1984 | 1983 | 1982 | 1981 | 1980 |
|---|---|---|---|---|---|---|---|---|---|
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,744 | 23,744 | 22,603 | 23,696<br>(7.9) | 21,953<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) |
| Number of Registrations | Thousand | 454 | 1,362 | 1,681 | 6,439<br>(−1.8) | 6,555<br>(11.8) | 5,862<br>(−6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) |
| Number of Vacancies Notified | Thousand | 49 | 150 | 162 | 734<br>(−11.4) | 828<br>(1.0) | 820<br>(−8.4) | 895<br>(6.6) | 840<br>(−4.1) |
| Number of Placements | Thousand | 29 | 86 | 101 | 406<br>(−16.5) | 486<br>(2.5) | 474<br>(−6.1) | 505<br>(5.2) | 480<br>(2.6) |

* For current year upto latest month for which data are available and for corresponding period of last year.
** Excluding gold and SDRs.
+ Variation in current year upto latest month for which data are available over corresponding period of last year.
++ Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript$^1$ indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

# Sound Base for Expansion

**Hansavivek**

*ASIAN PAINTS (INDIA)*, the largest paint manufacturer in the country, has fared so well during 1984 that the board has recommended a three-for-five bonus issue besides stepping up dividend by 5 points to 30 per cent. What is more, the company has planned expansion and diversification of activities to accelerate future growth. On a turnover up from the previous year's Rs 69.38 crore to Rs 91.24 crore, the company has earned a gross profit of Rs 12.08 crore against Rs 9.68 crore. These figures reflect a small contraction of profit margins. But this performance looks all the more encouraging when viewed against the background of critical availability of input materials and the inflationary trend in prices of all raw materials and containers and packaging goods. The company was able to achieve export sales of Rs 2.25 crore, almost double last year's figure. Net profit amounted to Rs 5.36 crore (Rs 3.69 crore) and the earnings cover for the enhanced distribution increased from 2.80 times to 3.40 times. The company's liquidity position continued to be comfortable and income earned through investment of short term surplus funds amounted to Rs 1.11 crore.

In the company's overseas operations, the Fiji subsidiary, Asian Paints (South Pacific), could maintain dividend at 12.5 cents per share of Fiji $ one in view of the Counter Inflation (Dividends) (Control) Order, 1984. The demand for paints in the market returned to its normal level after the heavy demand witnessed during the previous year arising from reconstruction activities following hurricane 'Oscar'. Introduction of two new product lines, namely, marine paints and automotive paints enabled the company to restrict the shortfall to the minimum. The subsidiary in Tonga, Asian Paints (Tonga) has announced a dividend of 20 cents per share of Tonga $ one following higher sales and profits. The company's proposal to set up a joint venture unit with an installed capacity of 400 KL of paints and enamels in the Dominion of Solomon Islands in South Pacific received final approval of the Government of India in October last. The building construction work has commenced and is expected to be completed by October this year. The company's proposal to set up a joint venture unit for the manufacture of 750 KL of paints, enamels and varnishes in the Kingdom of Nepal also received final approval of the Central government. The building construction work has been completed and the equipment is under installation. The plant is expected to be commissioned shortly.

Meanwhile, work on the company's paints project at Patancheru in AP is proceeding on schedule and the first phase is expected to be commissioned shortly. ICICI and SBI have sanctioned term loans aggregating to Rs 1.75 crore for the project. The technical collaboration agreement signed by the company with Devoe Marine Coatings Company was taken on record by the Central government and the technology packet was obtained in August 1984. Work on indigenising the process and formulations is in progress. The company has joined hands with Tamil Nadu Industrial Development Corporation for establishing a joint sector company under the name 'Pentasia Chemicals' to implement a project for the annual manufacture of 3,000 tonnes of pentaerythritol and 1,800

**The Week's Companies** *(Rs Lakh)*

| | | Asian Paints | | Hindustan Ciba-Geigy | | Cyanamid | | Apollo Tyres | |
|---|---|---|---|---|---|---|---|---|---|
| | | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 30-11-84 | Last Year 30-11-83 | Latest Year 31-10-84 | Last Year 31-10-83 |
| Paid-up Capital | | 569 | 569 | 1771 | 1771 | 456 | 456 | 819 | 785 |
| Reserves | | 1700 | 1086 | 2293 | 1930 | 677 | 592 | — | — |
| Borrowings | | 708 | 756 | 822 | 993 | 296 | 379 | 5081 | 4749 |
| *of which* Term borrowings | | 138 | 181 | 100 | 25 | — | 7 | 2113 | 2186 |
| Gross fixed assets | | 2201 | 1874 | 4468 | 3880 | 1071 | 1021 | 4798 | 4480 |
| Net fixed assets | | 1510 | 1066 | 2306 | 2295 | 525 | 540 | 4053 | 3747 |
| Investments | | 116 | 19 | 13 | 10 | 9 | 1 | — | — |
| Current liabilities | | 2541 | 2209 | 1578 | 1512 | 354 | 349 | 1314 | 888 |
| Current assets | | 3892 | 3536 | 4144 | 3900 | 1248 | 1235 | 2952 | 2395 |
| Stocks | | 1640 | 1117 | 2398 | 2023 | 977 | 842 | 1151 | 884 |
| Book debts | | 772 | 822 | 1145 | 1264 | 159 | 264 | 463 | 578 |
| Net sales | | 9124 | 6938 | 11253 | 9865 | 3212 | 2732 | 3874 | 3915 |
| Other income | | 194 | 157 | 96 | 135 | 46 | 46 | 10 | 28 |
| Raw material costs | | 6150 | 4570 | 6507 | 5283 | 1446 | 1279 | 2949 | 2801 |
| Wages | | 776 | 617 | 1380 | 1194 | 564 | 519 | 289 | 262 |
| Interest | | 101 | 96 | 125 | 168 | 68 | 72 | 258 | 246 |
| Gross profit (+)/loss (−) | | 1208 | 968 | 1173 | 1025 | 387 | 206 | 57 | 456 |
| Depreciation provision | | 142 | 259 | 422 | 390 | 92 | 88 | — | 451 |
| Tax provision | | 530 | 340 | 123 | 140 | 94 | 14 | — | — |
| Net profit (+)/loss (−) | | 536 | 369 | 628 | 495 | 201 | 104 | — | 5 |
| Investment allowance reserve | | 14 | 24 | 68 | 64 | 37 | 42 | — | — |
| Transfer to reserves | | 361 | 210 | 294 | 207 | 50 | 7 | — | — |
| Dividend | | | | | | | | | |
| Amount | P | 5 | 5 | — | — | — | — | — | — |
| | E | 156 | 130 | 266 | 224 | 144 | 55 | — | — |
| Rate (per cent) | P | 11 | 11 | — | — | — | — | — | — |
| | E | 30 | 25 | 15 | 15 | 25 | 12 | — | — |
| Cover (times) | | 3.40 | 2.80 | 2.36 | 2.21 | 1.76 | 1.89 | — | — |
| *Ratios* (per cent) | | | | | | | | | |
| Gross profit/sales | | 13.24 | 13.95 | 10.42 | 10.39 | 12.05 | 7.54 | 1.47 | 11.64 |
| Net profit/capital employed | | 23.62 | 22.30 | 15.45 | 13.37 | 17.75 | 9.92 | — | 0.63 |
| Inventories/sales | | 17.97 | 16.10 | 21.31 | 20.51 | 30.41 | 30.82 | 29.11 | 22.58 |
| Wages/sales | | 8.50 | 8.89 | 12.26 | 12.10 | 17.56 | 19.00 | 7.46 | 6.69 |

tonnes of sodium formate. The plant, proposed to be located in the backward area of Cuddalore, 190 kms away from Madras, is expected to go on stream before the end of 1986. The company itself consumes substantial quantities of pentaerythritol. Certain grades of this material are also needed by the explosives and drilling industries. Sodium formate is largely used by the chemical industry. The new company is thus assured of a good market for its products. Effluent treatment facilities at all the company's plants are being evaluated and where necessary will be upgraded to meet the required standards.

*HINDUSTAN CIBA-GEIGY* has become an Indian company with further dilution of the equity holding of its parent company, Ciba-Geigy of Switzerland, to 40 per cent by offering 1,94,783 shares of Rs 100 each at a price of Rs 175 per share to existing Indian resident shareholders on a pro rata basis. This should help in the expeditious disposal of the company's requests for issue of industrial licences. The company has so far not received the letter of intent for the manufacture of Isoproturon Technical, a wheat herbicide, and its formulations despite active follow-up by the management. Also, it is expected that the letters of intent for the manufacture of new drugs, *viz*, Trasicor and Voltaren, besides Cibemid a new compound discovered at the company's Research Centre at Goregaon in Bombay, will be expedited. The company commissioned during 1984 the project for the manufacture of EPN resins and the unit is in regular operation. The project relating to organic phosphates and phosphites was commissioned in March last. The letter of intent in respect of the polyurethane project is likely to be converted into an industrial licence shortly and the products are expected to be launched during this year. Work on the textile auxiliary and synthetic tanning agents project is already in progress on schedule. At the company's plant at Bhandup in Bombay, a multi-divisional process technology R and D project consisting of a new pilot plant and several laboratories, has been completed and partially commissioned.

The company has shown good results for 1984 with turnover rising from the previous year's Rs 98.65 crore to Rs 112.53 crore and gross profit from Rs 10.25 to Rs. 11.73 crore. Net profit has risen from Rs 4.95 to Rs 6.28 crore and the unchanged dividend of 15 per cent was covered 2.36 times as against 2.21 times previously. Sales of pharmaceutical products in the domestic market increased appreciably by about 26 per cent over 1983. Regestrone, a product for gynaecological disorders launched late in 1983, has been doing well. Aubril, a drug indicated for common bacterial infection, was launched during 1984 and the market response has been encouraging. The company, however, discontinued the manufacture of Mexaform, Entero-Vioform and Entobex from the end of March last in the wake of recent changes in medical thinking. Favourable industrial market conditions helped the company in lifting up its sales of epoxy resins by 24 per cent over 1983. Sales of consumer products, agricultural chemicals and dyes and chemicals maintained a satisfactory rate of growth. The company's export turnover amounted to Rs 17.16 crore against Rs 16.90 crore in the previous year. A long term wage settlement for four years beginning 1983 was concluded with Dyes and Chemical Workers' Union, Bombay. Negotiations on the charter of demands submitted by the company's employees in the Santa Monica establishment in Goa is in progress and a settlement is expected to be reached soon. M K Mong-Hansen took charge of the office of Managing Director on May 21, 1984 after receipt of the Central government's approval of his appointment.

*CYANAMID INDIA* has registered an impressive increase in profit margins during 1983-84. Its gross profit has expanded from the previous year's Rs 206 lakh to Rs 387 lakh following increase in sales from Rs 27.32 crore to Rs 32.12 crore. Although taxation has taken away considerably more, net profit is Rs 201 lakh against Rs 104 lakh. Dividend has been stepped up from 12 to 25 per cent and is covered 1.76 times by earnings as against 1.89 times previously. The management attributes higher earnings to sustained growth in the agricultural division, while the pharmaceutical division continues to be under pressure due to price constraints. A rigid price control programme could enable the latter division to just break even. Exports amounted to Rs 30 lakh against Rs 20 lakh in the previous year. The writ petition filed by the company in the Delhi High Court, challenging the legality and validity of fixation of prices of bulk drugs and formulations, has been finally disposed of in favour of the company. A special leave petition of appeal, filed by the Government of India in the Supreme Court, for a stay on the order of the Delhi High Court, has been rejected. Accordingly, the undertaking given by the company stands discharged. The applications for regularisation of productive installed capacities in respect of bulk drugs (tetracyclines) and pharmaceutical formulations are still pending with the government. In terms of the notification of April 21, 1982, the government has re-endorsed higher capacities in respect of bulk drugs (tetracyclines) and some of the antibiotic formulations, subject to fulfilment of certain conditions. The company has appealed to the government for waiver of some of the conditions. In terms of the notification, the government has re-endorsed the capacity of phorate technical upto 595 tonnes. The joint venture proposal to manufacture ethambutol, an anti-TB drug, could not materialise as the terms for transfer of part of the technology by a third party were found to be unsatisfactory and not in the interest of the company.

*APOLLO TYRES* has shown poor working results for the year ended October 1984 with a drop in gross profit from the previous year's Rs 456 lakh to a mere Rs 57 lakh following slightly lower sales of Rs 38.74 crore against Rs 39.15 crore. Profit margins have tumbled. The company's operations were affected mainly due to industrial relations problem at the factory at Perumbra in Kerala, spread over a period of 2½ months resulting in a production loss of Rs 18 crore. The cost of inputs also increased, but the increase could not be passed on fully to the consumers due to the demand recession. The Central government reduced marginally the excise duty for four months in respect of certain types of tyres which gave rise (temporarily) to the demand for these tyres. The interest of Rs 207 lakh and exchange difference of Rs 25 lakh on loans availed for acquisition of fixed assets have been capitalised so as to reflect the correct cost of assets. The profit as well as some prior period adjustments amounting to Rs 14 lakh have been utilised to reduce the accumulated deificit to Rs 1.74 crore. No provision has been made in the accounts for depreciation for the year amounting to Rs 4.55 crore for want of adequate profits. Arrears on this account now amount to Rs 12.19 crore. The company has finalised arrangements with financial institutions and banks to finance the implementation of the increase in installed capacity from 4.41 lakh numbers tyres to 5.52 lakh numbers per annum. The company was able to make a breakthrough by securing export orders worth US $ 5 million from the USA besides other export orders. The company proposes to offer by private placement in the near future 3,63,700 forfeited equity shares which will add Rs 27 lakh to the equity capital.

*PANTAPE MAGNETICS*, a new company, is setting up a project to manufacture audio magnetic tapes in the first phase and audio cassettes in the second phase. The company has an industrial licence to manufacture annually 1,000 MRM ¼" width audio magnetic tapes and conversion of 50 per cent of the actual production of the audio magnetic tapes in a calendar year into C-60 equivalent audio cassettes, subject to a maximum of 12.5 million numbers. The company has entered into technical collaboration agreement with Certron Corporation, USA, a leading manufacturer of magnetic tape products. The plant is located at village Nanjangud in Mysore district of Karnataka where the company is eligible for Central subsidy, concessional finance and other incentives from the state government. The erection of plant and machinery is in full swing. Trial production is scheduled for early July 1985 and commercial production later that month. The company expects to commence production of audio cassettes by June 1986. The project cost is estimated at around Rs 3.68 crore, of which Rs 1.05 crore will come from equity share capital. The company has been promoted by K R Srivatsa, ex-IAS officer, formerly Managing Director of GSFC and Vice-Chairman and President of SPIC, in association with Bakul Jain, a young entrepreneur and grandson of veteran industrialist Shriyans Prasad Jain. The company is confident that it will be in a position to market its products at substantially lower prices as compared to the current prices of quality tapes. The current demand for audio magnetic tapes is estimated at 2,700 MRM per annum as against the domestic production of only 360 MRM. The balance demand is met through imports. The demand in India is estimated to go upto 6,700 MRM per annum by 1988. The demand for audio cassettes is also growing at a fast pace and a major portion of the demand is at present met through unauthorised imports and spurious products. Investors in the company's shares will be eligible for 80 CC and wealth tax benefits.

*INDIAN OVERSEAS BANK* has recorded satisfactory progress in 1984. Global deposits and other accounts of the bank increased from the previous year's Rs 2,729.4 crore to Rs 3,229.2 crore and advances from Rs 1,818.5 crore to Rs 2,251.6 crore. The operating environment in S E Asia, where the bank's overseas branches and business are concentrated, was by and large favourable. The bank has 12 overseas branches—seven in Hong Kong, one each in South Korea and Singapore and three in Sri Lanka. Domestic deposits of the bank increased from Rs 1,971.4 crore to Rs 2,310.1 crore, registering a growth of 15.7 per cent. The ratio of NRI deposits to total deposits was 15 per cent for the bank compared to a little over five per cent for the system. The bank's gross investments in India amounted to Rs 718.1 crore compared to Rs 627 crore a year ago. Gross credit in India went up from Rs 1,153.4 crore to Rs 1,437.1 crore. The bank's total export finance increased from Rs 91.3 crore to Rs 122.7 crore, raising the ratio of export credit to total credit from 8 to 8.7 per cent. The bank established export advisory cells in a number of branches for collection and dissemination of data on the direction and quantum of exports and other information on trade and tariff, identification of potential clients and to render all possible assistance. The bank received during the year from the President of India, the award for Outstanding Export Performance for 1980-81.

The ratio of priority sector credit to total credit improved from 36.2 to 39.8 per cent, just 0.2 per cent below the national target of 40 per cent to be achieved by March 1985. In absolute terms, the priority lendings were up from Rs 412.5 crore to Rs 558.7 crore. Advances to small scale industries increased from Rs 167.1 crore to Rs 231.2 crore. Small artisans, craftsmen and village and cottage industries continued to be accorded priority by the bank. Agricultural advances stood at Rs 250.7 crore against Rs 182.9 crore. Small and marginal farmers accounted for 66 per cent of the amount of direct agricultural advances and 84 per cent of the number of accounts. Disbursements during the year under the IRDP amounted to Rs 18.2 crore covering 73,144 beneficiaries as compared to Rs 15.9 crore covering 70,960 beneficiaries last year. Recovery as a percentage of demand under direct agricultural advances worked out to 65.7 per cent for the year ended June 1984. The bank's advances under the DRI scheme went up from Rs 10.5 crore to Rs 15.5 crore. Advances to SC/ST categories increased from Rs 20.8 crore to Rs 30.4 crore. The bank's lendings under the 20-point economic programme at the end of the year stood at Rs 168.1 crore spread over 2.8 lakh accounts. The bank opened 53 new branches in India taking the total number of branches in the country to 1,033. Of the new branches, 34 were located in rural/semi-urban centres, 31 of them hitherto unbanked. At the year-end, 702 of 68 per cent of the total branches were operating in rural/semi-urban areas. The bank has created a number of employment opportunities for the physically handicapped and has been the recepient of prizes for pioneering work in this field. The bank earned a net profit of Rs 4.82 crore against Rs 4.73 crore in 1983. Out of this, Rs 3 crore has been transferred to statutory and special reserve funds, Rs 1.56 crore set aside for bonus to employees and Rs 26 lakh transferred to the Central government.

*BLISS CHEMICALS AND PHARMACEUTICALS INDIA*, a new company engaged in indenting and marketing of chemicals, is setting up a plant for the manufacture of vaginal pessaries (spermicidal contraceptives) in technical collaboration with W J Rendell of UK, a pioneer in the field. The plant with installed capacity to produce 25 million pessaries per annum on a single shift basis is being set up at Palghar in Thane district of Maharashtra. The company has been promoted by Uday S Lele, Managing Director, who is a graduate in chemistry with over 8 years experience in the marketing of chemicals. The collaborator firm's chemical based contraceptives are presently manufactured in more than 60 countries all over the world for the past 25 years and are used by millions. The product is a non-hormonal chemical based spermicidal contraceptive which dissolves in the vagina at body temperature to form spermicidal contraceptive action. There is no loss of sensation and feeling in using it, unlike in the case of condoms. According to Lele, surveys conducted among the general public in India have indicated an overwhelming preference for vaginal pessaries over the available contraceptive modes. The company expects to have a turnover of Rs 3.74 crore in the second year of operation on a two-shift basis. The total long term funds required by the company for manufacture of contraceptives and marketing of chemicals is estimated at Rs one crore. This is proposed to be financed by equity capital of Rs 80 lakh. The company is making a public issue of 5 lakh equity shares of Rs 10 each, out of which 2 lakh shares have been reserved for preferential allotment to non-resident Indians and another 20,000 for employees and business associates. The subscription list for NRIs will open on July 3 and for the Indian public on July 10. The Canara Bank's Merchant Banking Division is managing the issue.

*REGENCY CERAMICS*, promoted by two young professional entrepreneurs—G N Naidu (Managing Director) and K Seshagiri Rao—is setting up a Rs 12 crore 100 per cent export oriented project for the annual manufacture of 30,000 tonnes of ceramic tiles at Yanam near Kakinada in AP in technical and financial collaboration with WELKO of Italy. The Italian firm is investing a crore of rupees to acquire a 25 per cent stake in the equity capital of the new company. It will supply the equipment for the plant and has also taken responsibility for erection and commissioning. It will also extend expertise to the Indian personnel and market the products abroad through its vast network. An outstanding feature of WELKO's technology is that the cycle time for production would be reduced from 45 hours to only 45 minutes reducing fuel consumption by 40 per cent. As the largest project of its kind in Asia, it would be able to achieve economies of scale. Location of the plant in a 'backward' area would entitle the company to various concessions and incentives. The company has also the advantage of contracting half a million tonnes of second grade ballclay, the raw material, to be used at 25,000 tonnes annually from AP Mining Corporation.

The company expects to achieve 97.5 per cent of installed capacity within 2 months of commercial production. The break-even point is estimated at around 40 per cent of capacity. The collaborator has given a guarantee that the company's product would conform to international standards. The company intends to come to the market soon with an issue of 19.60 lakh equity shares of Rs 10 each at par to raise a part of the finance required for its project. The Merchant Banking Division of Indian Bank is managing the issue.

# Communal Fire Engulfs Ahmedabad Once Again

### Asghar Ali Engineer

IT was on March 18 that the agitation against enhanced reservations for the Backward Castes had turned communal when after a successful Bandh Muslim houses were set ablaze in Ahmedabad city. The communal disturbances continued for a couple of days in that phase claiming 19 lives (14 in police firing and 5 in stabbings) and causing severe injuries to 52 persons and damage worth Rs 3 crore to property. The army had to be called in to assist the civil authorities. However, by the end of March the situation seemed to be under control and the authorities felt confident enough to withdraw the army.

In fact the peace was more apparent than real. The agitators against reservation represented by a student body, Navrachna Samiti, on one hand and by a parents organisation, Vali Mandal, led by Shankarbhai Patel on the other, were determined to carry on the agitation come what may. Even if hundreds die and thousands suffer and lakhs lose whatever little they have, reservation must go so that their sons and daughters can continue to enjoy a virtual monopoly of government jobs and the lucrative professions in addition to trade and top executive jobs in the private sector. How could the *dedhias* (a derogatory term for harijans and lower castes) dare them on their own ground?

The political parties had their own axe to grind. All the opposition parties lent their support to the agitation from behind the scenes. In fact it would not be wrong to say that some parties like the Bharatiya Janata Party began to mastermind it. (That is one of the reasons for the agitation taking a communal turn again and again.) Ashok Bhatt of the BJP who was arrested under NSA is alleged to have incited agitators more than once. The agitators claim to be running the agitation on peaceful lines and hold the government and the ruling party wholly responsible for the continuing violence, both caste as well as communal.

However, things are not as simple as that. Certainly, one cannot exonerate the government and the ruling party of their share of the blame. After talking to a large number of people in Ahmedabad and Gandhi Nagar, one cannot but conclude that a section of the ruling party has been involved in provoking violence with a view to dislodging Chief Minister Solanki. Solanki's supporters too have played a highly dubious role as we will show a little later. Add to this the incompetent handling of the whole situation by the administration and you have a picture of the role played by those in charge of running the government.

The opposition parties, particularly the BJP, have played by far the most important role in the continuing violence, particularly the communal violence. The main obsession of the opposition parties and the dissident faction of the ruling party has been with removing Solanki from power. This can be accomplished only by continuing the violence, caste or communal. Caste violence has lost its momentum. Communal violence is easy to perpetrate and hence innocent Muslims have become the major target.

## GOVERNMENT'S INCOMPETENCE

Solanki's government acknowledges this but seems to be helpless and incompetent to handle the situation. This author with Chandrajit Yadav, Ram Paswan and Syed Hashmi, all MPs, pointed out to Solanki on June 22 in Ahmedabad that if he failed to control the communal situation he might have to go in an embarrassing situation whereas if he had to go on the reservation issue he would be seen to be going down fighting for a cause. Solanki agreed with this view and said that he was going to take very stern measures to curb communal violence. However, the very next day in addition to others a young Muslim girl aged 22 was stabbed to death in Zaweriwad (one of the strongholds of communalists in the walled city) and in the same area an aged Muslim lady, around 70 years old, suffered acid burns which affected her eyesight.

One must admit that the situation is extremely precarious and, in view of the geography of Ahmedabad, extremely difficult to control. The narrow lanes and byelanes and *poles* (extremely narrow subbyelanes within byelanes) make the old city ideal for hit and run tactics and for harassing the police and army and evading arrest. The miscreants have fully exploited this situation. Even the army seems to be failing in its mission. What was particularly shocking was that even the army was getting partly communalised. I have had the opportunity to investigate many major riots but in no other instance have I ever heard any complaint against the army. I was told by a young Hindu gentleman whose secular credentials I have no reason to doubt since his whole family is known to me very well that while combing the Vadigam area in Daryapur for weapons on May 14 army personnel are alleged to have asked the Patels (the area is mainly inhabited by Patels from North Gujarat) to hide their arms and pretended not to have found anything. The newspapers also carried reports that nothing had been found during the combing operations.

Before we throw light on the communal incidents I would like to discuss the caste aspect with which the whole agitation started. The Bakshi Panch, as is well-known, had identified more than 80 Backward Castes for grant of reservation, among whom there were 22 Muslim castes as well. More than 70 per cent of the Gujarat population today comprises these castes, including the Scheduled Castes and Scheduled Tribes, and if all the Muslims are included then about 80 per cent of the population would come under these categories.

It is widely believed that the Congress(I) could get a thumping majority in the last assembly elections under the leadership of Solanki largely on account of the enhancement of reservation by 18 per cent about two moths before the elections. Out of 149 elected MLAs, 125 belong to these Backward Castes, classes, Scheduled Castes, Scheduled Tribes and minorities. However, according to Lakshman Patni, an MLA belonging to Waghri tribe, not even 10 MLAs are now active in countering the moves of the anti-reservationists, let alone launching a counter movement in favour of reservation. It is a very sorry state of affairs.

## NO COUNTER-MOVEMENT

There are various reasons for this. One of the most important reasons is that these castes and tribes are by and large unaware of the reservation benefits extended to them. This was borne out by Sujata Patel who has carried out some sociological research in Jamnagar district. On questioning many persons belonging to these castes she found them quite unaware of any reservation, let alone any enhancement. Also, the rate of literacy among them is abysmally low and the question of taking up government jobs hardly arises. Also, the Backward Castes and specially Harijans and tribals are very dependent on the upper castes economically, much more so in rural areas, and find it very difficult to oppose the upper castes.

The MLAs who no doubt get elected on the strength of their belonging to the Backward Castes too are in many ways dependent on the upper castes and can hardly get away from this reality. The reality is, therefore, much more complex and has to be understood in all its complexities. Even Solanki who is said to have won the elections on the basis of the Backward Castes' and Muslims' support has his strong links with upper castes and classes. His ambition to convert Gujarat into a 'mini-Japan' cannot be realised without strong support from the capitalist class (which consists of only upper caste groups) of Gujarat. His ready compromises with the upper caste agitationists must be seen in this light. On one hand, he needs the support of the Backward Castes for electoral success and on the other he depends on upper caste capitalists and senior bureaucrats for the survival of his government. It is very difficult to get out of this dilemma. So one should not be very surprised if a counter-agitation is not developing in Gujarat. Also, as pointed out above, it is in the interest of the present political leadership not to allow any powerful counter-movement to grow. A Congress(I) functionary at the Zilla Parishad level belonging to a backward shepherd caste told me that in his district he could easily mobilise a large number of Backward Caste people, especially those belonging to his caste, but he had been restrained by his political bosses as "it would lead to bloodshed of unprecedented nature".

It is also important to note that the anti-reservation agitation is limited to a few urban centres like Ahmedabad, Surat and Baroda, though there has been cases of violence in some rural districts like Mehsana, Anand and Viramgam. Ahmedabad, Surat and Baroda are not only politically important in Gujarat, they are also powerful centres of Patel domination. In Surat the violence was restricted to the areas of Kadva Patels who are playing by far the most important role in the whole agitation. The whole agitation is not only led but also mainly financed by the Kadva Patels. Their vehemence can also be understood if we keep in mind the fact that their share in government power has gone down over last decade. During the 1981 agitation also it was Kadva Patels who were the most belligerent in their attacks on the Scheduled Castes.

Another reason why a counter-movement has not grown is the mutual antagonism among the various Backward Castes. They are still far from being aware of the need for mutual solidarity to defend their rights. Idealistic projections and simplistic assumptions will not help. We came to know of many instances in which one or the other Backward Castes fought against the Scheduled Castes in the current agitation. The Waghris, for example, are alleged to have attacked the Dalits (i e, followers of Ambedkar) in Jagjivan Ram Society on May 14, in which attack two persons were injured. One Dalit youth alleged that "Laxman Patni, the MLA, was behind the attack". Patni is a Waghri. This may or may not be true but the fact remains that the Waghris attacked the Dalits. The reason given was that the Waghris were paid for the attack by the Patels.

This was no isolated instance. The Harijans in Ashok Mill Ni Chawl were attacked and their twelve houses burnt on April 22 by the Barots, another caste identified as backward by the Bakhshi Panch. They also allegedly attacked at the instance of the Patels. Such instances can be multiplied. These instances demonstrate that even in Ahmedabad city the Backward Castes are not aware of the benefits of reservation extended to them and are prepared to act as mercenaries against Dalits and other fellow Backward Castes. It would be very difficult to bring about unity and solidarity among all the Bakhshi Panch castes.

### DALIT-MUSLIM RELATIONS

However, there is a perceptible difference in the relations between the Muslims and Dalits. (Dalits in Ahmedabad mostly belong to the Vankar caste.) In 1981 Vankars had borne the main brunt of the riots. Though the Muslims did not suffer then they had stood by the Dalits and in many cases had extended support to their cause. Many Dalit leaders had told me then (i e, in 1981) that they would not now become willing instruments of caste Hindus to kill Muslims as they had done in the 1969 riots. During the current riots Muslims and Harijans have both suffered heavily (the former have suffered much more in the later phases, i e, after the second week of May) and the sense of unity among these two oppressed groups is growing. Most of the Dalit leaders I talked to expressed their feelings of unity with the Muslims. An instance was brought to my notice in the Aman Chowk (Bapunagar) relief camp where a Dalit neighbour saved five Muslim houses from being burnt by putting the Swastika sign and Ganesha's pictures. However, one should refrain from overdrawing the picture of unity among the Dalits and Muslims, in view of centuries of apathy, indifference and even mutual hatred. The upper castes, moreover, are always scheming to bring about disunity among them. But it is becoming increasingly difficult for them to achieve their objective.

The Scheduled Caste government employees are the most radicalised among all sections. It is they who are highly educated and have benefited the most from the policy of reservation. They seem to be determined to protect their interests. Feelings run very high among them and they were found working much more vigorously to face the upper caste government employees' agitation against the roster system. A deputation of these employees led by Pravin Rashtrapal, President, Gujarat Backward Class Government Employees' Association, met us to present their grievances. Rashtrapal, who is an income-tax officer, was critical of Solanki's suspension of the enhanced reservation quota. He also condemned the upper caste bureaucracy which was fully sympathetic to the anti-reservationists. He wondered how the government was tolerating a strike by Class I officers. Even the officers of the rank of deputy and joint secretaries had joined the strike. How could they make a grievance of the roster system, he wondered. The bureaucracy had paralysed the whole administration as its sympathy was with the upper castes, he maintained. He also accused the government of being soft towards traders and industrialists when they went on their five-day hartal. Could not government have cancelled the licences of traders under the Gumashta and other Acts had it been serious? The government comes down heavily when poor workers go on strike or landless labourers agitate. Rashtrapal's militancy and anger were quite representative of the feelings of other Dalit employees present at our meeting.

Why the agitation turned communal is a difficult question to which no definite answer has been forthcoming. In the report on the first phase of rioting (*EPW*, April 13) we had discussed certain theories current at that time. The opposition parties and all those opposed to the Solanki government blamed the rioting on the government, in particular on Solanki who was alleged to have given the violence a communal turn in order to defeat the caste agitation. Even if true to an extent, this represents a simplistic explanation for a very complexly structured situation. The situation became more complex from the third week of April when a police sub-inspector, Desai, was killed and the police openly revolted.

### OPPOSITION PARTIES' ROLE

Whatever the role of the Solanki government and whatever its sins of omission and commission, the opposition parties, particularly the BJP, has played no less an important role in provoking communal violence. It played this role from behind the scene and very cleverly. The present investigator had long discussions with a number of prominent people from various walks of life, in addition to putting probing questions to the victims of communal violence.

The first phase of communal violence lasted from March 18 to 25. Eye-witness accounts show that the Patels started throwing stones from Salepari on Nagina Pole which is a Muslim area on March 18 evening. Thereafter stoning started from Vadigam, another nearby locality of Patels. It was also

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pointed out that the police strength on the corner of Nagina Pole was reduced on the evening of March 18. We will have more to say about the role of the police in the communal riots a little later. On the night of March 18 nearly 90 Muslim houses and 106 shops were burnt. Around 20 Hindu houses and shops were also set ablaze. As for the 27 Hindu shops burnt on Nichi Road, Fernandese Bridge, it has been pointed out that this was the result of fire spreading from the burning Muslim shops.

Here it would be interesting to throw some light on the socio-economic factors which have also been partly responsible for giving the agitation a communal turn. Several cloth mills are closed in Ahmedabad and around fifty thousand workers are unemployed as a result. Of these unemployed, nearly one-fourth are Muslims and one-third Dalits. Most of them, in order to earn their living, have taken to working in illicit liquor and gambling dens and in drug trafficking. Most of these dens, it is important to note, are financed by rich Patels and Banias who have surplus black money and who are always looking for profitable avenues of investment. Most of those who run these dens are Dalits or Muslims (notorious anti-social elements) and the couriers too are also mostly low-paid Dalits and Muslims.

The police get 'hafta' from those in charge of the dens and often arrest the low-paid couriers to put pressure on those who run the dens but they never get to the 'hidden hands' of the Patels who enjoy political patronage. The Patels who finance the liquor, drug and gambling dens keep the 'dadas' who run them under control through various means including the police. Many of them have scores to settle with the unruly 'dadas'. All this is said to have played some role in communalising the situation. The Patels sought their revenue and the 'dadas' theirs. Once the violence took a communal form, it acquired its own momentum and other vested interests too joined in. In the first phase, as pointed out in our earlier report, there was not much communal tension in the city and everyone was surprised when communal violence erupted on March 18.

From March 19 to 22 some 40 to 42 pucca houses belonging to Muslims were destroyed. How casually the whole thing was taken by the police was pointed out to me by Girish Patel who is a senior advocate in the Gujarat High Court and wanted to file a writ petition on this issue. Patel had collected the names of the miscreants responsible for demolishing the Muslim houses during curfew hours and had handed them over to the Commissioner of Police. When he required these names for filing the writ he was told by the Commissioner that the paper containing the names had been lost. When the police could treat a complaint made by a senior advocate so casually, one can understand the fate of the complaints lodged by ordinary people.

We do not wish to dwell in greater detail on the communal violence in this phase as we have already dealt with it in our earlier report. The second phase of communal orgy began on April 15 and lasted upto the 29th. April 22 was the day of the worst trouble. It was when the police revolted after the murder of a head constable while he was assisting a two-member fact-finding team appointed by the Gujarat High Court in the Astodia area. After the murder of the head constable the police went berserk and started attacking whosoever came in their way. It was on this day that the offices of *Gujarat Samachar* and *Western Times* were burnt allegedly by the police.

### POLICE ATTACK ON MUSLIMS

However, it was on the same day that all hell was let loose in a labour area, Bapunagar. It is a vast sprawling labour colony divided into several parts known as Indira Gharibnagar, Sanjaynagar, 16 Blocks, etc, and is surrounded by the multi-storeyed buildings of affluent Patels known as Anand flats (behind Indira Gharibnagar), Mangal flats (behind Sanjaynagar) and Bhaiyyas on the one side and of some Maharashtrians on the other. The inhabitants of Indira Gharibnagar and Sanjaynagar as well as of 16 Blocks are mostly non-Gujarati Muslims from AP, UP, MP, etc, and are employed in nearby industries or do odd jobs.

The area had been under curfew for quite sometime though there was no visible communal tension, according to many inhabitants. However, curfew was lifted in the area on April 21 and three Muslim constables were sent away from the area. This action speaks volumes about the role of the police authorities and their real intentions. There is no doubt that the police officers played an openly partisan role in the whole episode of Bapunagar.

Though there was no visible tension in the area, the Muslims were feeling insecure. They approached the inmates of Anand flats who assured them that they need not fear and they together formed a peace committee on April 21. The Patels even offered to protect Muslims in the event of any trouble. The trouble began at 3 pm on April 22 when some small shops belonging to Muslims were set on fire near bus stop number 137. A holy shrine known as Malik Sh'aban ki Dargah, an old and sturdy structure, was extensively damaged and a nearby mosque too was ransacked. The Muslims in Sanjaynagar and Indira Gharibnagar were panicky, but they could do little except contact the police which kept reassuring them. By 6 pm a well armed mob collected near Sanjaynagar and, according to many eye-witnesses, many of these armed people came in police jeeps. The Muslims collected to resist but were outnumbered and had to run for their lives.

Soon the panic spread among the Muslims of Indira Gharibnagar as well. When they contacted the police they were also told that there was nothing to worry about. Aisha Begum, former Education Minister, also came to know of the disturbances in Bapunagar and contacted the police. On being told the same thing she contacted Amarsingh Chowdhary, the Home Minister, but got the same reply. Thus neither the police nor the Home Minister cared to take effective steps to avert the disaster which was to follow.

At 4 am on April 23, according to Munawwar Khan, a resident of Gharibnagar, stoning started from Anand flats. The Muslims were totally surprised as the residents of Anand flats had assured the Muslims that nothing would happen to them and a peace committee had also been formed. Muslims now realised the gravity of the problem and again contacted the police but were told not to worry. They retaliated to some extent but could not do much. Soon a police and SRP force gathered in a maidan opposite the Gharibnagar tenements and began to fire at the Muslims. According to eye-witnesses, the police officers even supplied petrol from their jeep and motor cycles to the miscreants to set fire to Muslim houses and shops in the area.

A number of police officers have been identified and even the Chief Minister and the Home Minister, when I asked them, could not deny the role of these police officials. The Chief Minister said that he had transferred one of the officers as a punishment—what a punishment for the havoc caused!—but on inquiry it turned out that it was another officer who had been transferred. As a result of the police firing about 20 Muslims were killed and 93 were injured either in the police firing or in assaults by goondas. Among those killed were a woman and a doctor. The police's role was most condemnable. Instead of protecting innocent lives against a mob bent upon mayhem, the police turned themselves into an integral part of the murderous mob and fired to kill people fleeing out of fear. Even children were not spared. The Solanki government seems to be helpless in dealing with its own police.

It is also alleged by some observers of the murderous scene on that day that some lower level Congress(I) functionaries, who have connections with notorious local slumlords, were also active. Rajendra Anchal and Ramlal Pehalwan were named in this connection. The latter, a slumlord, had played a notorious role in the 1969 riots also. It was also alleged that a Congress(I) MLA who is close to Prabhod Rawal, the ex-Home Minister, protects them. A Congress(I) Corporator also helped the miscreants. When Harubhai Mehta, a Congress(I) MP was told about this and he asked the Corporator for an explanation the latter is reported to have said, according to Dhirubhai Patel, a Sarvodaya social worker, "I am a Hindu and it is my duty to protect the interests of Hindus". It is alleged that the Congress(I) Corporator along with the local slumlords has an interest in the land occupied by the Muslims in Bapunagar area.

This is corroborated by the fact that after the Muslims fled from Sanjaynagar and Indira Gharibnagar on April 23 early morning, their pucca and semi-pucca tenements were burnt and systematically demolished with active police help. In all around 560 houses were destroyed and some 1,118 families rendered homeless. How could such a feat be accomplished without active police help? Urban growth, soaring land prices and increasing crime—these have forged deep links between the landsharks and black money operators, criminals and the ruling party. A rootless Chief Minister foisted from above by the Centre for its own political reasons has tried to establish his base among such elements. The alliance ensures both money as well as muscle power and coupled with some populist measures can ensure comfortable electoral majorities to the ruling clique. However, the people pay with their lives and property whenever the vested interests choose to extract their 'price'. The government and its machinery look on helplessly while the 'price' is extracted.

### RELIEF ON COMMUNAL LINES

Let us come back to the Bapunagar incidents. All the families rendered homeless sought refuge in the Aman Chowk Relief Camp. There were 6,000 inmates on the first day according to J J Sheikh and N A Saiyed, who are in charge of the camp. About 4,000 were still there when we visited the camp on June 23. It was a very ramshackle arrangement because of paucity of resources. The government was providing a pittance of Rs 5 per day per person, which was replaced by foodgrains a fortnight later. Solanki told us that so much was being given to the inmates of the camp that they had developed a 'vested interest' in staying there even though 250 houses had already been repaired. Our inquiries on the spot did not bear out these claims. The relief being provided is hopelessly inadequate and the victims were living in a mandap open on all four sides with hardly anything to sleep on. Not more than 150 houses had been repaired and each family had been paid Rs 2,000 compensation irrespective of the extent of loss suffered. Those who are paid compensation do not get relief anymore and are compelled to leave the camp.

The relief is being organised on communal lines with the Muslims making their own arrangements and the Hindus their own. This is another sad commentary on our secular culture. We have certainly opted for a secular polity but are far from building up a secular culture and secular outlook. No secular organisation came forward to help the victims of Bapunagar. Dhirubhai Patel, the Sarvodaya worker, told me that despite his repeated requests the Sarvodaya workers showed hardly any interest in the relief work in Bapunagar. Dhirubhai also pointed out that there were several big trusts owned by rich Hindus but none had come forward to do anything. Such apathy, bordering on hostility, on the part of majority community helps in accelerating the process of communalisation on the part of both communities.

The Nagrik Samiti, which was formed to put an end to violence in the city, too ended in a fiasco. Unfortunately it was headed by Justice Dewan who is a known supporter of the Vishwa Hindu Parishad. It failed to take any categorical stand on either the caste or the communal violence. It specially kept quiet on the communal incidents. The committee's behaviour is all the more surprising when we bear in mind that an eminent progressive writer and poet like Umashankar Joshi is on it.

Girish Patel and Mahesh Bhatt pointed out that even the bar and the judiciary have not been able to escape the deeper and sinister influences of communalism. The Bar Association of Ahmedabad of City Civil, Criminal and Small Causes Courts (having 1,500 members) in its meeting on June 20 passed a resolution condoling the deaths of Head Constable Laxam Desai, PSI Rana and the eight Dabgarhs who were burnt alive in a house by Muslims, but made no mention of the victims of the Bapunagar communal violence, nor of other Muslims killed in several other incidents. Justice Bhatt of the Gujarat High Court in a judgment delivered some eight months ago had written that the Harijans had exploited the caste Hindus for more than 35 years (by monopolising the reserved jobs). If such is the outlook of the judiciary and the legal practitioners what can be expected of ordinary people?

The other day of vicious communal violence was May 12 after the killing of PSI Rana by an unidentified killer (it is alleged he was killed by a Muslim; others allege that he was killed by an army man in a case of mistaken identity as there was no light at that time in the area). Rana was killed on May 8 and a fresh bout of communal violence started on May 9. This can be considered the third phase of communal violence. According to newspaper reports, seven persons were killed on May 9 and 18 persons on May 12. The police fired more than 200 rounds and it was difficult to keep count of cases of arson, loot and stabbing on May 12. Kalupur, Daryapur, Saraspur, Gomtipur and Bapunagar were the worst affected areas. The incidents were mainly communal in nature.

Bapunagar witnessed another bout of violence. Muslims had already fled from different parts of Bapunagar and sought refuge in the Aman Chowk Relief Camp. But some houses in 16 Blocks and 12 Blocks had not been attacked on April 23. Constructed by the Housing Board, these were pucca houses. About 100 of them were destroyed on May 12. Everything inside was looted and carried away. Another badly affected place was Jalampuri-ni- Chawl inhabited by Mansoori Muslims (i e, carders). The whole row of houses comprising some 220 units was razed. The Muslims fled in terror. All their belongings were looted. Opposite this chawl there are Patel houses. Not a single house has been touched. When we went round Jalampuri-ni-Chawl on June 23 not a single person had returned. The chawl wore a deserted look. These too were pucca houses and it must have taken a large number of persons with appropriate tools to demolish them so systematically. One cannot but wonder at the planning and systematic execution of the operation during curfew. In this new phase the communal orgy continued for a number of days. It has become difficult to keep count of the dead and injured. What appears in the press is only a part of the truth.

### ROLE OF THE PRESS

The role of the press has not been such as to distinguish it. The language press in particular is completely prejudiced against the Dalits and the minorities. When some atrocities were committed by the police on high caste Hindus the press went hysterical in its attack on the police and the government. Page after page carried the highly exaggerated accounts of these atrocities. Even doctored photographs and false stories were published.

When the Dalits and minorities were attacked by the police, the press in Ahmedabad not only kept quiet but tried to suppress or play down many of the events. The Bapunagar, Jalampuri-ni-Chawl and Ambedkarnagar incidents were played down. In Ambedkarnagar on April 22 more than 200 Dalit houses were razed and burnt and three persons were killed. Many Dalits fled in terror. The lathi charges on upper caste Hindus were nothing when compared to the Bapunagar and Ambedkarnagar incidents. Yet the champions of press freedom did not react. After the murder of PSI Rana on May 8 the role of the police began to be glorified by the press. As far as the attitude of the press towards the police is concerned, Rana's murder was something of a watershed.

The press did not hesitate to carry stories without checking if Muslims or Dalits were actually involved. Even a paper like *Times of India* in its issue of May 13 (Bombay edition) carried a completely false story about Muslims carrying arms disguised as a dead body. The report said, "An armed mob of 100 was moving under the disguise of a funeral procession. It was stopped at Gomtipur by the police. Lethal weapons were concealed in a bedstead being passed off as 'body'. The weapons including pipes, knives, dharias and acid bulbs."

The whole story is a concoction. I met Salmabi whose five-month old son's body was being carried in the funeral procession. I met her at the relief camp in Aman Chowk. Salmabi told me that her son had died on May 12. Her husband and twelve others had carried the dead body wrapped in cloth and buried it in the cemetary and were returning on cycles when the police stopped them and began hitting them with lathis. Then a mob attacked them and killed two persons including Fakhruddin, Salmabi's husband and father of the child just buried. All this happened in the presence of two Congress(I) Corporators, Shamser Singh Rajput and Gyanchand Jain. They did not stop the police or the mob from attacking and killing the Muslims. The press, without verifying, published the version dished out to it by interested parties.

The Gujarati press played a most mischievous role. It gave the names if those killed were Hindus and refrained from doing so when those killed happened to be Muslims. *Jansatta* published all the names of the Dabgarh Hindus (eight of them) who were burnt alive on June 9. The government confiscated copies of this issue of the paper. When the copies were confiscated it raised the issue of the freedom of the press. The way news management has been practised by the papers, a common man in Gujarat would think that most of those killed in the disturbances were Hindus whereas the truth is quite the opposite. Three rickshaw-walas (all Muslims) were burnt alive in Narayanpura alone (a posh suburb mostly inhabitated by Kadva Patels). The mob would ask for the licence which mentions the name and on finding a Muslim name would set him and his rickshaw on fire. However, in the interest of 'communal harmony' the press would not mention the names of these victims.

### THE FOURTH PHASE

The fourth phase began with the Gujarat Bandh for five days in the first week of June. Ahmedabad was rocked by communal violence once again. Many major incidents took place and are still taking place at the time of this writing. Seventeen persons were killed on June 9, of which eight were burnt alive in Dabgarhwad in Daryapur locality. These Dabgarhs were Hindus belonging to a Backward Caste included in the list of Backward Castes by the Bakhshi Panch. Most of the Dabgarhs had fled the locality a few days before this incident. Only this family of eight had remained.

On June 9 some miscreants had set fire to a house belonging to Mansoori Muslims near the Dabgarh house. There were three families inside the Muslim house. Hearing their cries some Muslims gathered and rescued the families with the help of ropes. The enraged mob of Muslims then set fire to the Dabgarh house. A number of incidents had taken place in the Daryapur area. Over the previous month 20 cases of stabbing of Muslims had taken place, but the police had not taken any action and no one had been arrested. Incidents of bomb blasts were taking place almost every day but the police was completely ignoring all this. There was accumulated anger and the innocent Dabgarhs who had stayed back paid with their lives. Some Muslim women tried to prevent the fire brigade from entering the area to rescue the Dabgarhs. The fire brigade officer fired from his revolver killing two Muslim women. The army then surrounded the area.

Another major incident was that of the Rathyatra. The temple priest had earlier agreed not to take out the procession in view of the grave situation in the city. However, Shambhu Maharaj of Jai Ramrajya Paksha and others insisted on taking out the procession even by defying the ban. The Rathyatra was taken out on June 20. The organisers insisted upon entering the walled city and the procession passed through the Muslim areas. A section of the processionists were shouting *bandyas qabrastan jao ya Pakistan jao'* (circumcised Muslims go to Pakistan or to the graveyard). Slogans were being shouted against the Harijans as well. A person was seen throwing a bomb at the Muslim crowd and was arrested by the army. It was then that the Muslims threw stones at the processionists and the army opened fire, killing seven Muslims. While many Muslims had greeted the procession with 'arti', some miscreants were bent upon creating trouble.

Women now are being attacked and stabbed. On June 23 came news of two Muslim women having been attacked. One women of 22 had been stabbed on Relief Road near Zaveriwad and succumbed to her injuries. Another 70-year old lady was attacked with acid which affected her eyesight. What is worse, even women have begun to take part in the attacks. Dehumanisation has reached its limits.

The agitation against reservations has completely degenerated into communal violence. Communal incidents have taken place in Viramgam, Baroda, Savarkundla and several other places. In Viramgam Bohra shops were burnt and looted causing a loss of a crore of rupees. Now the only logic of the communal incidents seems to be to topple the Solanki government. To bring this about innocent Muslims are being made to suffer.

### DEEP CONSERVATISM OF UPPER CASTES

The caste and communal violence in Gujarat in which over 200 lives have been lost and more than 1,000 injured has conclusively shown how deeply conservative the Gujarati upper castes still are. Industrialisation (Gujarat is second only to Maharashtra in this respect) and affluence have failed to inculcate a modern outlook among the upper classes. Their hatred of minorities and the lower castes runs deep.

There seems to be no direct relationship between industrialisation and modernisation in the Third World countries. There are various mediating factors which need to be thoroughly studied. Those who talk of computerisation and use of ultra-modern technology seem to be totally ignorant of the forces of soical conservatism so deeply ingrained at all levels of our social existence.

Extreme poverty and misery among the minorities and the lower castes and tribes on one hand and affluence among rich upper caste Hindus on the other create unbearable tensions which are easily transformed into violent outbursts as in Gujarat. Without restructuring the soico-economic system and greater flow of resources in favour of the weaker sections these tensions cannot be eased. Reservations for jobs and in educational institutions and other economic concessions to the lower castes and the minorities are some of the ways of bringing about such redistribution of resources. The middle classes clamouring for a greater share of resources act as carriers of caste and communal viruses through their pen and power of speech. The role of the press in Gujarat has shown this once again.

## VKRV Rao Awards in Social Sciences

THE VKRV Rao Award in Public Administration for 1982 has been given to Kuldeep Mathur, Indian Institute of Public Administration, New Delhi. The Award in Demography for the year 1981 has been given to Pravin Visaria, Director, Gujarat Institute of Area Planning, Ahmedabad, and for the year 1984 to J Krishnamurti, Delhi School of Economics, Delhi.

The VKRV Rao Prizes in Social Sciences, instituted by the Institute of Social and Economic Change in 1978, carry a cash award of Rs 5,000 and are administered by the Indian Council of Social Science Research. The Prizes are given to Indian scholars below the age of 45 years for significant original contribution to human knowledge and progress, applied or fundamental, in specified fields of social sciences.

# 1985 Textile Policy

## End of Handloom Industry

L C Jain

THE 1985 textile policy has thrust upon Rajiv Gandhi the dubious distinction of becoming the first Prime Minister of independent India to preside over the liquidation of the handloom industry which has been intimately woven into the history of India's freedom struggle and her crusade against underemployment in the post-independence period.

Protection for handlooms against unequal competition from mills and powerlooms has hitherto been the cornerstone of our textile policy. This has been knocked out and with it any possibility of saving the handloom industry, with all its significance for rural employment, from total destruction within the next five years at the most. The textile policy expects handlooms to depend on their own muscle power to chase away the killers. In the objective situation, it is as foolish and fatal as asking the Prime Minister to rely on his own valour against armed marauders without the aid of the protective force. Inner strength is a necessary but not a sufficient condition, given unequal resources and influence.

In contrast, the policy feels that its favourites—the mills and powerlooms—cannot move an inch without generous aid and protection. Not only all capacity restrictions have been withdrawn on mills and powerlooms but all conceivable financial, fiscal and other assistance has been offered to enable them to occupy the market rapidly, leaving little space for the handlooms except for some controlled crumbs.

Although 'consumer preference' and 'cheaper' cloth are cited as the guiding principles for the new policy, the mills will be protected against imported cloth which will be more to the point if the true aim was to cater to consumer preference and low price. In any case, the product reservation and the so-called 'package' of development assistance offered to handlooms are hollow, as will be shown, and a mere smokescreen for a basic anti-employment, anti-handloom and anti-khadi shift in policy.

### BACK SEAT FOR EMPLOYMENT

The most significant departure the new textile policy has made from the past is in its resolve to liberate the making of cloth from the burden of employment. This formulation destroys the very rationale for support to handlooms and khadi, though ironically the policy does not fail to sprinkle the text with praise for their employment contribution. Henceforth, employment is to be only "kept in view" but not allowed to thwart modern machines from clothing the nation (or upper India) adequately for the 21st century.

It has been argued, without adducing any facts, that multiplicity of objectives including the employment objective have inhibited the textile policy from producing cheap cloth for the masses and kept low the per capita availability and consumption of cloth. This diagnosis has obviously led the 1985 policy to the prescription that cloth output must expand even at the cost of substantial shrinking of employment. It has been assumed that enhanced availability of cloth is all that is required for its enhanced consumption.

In an economy where a galloping (estimated 27 million tonnes) bufferstock of foodgrains mocks at the incapacity of millions of malnourished men, women and children to come forward and eat it, even the blind can see that availability and price alone without purchasing power cannot improve cloth consumption. It is an elementary fact of our life that the half-clad are also half-fed and half-employed. In the circumstances, a policy which accords priority to expansion of cloth output to cover the naked and the semi-naked, which results in simultaneous and substantial reduction in the numbers employed, can only be called perverse. Its perversity is reinforced when it is realised that the hi-tech textile machines will not produce cheap cloth to cover the poor as claimed, but only super-fine cloth to over-clothe the rich. Maximising 'per capita consumption' is not the same thing as providing 'minimum cloth for each person'.

It may be recalled that the output of cloth by mills was frozen in the early 50s to protect employment of the handloom weavers thanks to the powerful advocacy of their case by Rajaji, the then Chief Minister of the erstwhie Madras State. This ban intended to maximise employment in the process of making cloth, was reinforced by the Mahalanobis development strategy adopted in the Second Plan. That strategy commandeered scarce capital resources to build basic industrial infrastructure and capability for India and relied on the traditional industries, using low capital and traditional skills and equipment, to supply wage goods (including cloth) as well as to meet the employment objectives of the Plan. In exchange, the traditional industries were offered protection and promotional support.

The textile mills, with political and administrative complicity, attempted to defeat the restriction on their output by installig *benami* powerlooms which have mushroomed since the 60s. A High-powered Committee for the Handloom Industry in 1974, headed by P Sivaraman, then a Member of the Planning Commission, was shocked at the magnitude of displacement of handloom weavers caused by the growth of authorised and unauthorised powerlooms. The committee found that for every two persons a powerloom employed, it displaced twenty-four persons in the handloom sector. Consistent with the employment objective of the national plan, the Committee called for a resolute ban on further expansion of powerlooms. This recommendation was eventually and firmly embodied in the 1981 Textile Policy statement laid before Parliament:

> Consistent with the objectives of providing adequate protection to the handloom sector, the growth of powerloom sector should be regulated and monitored . . . Fresh expansion of capacity [of powerlooms] would be so regulated that at the end of 1984-85 the increase over the base year in this sector is upto five per cent only. Moreover this [five per cent] expansion will be permitted in respect of handloom co-operative societies only.

In practice of course it was so well 'regulated' that the actual increase in number of powerlooms was not five but 150 per cent, if not more. Besides, the entire 150 per cent growth was in the private sector and some in a few so-called 'powerloom co-operatives'.

It is also pertinent to recall that within the textile sector the making of cloth by handlooms has been preferred hitherto because it yields relatively higher employment by numbers per unit of output and per unit of capital and uses lower capital per unit of output. Barely two years ago, in 1983, the policy of protection to handlooms initiated by the Mahalanobis strategy received a boost at the hands of government's 11-point New Technology Policy. The policy declared by late Prime Minister Indira Gandhi at the inaugural session of the Indian Science Congress on January 3, 1983 at Tirupati—the sacred abode of Lord Venketeswara—promised to "provide maximum employment to women and weaker sections", and undertook to:

> use traditional skills and capabilities making them commercially competitive;
>
> ensure the correct mix between mass production technologies and production by masses;
>
> ensure maximum development with minimum capital outlay.

### WORTHLESS 'PRODUCT RESERVATION'

The only protection for the handloom industry that survives the new textile policy is 'product reservation' which has been on paper as a farce for the last three decades. A Commerce Ministry study group on 'Reservation of Handlooms' had reported in September 1981 that it "found total apathy as far as enforcement is concerned". A recent study (May 1985) by Arti Kaul, a researcher, in Meerut district, revealed that not a single handloom or powerloom weaver was aware of the existence of the scheme of product reservation. And, to cap it all, she found that even the Project Director of the Handloom Intensive Development Project or the District Industries Centre had never heard of the government scheme of product reservation for handlooms.

True, Parliament has recently given product reservation for handlooms a law of its own (to be gazetted shortly). But it is a law that will be placed in the hands of those who have not only shown total apathy for its enforcement in the past three decades, but are hostile to the handlooms.

The policy has also repeated *ad nauseum* eight promotional steps to "preserve the unique role of handlooms and enable them to release their full potential". Even if all these steps are sincerely and solidly implemented—though anyone with the knowledge of the past would snigger at the suggestion—the handlooms would not acquire the power to withstand the onslaught of the mills and the powerlooms which have been provided liberal largesse to occupy all available space in the market for cloth. Assuming that the handlooms would indeed be a bit better dressed this time by the eight-fold development measures, they would have nowhere to sit insofar as the textile market is concerned.

The scope for even accidental survival of handlooms has been diminished by wholesale sickness transferred on their shoulders in the form of "responsibility for production of controlled cloth"—an activity which it is claimed made the healthy mills sick and the sick mills sicker. It is with tongue in cheek that the policy-makers have hailed the transfer of controlled cloth on the shoulders of the handloom sector as a favour conferred on the latter. In the same vein, it has been stated that all encouragement will be given to the expansion of khadi programme "in view of its large employment and income generating potential in rural areas, specially among women". With all the nails they have driven, the framers of the textile policy must take everyone to be a drone to be carried away by their rhetoric-laden preamble that the textile industry has a unique place in the economy "for its contribution to employment".

Incidentally, the package of development measures for handlooms includes a programme of 50,000 residence-cum-work sheds for the handloom weavers in the Seventh Plan. But the convoluted financing arrangement made for even these 50,000 residence-cum-work sheds is such that it would be a miracle if even 10 per cent of the target is actually achieved. What a hurdle race for the handloom weaver to extend his hovel by a few feet so that his children can co-exist with the loom.

What was wrong with the 1981 textile policy was not the policy but its deliberate violation by private profit-seekers and government's own political and administrative elite and enforcement machinery. Instead of removing the thorn, the 1985 textile policy has done away with the body itself. As noted earlier, the mills will no more have capacity restrictions; and new powerlooms need no authorisation. All that is required now for the powerlooms is to be 'compulsorily' registered after they have been installed—which is like compulsory registration of the birth of a baby, a biological *fait accompli*. In fact the policy goes on to promise that a suitable package of measures would be evolved in order to bring about a "healthy development of the powerloom sector". So far, handlooms were being killed by powerlooms gradually, behind the camouflage provided by the 'handloom-first' textile policy. Now the killing will be in the open, accelerated and will no longer be even an offence.

Consequently, at least a million persons—men and women—in the handloom industry can be predicted to be thrown out of employment in less than five years. Most of the displaced will be in remote rural areas which have no power and no alternative employment opportunities. Under this new policy, employment in even the mill sector will shrink significantly, as hi-tech automatic machines will be utilised to step up cloth output in the machine sector with 'soft-loans' to be liberally supplied by government.

### New Harvester Combine Policy

Handloom weavers, especially in rural areas, work part-time on handlooms and part-time as agricultural labour. To ensure the total destitution of the handlom weavers—as if they were enemies of the nation—the new textile policy was followed up by the decision to make harvester combines which were hitherto solidly banned. This ban on harvester combines was due to the danger of large-scale displacement of agricultural labour pointed out by several studies including the one conducted by the Agro-Economic Research Centre of the Delhi University on behalf of government. The study persuasively advised against the induction of harvester combines from the viewpoint of employment. Incidentally, the Agro-Economic Research Centre's study carried also the stamp of approval for its findings in the introductory remarks of Sukhamoy Chakravarty who till only a few weeks ago was Chairman of the Prime Minister's Economic Advisory Council. It is common knowledge that the big farmer lobby, specially from Punjab/Haryana, has been exerting pressure for import of harvester combines to get rid of the bother of coping with agricultural labour.

As a result, lakhs of idle agricultural workers from eastern UP and Bihar will no longer find work, wages and foodgrains they have been gathering each season from harvesting the bumper crops in Punjab and Haryana. The handloom weavers amongst these seasonal agricultural workers will thus lose one-half of their income to the textile policy and the other half to the harvester combine policy. A similar fate awaits the handloom weavers-cum-agricultural labourers in the other agriculturally surplus districts in Tamil Nadu, Andhra and elsewhere.

Thus not only in the textile sector but generaly, the government appears to have embarked on a perilous path of producing goods and services without bothering about employment. Though a hint of these coming changes had been in the air, little did one suspect that the new textile and harvester combine policies will not only strike but also wound.

If the government is convinced that fears of large scale displacement of handloom weavers are not true, let it guarantee that it will provide compensation and rehabilitation assistance to any handloom weaver dislodged due to the new textile policy—as it has proposed for the retrenched weavers in the organised sector. Let the fund proposed by the textile policy for compensating the retrenched textile workers in the mill sector be broadened to include also the handloom weavers.

The euphoria about the new textile policy is confined to the lobby of the mills and powerlooms and those who are fortunate not to have seen a village or faced underemployment or unemployment. They have hailed these as harbinger of 'hope' and a 'bold' departure from the past. It did require some boldness, if that is the virtue we are seeking, to have reversed the textile policy rooted not only in the freedom struggle and nurtured by Gandhiji and Rajaji, but also rooted in India's socio-economic realities as recognised by the successive Five-Year Plans in the past.

We must wait and see how the 1985 textile policy will fit into the Seventh Plan expected to be finalised shortly by the National development Council. What is known of the Seventh Plan strategy so far through the Approach Paper published last year is that it rests on three pillars: food, work and productivity. But, if sector by sector the government has already resolved to subordinate, if not sacrifice, the employment objective then it remains to be seen by what magic wand the Seventh Plan can sustain *food* and *work* for the masses, as its primary objectives. Insofar as the third pillar of the Seventh Plan

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Approach Paper, namely, *productivity* is concerned, it is to be noted that the new textile policy aims at achieving productivity only per machine and not per person employed in the endeavour of producing cloth for the country; nor does it aim at productivity of scarce resources such as capital and energy per unit of cloth output and per person employed.

The policy has strangled more than handlooms. We have no foreign cloth to burn but it will be a great national duty to oppose and burn the textile policy resolution publicly as an act of solidarity with the inarticulate poor and unorganised workers whose case was eloquently advocated by the Prime Minister at the ILO Convention in Geneva only a few days ago.

## WOMEN

# On the Road to Nairobi

**Rita Manchanda**

WITH the Nairobi Gonference to mark the close of the UN Decade for Women due this month, it was only to be expected that there would be a mushrooming of local review conferences to assess the achievements of the decade. Recently a single fortnight saw the Capital host four meetings on women which in their own distinctly heterogeneous way were conceived as somewhere along the road to Nairobi.

Most closely oriented towards the Nairobi Conference was the Conference of the Women's NGO Consultations convened to focus specifically on the "Women's Decade in Review". The meeting of the Chhatra Yuva Sanghursh Vahini was in its poster projected as appraising the achievement of the first Women's Decade but appeared instead to devote itself to the recitation of the narratives of the 23 women who had marched from Kotputli (Rajasthan) to Delhi. It did provide an occasion for grassroots activists to dialogue with middle class activists of the women's movement, exposing too their wide divide. The Nehru Memorial Library's Seminar on Education, Women and Socialisation was a much more academic exercise with Vibha Parthasarathy's presentation of the experiment in her school, Sardar Patel Vidyalaya, being the high point.

Finally, there was the mega conference of the Non-Aligned and Developing Countries on Women's Role in Development to co-ordinate the position of this body for the Nairobi Conference. Forty-nine countries participated in this ministerial conference which significantly lacked the fanfare that normally accompanies such conferences, itself a reflection of the low value attached by both in host and participant countries to the women's question. One has only to juxtapose the official handling of the Women's Conference with the NAM Co-ordinating Bureau's Namibia Meeting to expose the hierarchy of political importance.

Conferences of the non-aligned are well-known for the skill with which they are able to arrive at consensus declarations that paper over the differences between such polarised countries as Singapore and Cuba, but I must admit that there was considerable curiosity to see what kind of document on women would find approval with Khomeini's Iran, Zia's Pakistan, Castro's Cuba, Mengistu's Ethiopia and Gandhi's India. And the document is bold, indeed unambiguously political, in its challenge to the traditional view that women's problems must be seen in social, humanitarian and demographic terms. In rhetoric at least we have come a long way from Mexico, 1975. Women's role is seen as vital to the rate of development of a country. The twin myths of the supplementary nature of their work and their 'backward consciousness' which justified women's unequal political participation, are categorically rejected.

Through the conferences in Mexico, Baghdad, Copenhagen and now New Delhi it has become accepted that in developing countries women are the primary producers of food. "Men predominate in the decision-making and management of commercial or large-scale agriculture which has been modernised and women continue to predominate in the food and subsistence sector with low levels of technology and low returns." The report draws a link between the neglect in government policy and planning of women as primary food producers with the growing food crisis in sub-Saharan Africa. In this region females constitute 46 per cent of the agricultural labour force and in Asia 45 per cent. The 'invisibility' of many types of subsistence production and the use of industrialised countries' definition of 'work' have resulted in the undercounting of women's work.

Many of these issues have been recognised and recommendations made in several women's conferences. Yet in 1980 the UN reported at the Mid-Decade Conference in Copenhagen that "women while performing nearly two-thirds of the world's working hours still receive only one-tenth of the world's income and own less than one-tenth of the world's property".

Identifying the problems in implementing strategies to improve women's role in agricultural development, the report highlights the conceptual level, or lack of knowledge about women's role as producers. There is the lack of investment in sex-based data. Besides, most of the research on rural women's participation in development during the decade have been internationally funded and often not known to national governments.

At the root of the problem remains the low status of the 'invisible' women. Despite the abstract acceptance of equality, those laws which pertain to the ownership of rural assets have not been operationally restructured. Moreover, the commercialisation of agricultural land and privatisation of communal lands (forests) and the importance attached to households as the basic ownership unit for programme benefits, have tended to defeat policies which aim to recognise women as equal owners or independent beneficiaries. On the whole, there has been insufficient recognition of the need to address gender-based hierarchies and power relations within families, communities and societies at large.

The report also addresses itself to the problem of the 'specificity' *versus* the 'integrationist' approach. In some developing countries women's specific projects are aimed at providing income-generating activities and basic needs to rural and urban women. These projects address themselves to the immediate need of survival faced by women in the poorer strata but, in the long run, end up marginalising women further, instead of achieving the full integration of women in the development effort as a vital contributor. Consequently, at the close of the Women's Decade, the crucial deliberations on food strategies, industrialisation, rural development, monetary reforms, science and technology still face problems in integrating the women's dimension within their overall plan of action, although after Copenhagen 'integration of women in development' has become an accepted rhetorical principle.

Linked with the specificity debate is the setting up of Departments for Women's Affairs. During the decade many governments have set up Commissions or Ministries for Women's Affairs. India this year created a Ministry of Social and Women's Welfare which has given rise to much optimism among a section of women's groups here. And it is appropriate to take note of the reservations expressed in the report on these administrative structures. The Mid-Decade Review in its assessment of the efficacy of these institutions said that the "tendency to locate such units mainly within departments of social welfare and culture which are considered non-productive and are not usually in the mainstream of the development effort" is a serious drawback if not distortion of the perception of the vital role of women in the developmental process. They also suffer most from budgetary constraints during the economic recession. Moreover, the existence of state mechanisms of this kind tends to reduce the concern of other administrative organs and of society as a whole for the advancement of women.

Women have to be 'visible', if their access to health, education and economic development is to be assured. Political participation through the electoral process is the first step. The report states that at the end of the Second World War only 31 countries had conceded women's suffrage. By 1979 women in 129 countries had won equal rights, and seven countries granted this right to women constitutionally during the decade. Yet participating in this very Women's Conference were countries where women did not yet have the right to vote. Interestingly, the draft document prepared by the host country, India, had included in this section another sentence, "There are six developing countries . . . which exclude women from the formal political process open to men. All of them are located in the Persian Gulf." It was one thing for the Oman delegation to agree in the abstract to the need for political participation but this sentence cut too close to the bone. The report instead seeks to skirt its assessment of women's political participation in these countries by saying that "it varies with the nature of the political system". It draws a further distinction between those countries which had popular liberation movements that had mobilised women and developed women's wings in their organised political parties. In Algeria and Iran women were in the forefront of their revolutions. Yet in post-revolution Iran women have now become completely 'invisible'. Iranian delegates participated but obviously such awkward questions were glossed over.

The report indicates that in countries where the women's issue is being actively debated, two trends have emerged during the decade—an active women's wing in political parties and trade unions, and separate but politically-oriented women's organisations. Accommodation of the women's demand for participation has found easier acceptance in political parties than trade unions. Assessing the situation at the end of the decade the report claims that while the visibility of women in the political and developmental process has increased because of greater efforts to obtain first-hand knowledge, the search has also identified powerful and hidden forces. At the centre of the debate is the myth of women's 'backward consciousness' as evinced in her lower participation. Studies have, however, shown that in the fight against colonialism and the struggle of workers, women have responded with equal vigour. There is, moreover, the fact that mobilising organisations, political parties and trade unions neglect to communicate with women. Also the additional responsibilities on a woman—of childcare and household chores—make it difficult for her to participate. Trade unions, in particular, resist sharing of responsibility with women. Indeed, the greatest resistance to equalisation of wages between men and women come from trade unions. Lack of data on women's participation has reinfored this tendency to regard politics as not a woman's domain. "This kind of perceptual invisibility has helped to strengthen the unwritten law that regards politics as not a woman's domain in the same manner that non-acknowledgement of women's contributions to the economic progress has affected their rights and positions as workers and producers."

The report also focuses on the mushrooming of independent political organisations by women such as that of poor, self-employed women who are excluded from trade union membership. The difference in the pace of growth of women's informal political activity and the sluggish pace of their accommodation in formal political activity has given rise to a questioning by activists of the concept and indicators of political participation.

The New Delhi document is to serve as the basis of the non-aligned stand at Nairobi, though Begum Zari Sarfraz, leader of the Pakistani delegation, felt that the fragile consensus achieved in Delhi would probably not be able to withstand the East-West pressures that threatened to split the global conference in Nairobi. The preparatory conference in Vienna last March spent most of its time on the question of imperialism, and women's issues took a back seat. Indian participants, however, feel that had the New Delhi meet taken place before Vienna the New Delhi document could have played the same progressive role as the 1979 Baghdad Non-Aligned Women's Conference did for Copenhagen. They are still hopeful about influencing the preparatory UN draft which is yet to be finalised.

While the New Delhi document could be a powerful weapon to radicalise the Nairobi meet, closer to home what impact does the progressive rhetoric have? One can be excused for being cynical when Begum Sarfraz, as Pakistan's representative, has approved the document and yet adds: "Women have got more benefits under the military regime of General Zia than under the parliamentary system under Bhutto."

Vina Mazumdar, Director for the Centre of Women's Development Studies, was much more positive about the educative impact of the rhetoric of such a conference on advancing the role of women. She recalled that in 1980, NGOs were able to pressurise the government on the basis of their declaratory stand on women's issues in international fora, to include a section on women in the Sixth Plan.

India was one of the very few countries that had included NGOs as part of their official delegation. Curiously Begum Sarfraz could not see any reason why anyone from Pakistan's Women Action Forum or other NGOs should have been invited to a ministerial conference. Indeed, the guidelines for the conference formulated in 1976 specifically spoke about the participation of NGOs. The document also stresses the need to involve NGOs and the media. Yet here the Government of India drew the line. There were no media representatives included in the delegation and the press was debarred from attending anything other than the inaugural session.

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## EUROPE

# Bonn-Paris Ties Strained

### Ramesh Jaura

NEARLY a year before Helmut Kohl was sworn in as Chancellor of the Federal Republic of Germany on October 1, 1982, the then opposition leader was presented the book entitled "The Giant in Fetters", co-edited by this correspondent with colleagues from Austria, USA and USSR. Several contributions in the book highlighted the economic and industrial power of FRG and pinpointed the limitations placed on its room for manoeuvre in East-Wast relations in particular and world affairs in general.

"The Giant in Fetters!" quipped Kohl, adding: "Hopefully, the next book will be titled the Black Giant!' The tall, heavyweight Kohl was referring to an attribute given to him by a West German publicist in an attempt to sell the conservative CDU leader as someone who was blessed with much greater farsightedness and historical mission than petty newspaper scribes could ever imagine.

Over two-and-a-half years after Chancellor Kohl assumed the reins of power, the Black Giant's strategy seems to have crystallised at last. Its thrust is to help the Federal Republic of Germany shed as many post-war psychological fetters as possible even while risking apprehensions and misunderstandings, both among supporters and detractors, among partners and allies at home and abroad, near and distant. The Bitburg debate was one example. The obvious irritations in relations with France are another.

In fact the problems with France are of fundamental importance in view of West Germany's future role in European and international affairs. And this for the simple reason that, since President de Gaulle and Chancellor Konrad Adenauer signed the Elysee Treaty in 1963, Bonn-Paris ties have come to form the backbone of European reconciliation and collaboration. This, in turn, has come to be considered as crucial both to the Alliance between Western Europe and the United States as well as to the process of European integration spurred by the establishment of the European Community.

Since relations between any two countries or among a group of countries are not something abstract, personal ties between leaders have a decisive influence. De Gaulle and Adenauer sprang the Elysee Treaty on a German public opinion then nervous of the repercussions for relations with the US and the German Democratic Republic. Likewise, former President Giscard D'Estaing and Chancellor Helmut Schmidt hatched in 1979 the European Monetary System (EMS) which was then sprung on other EEC states.

If EMS is an example of monetary co-operation in Western Europe, initiated by France and the Federal Republic of Germany, the Ariane rocket programme, Tornado, Airbus and the European Space Agency (ESA) testify to Franco-German tie-ups in high technology with military implications.

The importance of personal contacts in relations between Paris and Bonn has been recognised from the very outset by President Francois Mitterrand and Chancellor Helmut Kohl as well. The two leaders have in fact revived the security clauses of the Elysee Treaty so that bilateral consultation between France and the Federal Republic of Germany over foreign affairs and military issues was intensified and made more systematic than the contacts between any other two governments in Western Europe. And this despite the fact that the Federal Republic of Germany is ruled by a coalition government dominated by conservatives and France has a socialist government.

The high watermark in France-Federal Republic of Germany relations based on reconciliation and co-operation was reached when President Mitterrand and Chancellor Kohl symbolically joined hands in September of last year in a moving ceremony of remembrance of the First World War battle of Verdun. This was a gesture intended to bury past conflicts and cement future relations. A new era in Paris-Bonn ties appeared to have been ushered in.

But, in practice, things took a different turn especially as it became clear that Chancellor Kohl was not satisfied with Verdun alone; he wanted reconciliation at the war cemetery where Waffen SS soldiers were buried. Under-the-surface friction was demonstrated quite dramatically by an article in the French daily *Le Monde* in March this year. The translated version, distributed by the French Embassy in Bonn, asked whether the Germans were pulling out of the European Community and charged West Germany of "cheerfully" resorting to "double-speak".

Hardly two months passed when, at the Western Economic Summit in Bonn in early May, Franco-West German ties appeared to experience a fresh jolt. President Mitterand and Chancellor Kohl found themselves at loggerheads both on the issue of a date being set for resuming global trade negotiations within the framework of GATT and on US President Ronald Reagan's Strategic Defence Initiative, popularly known as the Star Wars plan. Observers spoke of the Paris-Bonn honeymoon being over. Rarely had Franco-West German ties been so much to the fore in the German Federal Parliament Bundestag as they were in mid-May.

In an attempt to repair the damage caused by what was officially described as a "misunderstanding" at the seven-nation Western Economic Summit in Bonn, Chancellor Kohl and President Mitterrand decided to hold a private meeting in the Federal Republic of Germany on May 28. The five-hour meeting took place in the southern town of Constance, on the shores of Lake Constance.

How far the basic strains have been set aside will be better known in the coming weeks. But an indication of the state of Bonn-Paris ties was provided by a French newspaper declaring that De Gaulle and Adenauer had died a second death. West German officials have been at pains to play down persisting differences, especially on the SDI. But the fact is that President Mitterrand acknowledged to newsmen that the divergences between the two countries remained. France, he said, stood by its refusal to become involved in President Reagan's SDI.

Chancellor Kohl's pursuit of a 'patriotic' strategy has also unleashed a national debate on FRG's role in European and world affairs. The significance of the national debate is evidenced by the fact that former Chancellor Schmidt has broken the nearly three-year long silence and expressed deep concern at the state of Franco-German ties.

The social democratic SPD leader, Willy Brandt, also a former Chancellor, has initiated a joint action with the French Socialist Party to keep the damage to the minimum. Even liberal party leader Hans Dietrich Genscher, Chancellor Kohl's deputy and foreign minister, has been at pains to reiterate the identity of interests in security policy between Bonn and Paris.

Undoubtedly, Chancellor Kohl has tried specifically to allay fears about West Germany wavering on European political development by underlining the vital need for Europe to move ahead jointly in the high technology field, to cope with the challenges from Japan and USA. But apparently he has been finding it difficult to come up with a definite decision on Bonn's participation in Eureka, in some respects the French response to SDI.

The science and technology ministers of France and West Germany were to meet in June and eventually set up a commission of French and German experts to carry deliberations on joint work further. On SDI, where Bonn's stance has oscillated erratically, Chancellor Kohl told President Mitterrand that official participation by Bonn hinged on the resolution of a "whole range of unanswered questions". Whatever the conclusions of a West German delegation's fact-finding mission to the US, Bonn would then consult with France. Nevertheless, the debate has persisted.

**Hindustan Lever Limited**

# BIOTECHNOLOGY AND AGRICULTURE

## *Abstract* of speech delivered by Dr. A.S. Ganguly, Chairman, Hindustan Lever Limited, at the Annual General Meeting held in Bombay on Tuesday, 18th June, 1985.

Among the economic priorities of the country is determining the choice of future technologies. Development is no longer leisurely and chronological. The first industrial revolution was fuelled by coal and steam power and the second by chemical and electrical industries. Now change is being catalysed by the microprocessor on the one hand and genetic engineering on the other. These are the frontier areas of development which will usher in the next century.

The choice is not between the two, but on what priorities should be given to each one of them so that the country would be optimally served. The 'Green Revolution' was the beginning of agri-biotechnology application in its early days in India. The spread of satellite communications, weather forecasting and the extension of the television network over the last three or four years is an indication of the magnitude of manageable change.

India, compared to many nations of the South, is better equipped to undertake work in these areas which require a science and engineering base. While much is being written and discussed about electronics and telecommunications, the scope and potential of biotechnology in improving agricultural productivity needs to be brought into focus as well. Rapid advances have already taken place in Western Europe and the U.S.A. in this field. However, we know that exclusive dependence on imported technology has its own drawbacks since a certain level of national technology competence is necessary for more economical and acceptable global interaction.

As far as agricultural productivity improvements are concerned, the commendable advances which started in the sixties must continue. These include increase in fertilizer production and the use of new dwarf varieties of seeds, increased irrigation and cropping intensity, and specific inputs for dryland and marginal land farming. The quality of agricultural research in universities, and the transfer of information from laboratory to land have made phenomenal progress and must be further intensified. This has been matched by the response of farmers in adopting new methods and technologies. Several chemicals which have greatly enhanced field productivity are likely to improve in safety, versatility and effectiveness in the coming years. There are also areas of concern. The production of pulses and oilseeds has remained static; so has milk and fish output. Some of these represent critical deficiencies in the national dietary.

## NEW FRONTIERS

For today's address, I have chosen a few areas of the application of science to agriculture. The topic is of interest to the Company and is also a national priority. These frontier areas of science are likely to supplement the stupendous national effort being made to increase agricultural output. It is necessary to reiterate the term 'supplement', because the bedrock of the agricultural economy has been well established by a series of technological and economic measures; we will have to continue to improve their effectiveness and extend them. As satellite communications are unlikely to replace surface mail in India, it would be unwise to expect that the application of 'new biology' will overtake traditional and well-tested methods in agriculture.

There are certain lessons to be learnt here from the West. With the discovery and production of Interferon over ten years ago and subsequent discoveries in genetic engineering and monoclonal technology, there grew a belief that traditional techniques of treating human disease would undergo a radical change. In spite of these explosive developments, progress has been less enchanting in business terms. There is, however, no doubt whatsoever that many of these dreams are likely to be realised before the turn of the century. In the meantime, traditional organic chemical drug therapy continues to make spectacular advances. In the final analysis it will be an interweaving of the traditional with genetic engineering techniques which will emerge in the battle against major diseases. Similarly in agriculture it will be a combination of the well-tested with new scientific inputs which will usher in the next era of progress.

Hindustan Lever's history of the application of science and technology in its business is well-documented. Following the successful use of chemistry and technology to further traditional areas of business, new vistas are now being explored as part of our agri-business strategy. In this area, the achievements of Unilever research are very impressive indeed. It is this combination of a local science base and access to global developments which places the Company in a unique position for venturing into this area.

Biotechnology research has been in progress in a few laboratories in the country and more is planned, including a very ambitious national programme in collaboration with international agencies. But in order to be in the forefront of the fast developments that are taking place, greater coordination is necessary. I believe that industries dealing in agricultural products have a unique role to play both in the contribution they can make, and for the enormous opportunity they can provide in the longer term.

We recognise that an unassailable and strong agricultural economy is going to be a major factor in ushering in a more prosperous and confident future. Neither industry nor agriculture can thrive in isolation in this scheme of things. Nor will the developments envisaged follow the patterns long established in the well-endowed, sparsely populated and prosperous parts of the world. As in many other areas, development will have to match local conditions. In Hindustan Lever, we believe that there is now a growing interface between the agro-industry and agriculture which provides exciting opportunities for growth.

In the rest of this paper, I have dealt with broad issues associated with accelerating the application of frontier areas of science and technology research to agriculture and have cited specific areas of research and application which are important for successful agri-business development and growth in the Indian context.

## PRESENT POSITION

Improvements in agricultural productivity, particularly during this century have been science-led. Nowhere have the developments been as spectacular as in the U.S.A. The establishment and contribution of the Land Grant Colleges in that country was a consequence of the science pull in agricultural development. Af-

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# BIOTECHNOLOGY AND AGRICULTURE

ter World War II, these developments rapidly spread to Western Europe and certain other parts of the world. Advances took place in crop agriculture as well as in animal husbandry and pisciculture. This has created enormous surpluses of agriproducts, milk, fish, animal protein and edible fats.

In India, change began after Independence, first through import substitution, and then through the 'Green Revolution.' Education in agriculture, extension programmes, block development, increasing use of dwarf hybrids, fertilizers, pesticides and herbicides, and progressive coverage through irrigation all helped in these efforts. In spite of all this, agro-productivity is still predominantly monsoon-dependent.

As a result of intensive scientific research undertaken in the sixties, the industrial use of non-conventional oils such as ricebran, castor, kusum, mowrah, sal, neem and karanja increased and released the pressure on edible oils to some extent. However, per capita availability of indigenous edible oils has steadily decreased in spite of several steps taken, and imports have continued to increase. In 1984, a seminar was held in Delhi under the auspices of the Hindustan Lever Research Foundation (HLRF) at which eminent agricultural scientists from all over the country discussed the steps required to overcome this major problem.

An earlier HLRF seminar in 1982 discussed the problems of pulse production in India, which has been more or less stagnant for the last decade, thus reducing the per capita availability of protein to our largely vegetarian population.

The production of paddy, wheat and sugar has increased spectacularly through the application of scientific agriculture, and the progressive increase in the use of fertilizers, pesticides and herbicides. These have been supplemented by increasing investment in irrigation, storage and distribution facilities. But there are signs of levelling off and decrease in the value of incremental output compared to input costs.

Milk availability has increased modestly through cooperative dairies and government milk schemes in larger towns and cities. The introduction of crossbred cows has had limited success and the buffalo continues to be the main milch animal.

As for availability of animal protein, goat and lamb meat has been supplemented by increase in poultry farming. But per capita fish availability is steadily decreasing every year, which in turn is reflected in prices increasing much ahead of the general level of inflation.

Thus, in spite of many noteworthy achievements, there are several areas of concern as well. I believe that further strengthening of proven technologies and interweaving these with selective application of biotechnology will be the catalyst to improve agricultural productivity in India.

## BIOTECHNOLOGY IN AGRICULTURE — A PRIORITY ACTIVITY

I mentioned earlier that there is a lot to be learnt from the experience of new biology in Western Europe and the U.S.A. During the last twenty years, there has been a veritable explosion of discoveries comparable only to what happened in particle physics and wave mechanics earlier in the century. The development of the atomic bomb was rapid, but peaceful applications of the new physics came much slower. Witness the controversy about nuclear power plants all over the world. Similarly, the commercial exploitation of the new biology has been slow. The noteworthy exception is the development of human insulin by the genetic manipulation of bacteria. As with all major discoveries, we are passing through a phase of greater hopes than results. While it is necessary to take a cautious view of the speed with which the new biology will yield results, there can be no debate that our country has to plunge into it as an act of faith. We cannot afford to miss this unique opportunity to develop competence in a vital field which will soon be a major factor in geo-economics. It is also important to realise that as in any other scientific endeavour, global cooperation will be imperative. In order to participate in these developments of the twenty-first century, we have to prepare ourselves as partners rather than as supplicants.

As a result of the already high level of agricultural productivity and surpluses in the western world, biological and genetic research will continue to be predominantly devoted to human health in preference to agriculture. Furthermore, scientific applications in agriculture are not readily transferable unless there are suitable receiving agencies. Differences in agro-climatic conditions and plant types are also important factors.

With our limited resources, the choice of frontier areas of science for application, particularly to agriculture, must be selective. However, even within a limited scope, the costs and risks are going to be enormous and an exceptional order of skills required, so it is necessary to approach the issue as one having economic pre-eminence in the country's list of priorities. It would be my plea that all scientific and technological activities which lead to increased agricultural productivity should be considered to be of Core Economic Priority, not unlike many other areas where progress came only after such priority was given. In India, we have a well-established system of signalling economic priorities in the form of policy declarations and notifications. This has happened because major activities are state-funded, and especially as the scope of work and its costs would be beyond most university laboratories and many private industries.

Currently, the only activities meant exclusively for agricultural output and recognised as core industries of economic priority are inorganic fertilizers, pesticides and herbicides. They happen to be included in their own right as inorganic chemicals and heavy organic chemicals. The list now needs to be extended to include hitherto unconsidered activities related to agro-productivity which require modern techniques of biology, genetics and biotechnology.

## AREAS OF RESEARCH

Biotechnology is sometimes erroneously thought to refer to genetic engineering. While genetic engineering is the specific technique of transferring gene expression through laboratory intervention, biotechnology involves converting discoveries in new biology into industrial and agricultural applications. These include a whole series of disciplines such as biofuels, nitrogen fixation, fermentation, plant hydrocarbons, antibiotics, vaccines, microbial insecticides and biomass production. In India the National Biotechnology Board has chosen genetic engineering, photosynthesis, tissue culture, enzyme engineering, alcohol fermentation and immunotechnology as areas of immediate interest.

It is, however, important to realise that although the potential is unlimited, the scientific and technological infrastructure required to exploit this vast field is equally formidable. Fermentation and enzyme technology or bio-catalysis have possibly made the greatest advances in industrial terms. This is manifest more in Japan than anywhere else. As a matter of fact, Japan regards biotechnology as the 'last major technological revolution of this century'.

In India we already have a reasonable base to produce fermentation products such as antibiotics and organic acids, and in spite of the resource constraints in the country, the scope is indeed unlimited. For example, the use of enzyme technology to produce a number of high value fine chemicals and developing energy conservation processes has hardly been looked into. There is one particular area in which HLL scientists have achieved considerable success. Oils and fats are the major raw materials of our business. While new avenues for enhanc-

Continued

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# BIOTECHNOLOGY AND AGRICULTURE

ing output continue to be explored, we investigated the question of using genetically modified bacteria to produce edible quality oil and glycerine for industrial use. Economically, such a proposition can only be of interest to a perennially oil-short country like India.

Although the developments are still at an early stage, the results are encouraging. Scientists in our laboratory have manipulated genes of two edible varieties of yeast to produce a hybrid cell capable of not only producing and accumulating high amounts of fats of the order of 50% of the biomass, but also capable of utilising sugar at high rates and producing fat within 3-4 days. This unique feat has been accomplished by a novel technique of protoplast fusion and gene technology. Our chemical technologists have succeeded in growing this newly engineered species of yeast in pilot fermenters and successfully extracting good quality edible fat from the biomass. Although the investments in industrial scale-up are rather high, our scientists estimate that we could one day produce good quality edible fats from molasses at a cost of Rs.9000 — 10,000 per tonne.

We are also engaged in the production of a number of other chemicals via this route, although progress, by its very pioneering nature, is slow and the high costs of scale-up make it imperative to evolve cost-effective engineering design. The work of selecting and modifying micro-organisms to produce a whole series of highly valuable chemicals economically will become one of the primary foci of biotechnology research and development programmes in this country. This is also true of the development of enzyme technology where a beginning has yet to be made. Our initial forays into this field appear promising but will have to await successful industrial scale-up.

## SOME PRACTICAL ASPECTS

To us in India, agriculture-related biotechnology is of exceptional importance. This encompasses key areas ranging from bio-insecticides, growth promoters/regulators and photosynthesis improvers to tissue culture, hybrid seeds production, genetic engineering and others including augmentation of edible fats and milk output and fish farming.

India owes its dramatic increase in cereals output to new hybrids such as the cross between Mexican dwarf and the Indian varieties. Indeed hybrid seeds today represent a big business opportunity in the country. The result of the union of two genotypes, hybrids are more efficient than their parents under a variety of agronomic conditions. Developed on systematic lines on a large scale, the spread effect and economic outcome will be quite significant. India is the first to produce hybrid cotton seeds by the novel 'hand pollination' method, evidence that the country has the capability to successfully forge ahead in this field.

Tissue culture is the tool in the propagation of true progenies of the parent plant with uniform growth and productivity characteristics for each species in a given agro-climatic environment through successive generations. The advantage of the technique in ensuring that commercial crops such as oil palm give the best possible yields is obvious. Unilever has achieved a breakthrough in the clonal propagation of oil palm. Begun 15 years ago, it is a successful commercial reality today. At Hindustan Lever's Laboratories , research is progressing with coconut palm. The tissue culture method, unlike the conventional methods of breeding, leads to obtaining increased genetic variability relatively rapidly. Fusion of cultured plant cells permits the development of unique hybrid plants. The technique could be valuable in achieving a breakthrough in the production of pulses and oilseeds.

Can the cells of cereal plants be genetically so altered that they use atmospheric nitrogen and thus become more productive? Can they be made to yield more with lower use of fertilizer? Can they thrive under conditions of moisture and salinity stress? Scientists are convinced that these will be achieved. Another area is the use of micro-organisms to aid the farmer harvest a better crop. Researchers know that the symbiotic nitrogen-fixing bacteria boost yields of pulses and certain oilseed crops. Attempts must now be made to enhance their nitrogen-fixing ability severalfold through genetic manipulation and also make them crop-and soil-specific. This is a highly sophisticated scienfitic field. HLL's scientists have carried out research work and field tests with encouraging results for pulses and oilseeds.

95 per cent of the weight of plants comes not from the soil but from atmospheric carbon dioxide and water. Apart from the genetics of plants, the major criterion determining the dry weight of the plant and the yield of the crops is photosynthesis. Scientists of Hindustan Lever have discovered a mixture of organic compounds which even in one ppm doses increases photosynthesis by 100 per cent or more. They believe that this route of enquiry is not only unravelling many new aspects of plant physiology but may yield other compounds which can be more readily transferred to farm practices.

Besides photosynthesis improvers, growth promoters/regulators are assuming considerable importance in the U.S.A. and Europe and even in South East Asia. Most of these mimic the natural substances present in plants such as hormones and oxins. Norms for manufacturing and using these unique chemicals are being constantly revised to ensure their overall safety. We must adopt the latest technology in this sphere, the cost of which would be insignificant compared to the benefits to be derived.

Another new field is bio-insecticides which are of bacterial, fungal or viral origin. These, and pheromones — insect sex hormones, many of which are synthesized — if adopted, will be of considerable benefit to India's agriculture. Our researchers have succeeded in synthesizing certain pheromones and these are being tested.

## CONCLUSION

The discoveries in new biology are spectacular. Like the micro-processor and the computer revolution, they hold out enormous promise. Countries around the world are busily engaged in preparing their base to move into the forefront of what has been described as the 'technology of the next century'. After the initial euphoria there is a sense of cautious optimism. The conversion of laboratory discovery into commercial success has turned out to be more tortuous than anticipated. Nevertheless progress has been made.

While we gear ourselves to catch up in computers and telecommunication, biotechnology is a new challenge at the starting line. We have the science base to undertake this exciting journey and our need is also great. While I believe that increasing traditional inputs will further improve our already spectacular achievements in agricultural production, the application of biotechnology will be the catalyst for the next leap. Shorter term gains are to be had in areas where progress has been lagging, e.g. oilseeds, pulses and fish farming.

In a resource-short country like India, biotechnology has a major contribution to make. This has been demonstrated successfully in Japan. Secondly, while much of global biotechnology will be engaged in tackling problems of human health and disease in the more affluent nations, agricultural productivity will be the prime concern of the developing countries. Even here, once a research base is set up, the fallout could be significant in areas other than agriculture. For example, some useful work has already been done in India on the application of immunobiology in the detection disease; future applications could be in treating diseases such as hepatitis, leprosy and malaria, and even for contraception.

The economic importance of research in new biology cannot be over-

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## BIOTECHNOLOGY AND AGRICULTURE

stated; at the same time, there is the danger of understating the problems associated with it. The National Biotechnology Board has formulated certain schemes. Private industry has begun exploring opportunities. What is needed is a unified national approach interweaving the plans of the government and private industry into a tapestry of national goals. The tasks are too complex and the stakes too high to attempt any piece-meal approach. Only large goals and efforts are likely to produce results that bring real benefits as well as recognition in the international community in order to enable exchange of ideas and sharing of discoveries. This is how the great technology of the future is likely to evolve. We are ideally placed to ride the crest of this wave into the future. In recognition, this group of technologies must be accorded a place amongst the list of top economic priorities of the country.

Biological research and commercial application is a major strength of Unilever. In Hindustan Lever Limited, work on biochemical and agricultural research has been under way for several years. Some of the first discoveries are now entering the marketplace. Much more remains to be done. It is the combined strength of Unilever's global reach and HLL's scientific record which gives us the confidence to commit ourselves to the application of biotechnology to agriculture as a part of the Company's long term strategy.

*Note: This does not purport to be a report of the proceedings of the Annual General Meeting.*

*The full text of this speech is available in booklet form. Anyone who wishes to have a copy may please write to:*
*Communications Department,*
*Hindustan Lever Ltd., P.O. Box 409,*
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# The People of India

### S K Sanyal

**Population of India**, Country Monograph Series No 10, Economic and Social Commission for Asia and the Pacific, United Nations, pp 414.

PREPARED by a galaxy of Indian demographers and other experts in close collaboration of the Indian Association for Study of Population and the Family Planning Foundation and with the financial support of the UNFPA, this voluminous monograph has been brought out by the ESCAP in the series of Country Monographs "to provide the countries with an understanding of existing population problems as well as with a scientific basis for decision-making, policy formulation and determination of development goals and targets".

Starting with a comprehensive overview of the geographical, historical, political, social and economic scenario, this monograph has covered a wide spectrum of aspects related to Indian population and its growth particularly during 1901-1981. As to the layout, the early inclusion of 'urbanisation' (as a separate chapter III) is somewhat indiscreet in what is otherwise a methodically sound exposition of the growth patterns, basic composition and trends in demographic behaviour of fertility, nuptiality and mortality in the first seven chapters. The topic 'Population Policy and Programmes' similarly should have been relegated to a later chapter, at least after the discusssion of 'Population Projections'. The repetitive stress on the defects of vital registration system and other sources of data through the different chapters could have been avoided by dealing with the subject in the Annexes suitably at the beginning of the volume.

Three major phases in the growth of India's population during 1901-1981 are discerned. A low average annual growth rate of 0.26 per cent characterised the first phase (1901-21) owing to very high death as well as birth rates. The second phase (1921-51) exhibited a steady growth rate of 1.2 per cent, succeeded by the third phase (1951-81) displaying an acceleration in the growth rate averaging about 2.2 per cent, the decline in both these phases in mortality being much faster than that in fertility. However, in respect of both the "sequence and tempo of change" in the Indian demographic situation, the universal validity of the theory of demographic transition is challenged by Pethe, though in a later chapter (p 255) it is accepted implicitly by Bhaskar Misra. Spatially, the growth of population has been uneven. During 1951-81, the northern, eastern and western zones registered higher growth rates than the national average. Premi's textbook approach of estimating for different states the net in-migration rates, it needs mentioning, could be misleading. The reversal of an in-migration rate of six per cent during the fifties in West Bengal to a net out-migration of 2.2 per cent during sixties needs explanation; the trend during the seventies should be examined. Not surprisingly, Ashish Bose feels disillusioned with model building (p 63).

## FERTILITY AND MORTALITY RATES

Meandering through a multiplicity of estimates, Saxena settles for a sex ratio (males per 100 females) of 105 to 108 for the country as a whole, the important factors responsible for excess of males are discerned as a male favoured sex ratio at birth and higher female mortality. The sex ratio is seen to increase over time, the increase in urban areas being more than in rural areas. The decline in child and infant mortality over the years, particularly after 1951, did however result in a slight increase in the proportion of the population below 15 in an otherwise static age structure. The population is no doubt getting 'young', the reduction in the median age being largely due to decline in mortality.

Trends in fertility, it is seen, could not be established convincingly for the period till 1970 because of the fragmentry and scattered evidence relating to different time periods and the difficulty in chosing one among a multiplicity of estimates relating to the same period. The Sample Registration Scheme (SRS), however, comes to the rescue in the seventies, when it could be established that, with the dent already made in fertility supposedly during 1961-71, there was a further decline in the late seventies. However, the myth of the reliability of SRS estimates of crude birth rate averaging around 34.52 during 1971-81 is exploded a little later in the volume by Natarajan (p 209) who with the simple addition of the growth rate of 22.3 and the relatively more reliable crude death rate of 14.8 finds the same to be 37.1. It would appear from the discussions that the methodology which yeilds the highest vital rate is adjudged to be the best and the tragedy of Indian Planning seems to be the incontrovertibility associated with these estimates of vital rates. To quote some results obtained on the basis of a survey in 1972, the high fertility belt comprises Uttar Pradesh, Haryana, Rajasthan, Gujarat and Madhya Pradesh. Among all religions, Muslim fertility remains the highest whether in rural or urban areas. Universality of marriage and early marriages are found to be two significant features of nuptiality in India. Legal measures appear to have had only marginal effects in increasing the age at marriage. In this light, the suggestion to fix the minimum age at still higher levels (25 years for males and 21 for females) reflects wishful thinking so far as the rural areas are concerned.

The mortality level in India is seen to be very high, particularly infant and maternal mortality. The belt consisting of UP, Bihar, Orissa and MP, together constituting 40 per cent of India's population, has very high rural death rates. Mortality among infants and children (1-4 years) constitute 30 per cent and 45 per cent of total deaths respectively. Till the age of 40, female mortality is higher than male, probably due to cultural factors bearing on diet and relative standard of care of the two sexes. The infant mortality rate (IMR) is grossly underestimated by the vital registration data. Despite this observation one fails to understand the utility of including Table 95. Early childhood (1-4 years) mortality constitutes about half the number of infant deaths, in the developing countries as a whole, as against about one-fourth in developed countries. As regards the proportion of maternal mortality to all deaths, the decline from 1.5 per cent in 1966 to 1.1 per cent in 1979 is highlighted by Jain, leaving one to wonder whether such a change could at all be reliably measured. Again, the explanation offered for higher male expectancy of life at birth relative to that of females is merely speculative; statistical tests should have been applied to test whether real differences exist.

Human fertility remains inscrutable, as would be evident from the population projections attempted in the past. The review of population projections made by Natarajan is very interesting, but it is exasperating too to notice the projected estimates falling by the wayside. In general, short-term projections lead to overestimates and long-term ones to underestimates. The closeness of a projection with the actual census counts is more fortuitous than due to any ingenuity of the particular methodology. This prestigeous tool of demography does, however, provide the country's planners with estimates of future population.

The aspects of growing labour force, educational development, food supplies, status of women, etc, discussed in the subsequent chapters help develop some insights into the problems and prospects of the growing population but some of the analyses presented could be misleading, while some leave enough scope for important findings.

The observed decline in the work force participation rates (WFPR) over time reflects changes in age structure, relative shift from rural to urban areas and school enrolment, argues Krishnamurthy without however defining WFPR. He postulates that the Indian economy will have to contend with a work force growing at the rate of 2.2 per cent or more in the years to come. The changes in unemployment rates at the national level are so microscopic that the author's assertions about increase/decrease cannot be taken for granted.

### SOCIO-ECONOMIC VARIABLES

It is admitted that there is lack of good data at the macro-level to indicate definite relationships between population and socio-economic variables. The micro-level studies are numerous but not always convincing. The data cited in Table 195 by Bhaskar Misra seek to prove a generally higher chance of survival of children in upper caste people than among the lower caste. The author should, however, have quoted the number of samples studied for each caste and one would like to have this study replicated.

In an elaborate treatise on educational development, Premi notes that the changes in school enrolment ratios over the decade 1961-71 barely went beyond taking care of the demographic component of school enrolment and were not commensurate with the task of universalisation of elementary education and that India is not likely to achieve this objective even by the end of the century—a sad commentary on educational planning indeed. The analysis of the relationship between the decadal population growth, urban growth and growth of workers and educational variables like growth of literacy and growth of elementary stage enrolment, however, leaves much to be desired, there being even hardly any consistency between what is discussed in the text and what is given in Table 216. How could the effect of urbanisation on the growth of literacy be examined by a mere examination of correlation coefficient? The last para of column one of page 344 is also based on a wrong interpretation drawn from examination of correlation coefficient, which certainly does not bring out a cause and effect relationship. Some of the Tables presented are also not framed properly, showing lack of uniformity of presentation (enrolment ratios are not given in Table 222 but are supposedly given in Table 224 though the column headings do not bring this out).

Lotika Sarkar seems to place undue stress on the practice of destroying female foetuses using 'amniocentesis', the knowledge and practice of which may be limited to the metropolitan cities only and that too to a privileged microscopic minority. It is, however, argued well that law should not be used as an instrument of compulsion to achieve the small family norm but that it should be achieved through increased education and employment opportunities for women. Unfortunately, it is observed that during the three decades since independence there has been a deterioration in women's status, educational progress being confined to a few pockets.

As for the trends in urbanisation, it may be mentioned that the definitional differences with respect to the pre-1961 period and the period from 1961 would render any exercise in tracing the trends in urbanisation infructuous. There should be comparability of the universes, if that is what Ashish Bose means by 'statistical point of view'. Bose indeed makes 'pedestrian' usages (to take on loan his own usage, first para, page 47) of the terms 'statistical test' and 'statistical precision'. It is mentioned that an interesting aspect of urbanisation is the phenomenon of 'declining towns' that is, towns which recorded a net decrease in population during 1951-61. This feature is due more to a 'declassification of towns' (as he himself points out) than any demographic phenomenon itself. With similar definitions adopted in 1961 and 1971 no such feature is observed as regards the number of town groups (see Table 23). Finally, the analysis presented devolves around the concept of urbanisation equated to a mere rate of increase of urban population which subsumes the homogeneity of the urban universes (with respect to the criteria adopted for defining) through successive censuses. The reliability of such an exercise depends on whether all the criteria were taken into account uniformly in all the censuses.

Srinivasan traces the population policies evolved during successive five-year plans. Table 110 compiled by him is particularly interesting, as the national goals of reducing the crude birth rates are seen to experience ups and downs—at the end of a five-year plan, an upward revision is seen (presumably because of poor performance). The family planning programmes assumed increasing importance till the Sixth Five-Year Plan (1978-83) when health, family weflare, MCH and nutrition services were integrated. The family planning performance is seen to vary between the states. This chapter purports to cover a very important area and the reader would have liked to know the relative contribution of programme inputs and socio-economic variables towards decline in fertility. While this has not been attempted, Haryana's example (Table 118) negatives the author's contention about the role of urbanisation, education, employment and income in family planning performance. The purpose of presenting the changes in Effective Protection Prevalence (EPP) per thousand eligible couples during April 1, 1977 to October 1, 1978 is not clear—the trends should have been obtained at least for a few more years. One would certainly get lost in the plethora of assumptions made by Srinivasan in his attempt to estimate the births averted through the family planning programmes.

### POPULATION AND FOOD

Lastly, Asok Mitra's massive chapter on 'Population Growth and Food Supplies' deserves special mention because of the only attempt in this volume towards 'multivariate' analysis. Unfortunately, the statistical tools have been misused and the data misinterpreted. As elsewhere pointed out, there indeed are limitations of high correlations adjudged from correlation coefficients stretched to cause-effect relationships. Asok Mitra not only seeks causation from the magnitude of a correlation coefficient but uses the correlation matrix obtained through the exercise on multiple regression to derive a series of cause and effect relationships and further compares the same with the findings of regression analysis, mentioning that the findings of correlation analysis are 'confirmed' by those of regression analysis. What more confusion could there be in the application of the technique of multiple regression? Specific instances are not pointed out because of limitations of space. Further, when the variable 'food surplus' is regressed on the variable 'total population', the regression coefficient of −0.1429 [4(i) and 6(ii), Table 213, p 307] is interpreted by Mitra as "human labour is still responsible for creation of food surplus", an inverse relationship taken as a direct one. It is surprising to note further that it remained unnoticed by the author that at two different places he holds population pressure to be a positive factor for deficit as well as surplus. Moreover, as the proportion of work force to total population variable for agriculture varies over the districts (the units of analysis), taking 'total population' as a proxy to 'labour input' is not justified. Again, three analyses on 'food surplus' districts, 'food deficit' districts and all districts, on different sets of units are done (Tables 212-214) but there is ony one correlation matrix (Table 211) claimed to be based on 273 units. There are reasons to believe that the correlation coefficients of food surplus and those of food deficit with other variables are based on different sets of units, that is, 177 and 96 units, respectively, but accommodated in Table 211 (an improper procedure). Much indeed can be said about the selection of variables. For example, the tenth variable "the sum total of food deficit and food surplus in a district" is quite interesting, assuming positive values (perhaps) for surplus districts and negative ones for deficit districts. This variable does not figure in any discussion, neither is its import explained. There are conceptual lapses too. The computation of the "Gini coefficient of concentration of land owned" (footnote 23, page 301), for example, indicates clearly that the data on cultivated land and not owned land have been used. The Gini coefficients therefore relate to 'operational holdings' and not 'ownership holdings'. It is inappropriate to use one concept while associating with the other. In this case particularly, the two distributions of ownership and operational holdings being radically different and the Gini coefficients for 'ownership holdings' being higher than those for 'operational holdings', the exercise by Mitra is misleading.

These comments are not to deny the credit due to the Steering Committee for the tremendous effort put in to bring out this very useful monograph. The very weight of the volume with data relating to almost every aspect of population would make it a much sought after volume for planners, research workers and teachers of demography.

# Inter-Connections under MRTP Act in the Context of Asset Limit Hike

**K S Chalapati Rao**

*Since size of assets, which was expected to reflect the economic strength of individual units and of groups of undertakings, has been chosen as a criterion for registering under the MRTP Act's provisions relating to concentration of economic power, growth in the assets of industrial Houses has generally been seen as proof of the failure of the Act in curbing the growth of concentration of economic power in private hands. While the phenomenon of non-registration of many of the recognised House-companies and the reasons for this have been discussed widely, the basis of inclusion of companies in different Houses for the purpose of arriving at House-wide asset figures is not widely known. This assumes importance because of another relatively little known fact that a number of companies which are included in different Houses do not admit inter-connection among themselves.*

*This paper attempts to examine the phenomenon through case studies of the two largest Houses, the Birlas and the Tatas, and by citing important cases belonging to some other Houses. This is done mainly on the basis of studying year-wise registrations, supported by the limited information available in the MRTP Commission's reports and orders issued under the Act. An examination of de-registration under the Act has also been taken up at the end of the paper.*

*This exercise is expected to help in a better understanding of the administration of the MRTP Act as also of the implications of the hike in the asset limit from Rs 20 crore to Rs 100 crore for registration under the Act.*

## INTRODUCTION

THE Monopolies and Restrictive Practices Act (MRTP Act) was enacted in 1969 to prevent concentration of economic power to the common detriment, for control of product monopolies and for the prohibition of monopolistic and restrictive trade practices. While the idea and the format of the Act were a consequence of the recommendations of the Monopolies Inquiry Commission (MIC, 1965), the Industrial Licensing Policy Inquiry Committee (ILPIC, 1969) was the source of inspiration for the licensing policy towards the MRTP Act registered companies.[1]

Ever since the beginning, the functioning of the Act has been a subject of much controversy. Since size of assets, which were expected to reflect the economic strength of individual units and of groups of undertakings, has been chosen as the criterion for registering under the provisions relating to concentration of economic power, growth in the assets of industrial Houses has generally been seen as proof of the failure of the Act in curbing the furtherance of concentration of economic power in private hands. While the phenomenon of non-registration of many of the recognised House-companies and reasons thereof have been discussed widely the basis of inclusion of companies in different Houses for the purpose of arriving at House-wise asset figures is not widely known. This assumes importance because of another relatively unknown fact that a number of companies which are included in different Houses do not admit Inter-Connections (IC) among themselves. This paper attempts to study this phenomenon through case studies of the two largest 'Houses', Birlas and Tatas, and by citing important cases belonging to some other Houses. This is done mainly on the basis of studying the year-wise registrations, supported by the limited information available in the MRTP Commission's reports and Orders issued under the Act. An examination of the de-registration under the Act has also been taken up at the end. The present exercise is expected not only to help in a better understanding of the administration of the Act in the light of which it was amended in 1984 but also to understand the implications of the proposed hike in the asset limit from Rs 20 crore to Rs 100 crore for registration under the Act.*

## THE BACKGROUND

In view of the important place of the Act in Indian economic legislation, its functioning has been studied by a number of scholars and official committees which helped in bringing out the various shortcomings in the administration of the Act.[2] One of the main points of criticism has been that of large scale non-registration of companies which are believed to be constituents of different industrial Houses. It was initially expected that all companies included in the twenty Larger Industrial Houses (LIHs) by the ILPIC would automatically get themselves registered under the Act as the Rs 20 crore asset limit adopted for purposes of the MRTP Act was much smaller than the ILPIC's limit of Rs 35 crore for LIHs.[3] However, this was not to be. For instance, as many as 512 companies identified by the ILPIC as belonging to the twenty LIHs were found to have not registered themselves under the MRTP Act.[4]

Abolition of the managing agency system[5] coupled with the loopholes in the criteria—leaving the investment companies outside the scope of 'undertakings' was an important limitation—and the absence of an enforcing authority has resulted in many companies remaining outside the scope of the Act. Besides, many multinational companies could avoid registration under the Act as the criteria could not take note of ICs outside India.[6] This is only logical because registration under the Act not only entails them to get additional clearances under a number of circumstances like effecting expansion, establishment of new undertakings, taking over or amalgamating other undertakings but their area of further expansion also gets confined to what are now referred to as Appendix I industries. The Act has been amended a number of times, the most recent one being in June 1984. The High Powered Expert Committee on Companies and MRTP Acts (Sachar Committee), which submitted its report to the government in 1978, had suggested a number of important changes in the criteria for IC which became the basis for the amehdment of the Act in 1984.[7]

In spite of its limitations, the Act is held in disfavour by the private sector. The main note of discordance is in terms of the licensing policy applicable to the MRTP Act covered companies. Over a period of time, a number of relaxations have been allowed in this respect, particularly when the respective companies agree to export a substantial portion of the increased output or to set up their manufacturing units in notified backward areas. There have also been pleas for increasing the asset limit for registering under the Act for a long time. In their report submitted to the Janata government a group of industrialists had asked to increase the limit from Rs 20 crore to Rs 45 crore.[8] The Sachar Committee, however, did not find it necessary to change the limit at that time. Raj Krishna had suggested Rs 100 crore as the limit in 1979.[9] Paranjape also felt that there was a case for increasing the asset limit due to the increase in the price level. He suggested a limit of Rs 50 crore in the case of aggregate concentration and Rs five crore in the case of dominant undertakings. This, he expected, would facilitate in not only taking a closer look at the proposals of undertakings representing significantly large concentrations of economic power but also in quicker disposal of those applications as well as in studying ICs of such undertakings which had largely been neglected hitherto.[10] Recently, the Bharat Ram Committee had asked for a Rs 100 crore limit.[11]

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* This paper was prepared before the enactment of legislation raising the limit on assets of companies covered under the MRTP Act.

TABLE A

| Section(s) under which Covered | Implication |
|---|---|
| 20a(i) | **Single large undertaking**: The company has assets of Rs 20 crore or more and it does not accept inter-connection with any other company. |
| 20a(ii) | **Inter-connected undertaking**: The company has assets of less than Rs 20 crore but is inter-connected with another company having more than Rs 20 crore assets or the group of inter-connected undertakings to which the company belongs has assets of more than Rs 20 crore (none of them may individually possess assets of Rs 20 crore). |
| 20a(i)(ii) | **Large undertaking having inter-connected undertakings**: The company has assets of Rs 20 crore and above. It is also inter-connected with at least one undertaking. |
| 20b(i) | **Dominant undertaking**: Has a market share of one-fourth or more in the production or distribution of a product or a service and also has assets of not less than Rs one crore. It does not admit inter-connection with any other undertaking in terms of 20a(ii). |
| 20b(ii) | **Inter-connected dominant undertaking**: The company along with it inter-connected undertakings controls at least one-fourth market share of goods or services of a particular discription and their combined assets amount to not less than Rs one crore. |
| 20a(i)b(i) | **Single large undertaking which is also dominant**: The company has assets of not less than Rs 20 crore and a share of at least one-fourth in a particular product line. |

The finance minister in his budget speech had announced the government's intention to increase the asset limit for registration under the MRTP Act from Rs 20 crore to Rs 100 crore in order to reflect the considerable increase in the cost and economic size of the projects since its enactment in 1969. A view credited to the Narasimham Committee was that it was unfair to keep the smaller of the industrial Houses in the same bracket along with the truly large ones like the Tatas and the Birlas whose assets exceed Rs 2,000 crore. Various estimates have been made to find the likely beneficiaries of the proposed asset limit. While one estimate put the number of beneficiary large Houses at 49, the other finds that 60 Houses would take advantage of the enhanced limit.[12] These expectations are based mainly on the House-wise asset data presented in Parliament, adjusted for growth during the past couple of years. The basic assumption underlying these predictions is that only industrial Houses with less than Rs 100 crore of assets would benefit from the proposed hike. However, an examination of the operation of the registration system under the Act suggests that this sharp increase would benefit a larger number of Houses irrespective of their present reported assets. A study attributed to the Department of Company Affairs estimated that the number of Houses under the MRTP Act would drastically come down from 184 to 58 and only about 800 companies would remain under the ambit of the Act.[13]

### INTER-CONNECTIONS AND REGISTRATIONS UNDER THE ACT

Probably not many know that registrations under the MRTP Act are done not as constituents of a particular industrial 'House', but as those IC with a particular company or a group of companies—'Group of Inter-Connected Undertakings' (GICU). Registration of companies attracting the provisions of the Act is done under Section 26 of the Act based on the criteria provided in Section 20. The basis for determining IC is provided in Section 2(g) of the Act. The main criteria for establishing IC between two companies is that one of the companies holds not less than one-third of the equity shares in the other or controls the composition of not less than one-third of the total membership of the board of directors of the other. The 1984 amendment to the Act reduced the requirement of one-third equity/control over board to one-fourth. Subsection 20(a) of the Act deals with cases of concentration of economic power, while 20(b) deals with product monopolies. At present, a company needs to get itself registered under the Act, if (i) it has assets of Rs 20 crore or more by itself or (ii) it controls along with its IC undertakings assets of Rs 20 crore or more. Similarly, undertakings which (i) either by themselves, or (ii) along with their IC undertakings, possess not less than one-fourth[14] share in the production or supply of goods of any description and also have assets of at least Rs one crore would attract the provisions of Section 20(b). A company can be registered under more than one Section of the Act depending upon the provisions applicable to it. The explanations given in Table A make this point clearer.

Information on registrations and cancellations under Section 26 of the MRTP Act is being reported regularly since the mid-seventies in the *Company News and Notes*, a journal of the Department of Company Affairs. It reports the date of registration and the Section(s) under which a company was registered. The latest information in published form is available in the September 1984 issue of the journal which gives the registrations and cancellations made during April-June 1984. Information on the names of IC undertakings, which would have been very useful, however, is not provided in the journal. Some information on individual ICs, however, can be gleaned from the Reports of the MRTP Commission prepared in connection with the applications referred to them by the government and the orders of the government on the applications of individual companies. The journal has for some time also been reproducing replies to important questions asked in Parliament relating to Companies and MRTP Acts. From the journal we could get the lists of undertakings registered under the Act as at the end of 1975 and 1976.[15]

Though the registrations are not done on the basis of House, Parliament is occasionally provided data on the composition and strength of different industrial Houses whose undertakings are registered under the MRTP Act, at the request of the members. Such a House-wise list of undertakings as at the end of 1978 is reproduced in the *Company News and Notes*.[16] Besides, the Corporate Information System of the Indian Institute of Public Administration has a House-wise list of undertakings registered under the Act as on June 30, 1978 and an alphabetical list of such undertakings for the year 1979 (1979 Alphabetical List) which were obtained from the Department of Company Affairs. For the sake of convenience we shall refer to these House-wise lists in the following as the June 1978 and December 1978 lists. The latest year for which we could obtain a House-wise picture, though only for 10 Houses, is 1981.[17] House-wise aggregate asset figures for the year 1982 were reported in Parliament in February 1984 (hereafter referred to as 1982 House-wise Assets List).[18] This list is useful in knowing the names of industrial Houses falling under the purview of the MRTP Act as at the end of 1982.

On the basis of the 1981 House-wise list we make, in the following, a detailed analysis of the reported registrations under the MRTP Act of companies 'belonging' to the two largest Houses namely, the Tatas and the Birlas.[19] It should be clearly understood that the following analysis of the two Houses is mainly confined to the undertakings registered as on December 31, 1981, thus excluding the ones de-registered after initial registration, whatever might be the reason (e g nationalisation, amalgamation, changes in inter-connection, etc). However, to a limited extent, information on past registrations and cancellations is also made use of. Dates of registration of the companies in these tow Houses and the Sections under which they have been registered is determined on the basis of the 1979 Alphabetical list and the reported registrations in the *Company News and Notes.* In case of some companies which have been registered for a long time, there may have been changes in the applicability of the provisions of Section 20 of the Act after initial registration. The 1979 Alphabetical list unfortunately does not contain any information in this regard.

## THE TATA HOUSE

Table 1 shows the constituents of the Tata House, arranged according to the date of registration, along with the Section(s) under which they are registered and their assets in 1981. It also indicates whether a particular company was included in the House of Tatas by the ILPIC. It can be seen that out of the 13 companies registered in 1970, the first year of the enforcement of the Act, Tata Chemicals, Voltas, TISCO and TELCO were registered as single large undertakings, thereby implying that they did not accept IC with any other undertaking. However, the presence of Steel City Press, a subsidiary of TISCO at that time suggests that TISCO must have applied for registration as an a(i) company initially, with the subsidiary following suit as an a(ii) undertaking. This view gets strengthened by the fact that Voltas was registered as an a(i) company in 1970, and Voltas International, which became its subsidiary in 1978, got itself registered in 1979 as an a(ii) company. Technically speaking, the registration of Voltas must have then been changed from a(i) to a(i)(ii) after the registration of Voltas International, as the latter would at least be IC with Voltas, if not any other.

It can also be expected that the three power companies namely, Tata Power, Andhra Valley and Tata Hydro Electric, which were registered as a(i)(ii) companies must have done so because individually they had assets of more than Rs 20 crore and had also accepted IC among themselves.[20] The investment portfolio of TISCO in 1970-71 suggests that Cyanides and Pigments, Belpahar Refractories (now its subsidiaries), Tata S and L Sales, Tata Yodogawa and Indian Tube

TABLE 1: COMPOSITION OF THE TATA HOUSE
(as on 31-12-1981)

| S No | Name of the Company | Parent Company | Covered under Section | Date of Reg | Assets (Rs cr) |
|---|---|---|---|---|---|
| 1 | Stewarts and Lloyds of (I) | | a(ii) | 19-10-70 | 12.30 |
| 2 | Tata Power* | | a(i)(ii) | 19-10-70 | 106.63 |
| 3 | Cyanides and Pigments* | TISCO (now) | a(ii) | 20-10-70 | 0.35 |
| 4 | Tata Hydro Electric Power* | | a(i)(ii) | 20-10-70 | 43.81 |
| 5 | Tata S and L Sales* | | a(ii) | 22-10-70 | 0.07 |
| 6 | Steel City Press | TISCO (former) | a(ii) | 23-10-70 | 0.12 |
| 7 | Voltas* | | a(i) | 23-10-70 | 128.17 |
| 8 | Andhra Valley Power* | | a(i)(ii) | 24-10-70 | 60.97 |
| 9 | Tata Yodogawa | | a(ii) | 26-10-70 | 8.48 |
| 10 | Belpahar Refractories* | TISCO (now) | a(ii) | 27-10-70 | 22.67 |
| 11 | Tata Iron and Steel Co (TISCO)* | | a(i) | 30-10-70 | 467.85 |
| 12 | Tata Chemicals* | | a(i)b(i) | 11-11-70 | 88.02 |
| 13 | Tata Engg and Locomotive Co | | a(i) | 14-11-70 | 459.81 |
| 14 | Indian Tube Co* | | a(i)(ii) | 12- 1-71 | 59.66 |
| 15 | Tata Oil Mills Co (TOMCO)* | | a(i)(ii) | 21- 2-73 | 77.48 |
| 16 | International Fisheries* | TOMCO | a(ii) | 2- 3-73 | 0.14 |
| 17 | Lakme* | TOMCO | a(ii) | 2- 3-73 | 5.25 |
| 18 | Tata Robins Fraser* | | a(ii) | 7- 3-74 | 17.09 |
| 19 | Forbes Forbes Campbell (FORBES)* | | a(ii) | 16- 4-74 | 11.69 |
| 20 | Indian Vegetable Products* | | a(ii) | 24- 7-74 | 9.64 |
| 21 | Industrial Perfumes* | | a(ii) | 28- 2-75 | 3.89 |
| 22 | Perfect Extrusions | FORBES | a(ii) | 17- 7-75 | 0.02 |
| 23 | Svadeshi Mills Co* | | a(ii) | 19-10-76 | 16.45 |
| 24 | Ahmedabad Advance Mills* | | a(ii) | 21-10-76 | 28.73 |
| 25 | Coromandel Garments* | Svadeshi | a(ii) | 21-10-76 | 2.04 |
| 26 | Central India Spg* | | a(ii) | 25-10-76 | 20.75 |
| 27 | Associated Bearing@ | | a(i)(ii) | 19- 2-77 | 39.56 |
| 28 | Tata Sons* | | a(i)(ii) | 11- 3-77 | 30.58 |
| 29 | Shourie Duplicators | | a(ii) | 13- 4-77 | 0.54 |
| 30 | Skefko India Bearing | | a(ii) | 28- 9-77 | 4.94 |
| 31 | Tata Dilworth (firm) | | a(ii) | 17-12-77 | N A |
| 32 | Indian Hotels Co* | | a(ii) | 17- 3-78 | 28.11 |
| 33 | Forbes Shipping* | FORBES | a(ii) | 5- 7-78 | 0.79 |
| 34 | Kay Distillery Inds | FORBES | a(ii) | 10- 7-78 | 1.15 |
| 35 | Sarada Latham Business Mach | FORBES | a(ii) | 25-11-78 | 0.20 |
| 36 | Tata Burroughs | | a(ii) | 30- 5-79 | 7.09 |
| 37 | Tata Exports | | a(ii) | 31- 5-79 | 71.90 |
| 38 | Voltas International | Voltas | a(ii) | 31- 8-79 | 0.25 |
| 39 | Crescent Iron and Steel Corp | Voltas | a(ii) | 26- 9-80 | 0.92 |
| 40 | Wandleside National Conductors | Voltas | a(ii) | 26- 9-80 | 2.03 |

*Notes:* * Indicates that the company was included in the Tata House by the ILPIC.
@ Indicates that the company was shown as a 2-tier one of the same House.

*Sources*: House composition and asset data are based on the reply to the Unstarred Question No 10 provided in the Rajya Sabha on July 25, 1983. Date of registration and the section(s) under which a company is covered are based on the 1979 Alphabetical List of Undertakings registered under the MRTP Act (available with the Corporate Information System, IIPA) and various issues of *Company News and Notes*. Assets of Svadeshi Mills Co and Shourie Duplicators are for 1980 and in all other cases they refer to 1981.

Co (registered in 1971) in which TISCO had more than one-third share at that time might have accepted their IC with TISCO. Though enough details are not available about the IC of Stewarts and Lloyds, it might have accepted its IC with TISCO. Tata Robins Fraser must also have accepted IC with TISCO since the latter, besides being its promoter, also holds substantial equity shares in it. Indeed, Parliament was informed in 1979 that the TISCO Group consisted of nine companies, *viz*, TISCO, Belpahar Refractories, Cyanides and Pigments, Indian Tube Co, Steel City Press, Stewarts and Lloyds, Tata Robins Fraser, Tata S and L Sales and Tata Yodogawa.[21] This leaves Tata Chemicals, Voltas and TELCO all of which are registered as a(i) undertakings.[22]

Nearly two years after the registration of Indian Tube Company, Tata Oil Mills Co (TOMCO) had got itself registered, along with its two subsidiaries, International Fisheries and Lakme. A possible explanation for this again could be that these three companies accepted IC among themselves and they had to register as their combined assets crossed the Rs 20 crore limit. TOMCO's registration under Sections a(i) and a(ii) also means that TOMCO by itself had crossed the Rs 20 crore limit. This type of inference becomes inevitable as all the three were existing companies at the time of the ILPIC and all of them were included under the House of Tatas by the Committee and it took them nearly two and a quarter years to register under the Act after the registration of the first batch of 'Tata' companies in 1970.[23] Industrial Perfumes might also have accepted its IC with TOMCO in 1975 as the latter holds substantial share capital of it.

Similarly, the four textile companies Svadeshi Mills, Ahmedabad Advance, Central India Spg and Coromandal Garments must have accepted IC amongst themselves and hence got registered under a(ii), in 1976. Once again, it can be noticed that all the four companies were included in the Tata House by the ILPIC and their registration had taken place six years after the Act came into force. Associated Bearing and Shefko India Bearing must also have got registered in 1977 as the former's assets exceeded the Rs 20 crore limit and they accepted IC between themselves.[24] Forbes Forbes Campbell and its subsidiaries along with Indian Vegetable products (since taken over by the Allana Sons Group) and Shourie Duplicators (since de-registered) are likely to be another group of companies which accepted IC among themselves. Interestingly enough, the government observed in 1971 itself that Forbes Forbes Campbell was IC with Tata Sons Pvt Ltd, Sassoon J David and Co Ltd and Investment Corpn of India Ltd. While Sassoon J David and Investment Corpn of India did not register themselves until June 1984 (possibly under the plea of not being 'undertakings' as per the MRTP Act), Tata Sons got itself registered in 1977, i e, nearly three years after the registration of Forbes Forbes Campbell. Tata Sons was in fact served a default notice in January 1976.[25]

Further evidence to the fact that a number of important Tata companies did not accept IC and the basis for such non-acceptance is available in the report of the MRTP Commission submitted to the government (in December 1971) in connection with TELCO's application for substantial expansion of its manufacturing capacity of commercial vehicles. In his dissenting report Paranjape stated:

> The company (TELCO) has unequivocally stated that it is not inter-connected with any other company in terms of the MRTP Act. A similar statement has been made by TISCO and many other Tata Companies to whom a questionnaire had been addressed by the Commission. The implication of these answers appears to be that while the inclusion of these companies as belonging to the larger House of Tatas might have been justified according to the criteria adopted by the Dutt Committee, the criteria laid down for defining the inter-connected concerns under the MRTP Act are quite different and the claim of the companies was and is that they are not inter-connected in that sense, especially in view of the abolition of the managing agency system from April, 1970.[26]

At this point one would like to know the basis on which these companies were included in the Tata House as they clearly appear to be forming smaller GICUs. A likely explanation is that the government may still be broadly following the ILPIC's classification. (It may be recalled that initially the government accepted the Committee's classification and subjected the constituents of the Larger Industrial Houses to stricter licensing provisions.) Whenever fresh registrations take place, either those of ILPIC-identified companies or of those which are clearly IC with the already registered 'House' companies, the government may be including them in the 'House'.[27] In the case of new Houses, the procedure could be to name the House either on the basis of the prominent company in the GICU with which most of the other companies are IC or after the controlling family (e g, Oswal Woollen Mills, IMFA, Sawhney and B D Somani).

However, the problem becomes more complicated if we go slightly beyond the above official list of Tata House companies. Table 2 contains a list of selected companies which got themselves registered under the Act during the post-1979 period. They were selected because all of them are related to the Tata House in some manner or other. It may be mentioned that Parliament was informed on March 15, 1982 that registrations of two companies belonging to the Tata House took place during the period January 1980 to December 1981.[28] Since the first two companies namely Crescent Iron and Steel and Wandleside National Conductors, both subsidiaries of Voltas, also appear in Table 1, one would expect that the reply was referring to these two companies only. Of the six companies shown in the Table as registered during 1981, Gokak Patel and Goodlass Nerolac have two subsidiaries each. It may be noted that Goodlass Nerolac was included in the Tata House by the ILPIC. Gokak Patel Volkart was formed through the amalgamation of Gokak Mills (classified as a Tata Company by the ILPIC) and Patel Volkart Ltd. Why was it then that only two additions were shown against the Tata House for the period January

TABLE 2: SELECTED TATA HOUSE RELATED COMPANIES REGISTERED UNDER THE MRTP ACT AFTER 1979

| S No | Name of the Company | Parent Company | Covered under Section(s) | Date of Registration |
|---|---|---|---|---|
| 1 | Crescent Iron and Steel Corp | Voltas | a(ii) | 26- 9-80 |
| 2 | Wandleside National Cond | Voltas | a(ii) | 26.- 9-80 |
| 3 | Gokak Patel Volkart | | a(ii) | 22- 6-81 |
| 4 | Patel Cotton Co | Gokak | a(ii) | 8- 7-81 |
| 5 | John Fleming and Co | Gokak | a(ii) | 28- 8-81 |
| 6 | Chanda Paints (Madras) | Goodlass | a(ii) | 31-12-81 |
| 7 | Goodlass Nerolac Paints* | | a(ii) | 31-12-81 |
| 8 | Saurashtra Paints | Goodlass | a(ii) | 31-12-81 |
| 9 | Tata Press* | | a(ii) | 15- 2-82 |
| 10 | Eureka Forbes | FORBES | a(ii) | 4- 5-82 |
| 11 | Tata Projects | | a(ii) | 28- 5-82 |
| 12 | A P Industrial Components | FORBES | a(ii) | 20- 4-83 |
| 13 | Tata Klockner Industrial | | a(ii) | 1- 3-84 |
| 14 | Excel Industries@ | | a(i) | 27- 4-84 |

*Notes:* * Indicates that the company was included in the Tata House by the ILPIC.
@ Indicates a 2-tier company.

*Source*: These are selected from the lists of undertakings registered under Section 26 of the MRTP Act published in various issues of *Company News and Notes*. Date of registration and section(s) under which covered are also taken from the journal.

1980-December 1981? The answer can be found in the reply to another question in the Parliament which gave the 1982 House-wise Asset List. Gokak Patel was one of the reported Houses with assets of Rs 31.38 crore. It seems unlikely that Goodlass Nerolac was included in the Gokak Patel House because its addition would have taken the assets of Gokak Patel much beyond Rs 31 crore. Assets of Gokak Patel Volkart Ltd and Goodlass Nerolac Paints Ltd were Rs 27.30 crore and Rs 19.38 crore respectively as on December 31, 1981.[29]

Then where were Goodlass Nerolac and its subsidiaries placed? The 1982 list of Houses does not contain any Goodlass Nerolac House. Interestingly enough, one finds from the reply in Parliament given on March 15, 1982, referred to above, that four undertakings were registered as part of the Gillanders Arbuthnot House. From the default notices served on the companies for not registering under the MRTP Act, one finds that companies like Eyre Smelting, Gillanders Arbuthnot, Goodlass Nerolac, Indian Woodcraft, Jutlibari Tea, Tengpani Tea— the last two mentioned are subsidiaries of Gillanders Arbuthnot and Co—have been asked to register under the MRTP Act as part of the Gillanders Arbuthnot House.[30] On an examination of the registration lists for the period January 1980 to December 1981, it was found that besides Goodlass Nerolac and its two subsidiaries only Eyre Smelting was registered under the Act. Thus it can be inferred that the reply of March 15, 1982 was treating these four companies as part of the Gillanders Arbuthnot House.

However, a few relevant facts need to be mentioned here:

(i) neither Gillanders Arbuthnot and Co nor its subsidiaries hold any equity shares in Goodlass Nerolac;

(ii) Eyre Smelting and Goodlas Nerolac along with Waldies Ltd (which has since become a subsidiary of Gillanders Arbuthnot) have been associates of Lead Industries Group Ltd UK;[31]

(iii) Waldies has been registered under the Act since October 21, 1970 as a b(i) (dominant) undertaking;

(iv) Gillanders Arbuthnot itself is currently not registered under the Act;

(v) foreign equity in Gillanders Arbuthnot is held by Ogilvy Gillanders Co Ltd UK. (We have not been able to find any relationship between Gillanders Arbuthnot and Ogilvy Gillanders on the one hand and Lead Industries Group and Goodlass Nerolac on the other, except that Waldies, an affiliate of Lead Industries Group has recently become a subsidiary of Gillanders Arbuthnot. Surprisingly, we have not been able to find Ogilvy Gillanders and Co Ltd in the relevant volumes of *Who Owns Whom*);[32]

(vi) (a) Gillanders Arbuthnot was asked by the government in 1977 to register under the MRTP Act on the grounds that the company's assets together with those of the IC undertakings exceeded Rs 20 crore but the Directors of the company explained in their report to the shareholders that "in considering the inter-connections, the government had included in their list of undertakings, a number of companies with which this company admit no inter-connections; therefore, this view could not be accepted and the government were advised accordingly"; and (b) the company filed a writ petition in the Delhi High Court and in terms of the order of the High Court issued in October 1982 the "company is not registrable under the MRTP Act";[33]

(vii) Goodlass Nerolac was identified as a Tata company by the ILPIC while Gillanders Arbuthnot was shown as a company belonging to the Gillanders Arbuthnot Group;

(viii) Gokak Patel Volkart which holds 25.33 per cent of equity capital of thé company (the directors of the company make a special mention of the fact in their report to the shareholders) is the second largest shareholder of Goodlass Nerolac after the Lead Industries Group;

(ix) Investment Corpn of India and a few subsidiaries of Forbes Forbes Campbell hold a substantial number of shares of Goodlass Nerolac; and

(x) (a) there has been an interlocking of directorships between Gokak Patel, Goodlass Nerolac and Forbes Fobres Campbell; (b) in 1981 all the three had a common Chairman and after the death of the incumbant Chairman, these companies had once again opted for a common Chairman; and (c) all the three companies had changed their respective accounting years from January-December to July-June after the presentation of the 1981 Annual Reports.

It becomes clear from the above that Goodlass Nerolac has been closer to Gokak Patel rather than Gillanders Arbuthnot and Co. Placing it in the Gillanders Group appears to be somewhat strange particularly since the main company of which is itself not registered under the Act. It is surprising to find that while in a number of cases, the non-resident equity was not given much weightage in determining ICs and House affiliations, in this case so much emphasis appears to have been given to it. For instance, Hoechest Dyes and Hoechest Pharmaceuticals, both affiliates of Hoechest, Germany, have been placed under different Houses namely, Mafatlal and United Breweries respectively. Similarly, two Indian affiliates of the Hawker Siddley Group Ltd UK *viz* Crompton Greaves and Kirloskar Electric Co are being treated as constituents of the Thapar and Kirloskar Houses respectively.

### THE BIRLA HOUSE

We shall now analyse briefly the registrations of companies reported to be belonging to the Birla House. As in the case of the Tata House, later registrations tell an interesting story in the case of the Birla House too. The ILPIC had identified as many as 203 companies as constituents of the Birla House. A further 73 were termed as its second-tier companies. However, it can be seen from Table 3 that till the end of 1971, only 28 companies were registered. In the next two years another 11 companies got registered. Out of 28 companies registered

TABLE 3: COMPOSITION OF THE BIRLA HOUSE
(as on 31-12-1981)

| S No | Name of the Company | Parent Company | Covered under Section | Date of Reg | Assets (Rs cr) |
|---|---|---|---|---|---|
| 1 | Bihar Alloy Steels* | | a(i)(ii) | 26- 9-70 | 43.43 |
| 2 | Birla Jute Mfg* | | a(i)(ii) | 19-10-70 | 75.84 |
| 3 | Assam Jute Supply* | Birla Jute | a(ii) | 20-10-70 | 0.39 |
| 4 | Orient General Inds* | | a(i)(ii) | 20-10-70 | 56.88 |
| 5 | Orient General Inds* | Orient Paper | a(ii) | 21-10-70 | 21.42 |
| 6 | Renusagar Power* | HINDALCO | a(i)(ii) | 22-10-70 | 126.32 |
| 7 | Kesoram Inds and Cotton Mills* | | a(i)(ii) | 22-10-70 | 55.58 |
| 8 | Hindustan Motors Corp* | Hind Motors | a(ii) | 23-10-70 | 0.58 |
| 9 | Uteco* | Hind Motors | a(ii) | 23-10-70 | negl |
| 10 | Bharat General and Textile Inds* | Kesoram | a(ii) | 24-10-70 | 12.84 |
| 11 | Gwalior Rayon* | | a(i)(ii)b(i) | 24-10-70 | 202.90 |
| 12 | National Engg Inds* | | a(ii)b(ii) | 24-10-70 | 30.34 |
| 13 | Express Dairy* | | a(ii) | 26-10-70 | 0.28 |
| 14 | Kerala Spinners | Gwalior Rayon | a(ii) | 27-10-70 | 4.19 |
| 15 | Century Spg and Mfg* | | a(i)(ii) | 27-10-70 | 150.59 |
| 16 | Hindustan Heavy Chemicals* | Kesoram | a(ii) | 27-10-70 | 3.68 |
| 17 | India Linoleums* | Birla Jute | a(ii) | 28-10-70 | 6.32 |

*(Continued on next page)*

TABLE 3 (*Contd*)

| S No | Name of the Company | Parent Company | Covered under Section | Date of Reg | Assets (Rs cr) |
|---|---|---|---|---|---|
| 18 | Motolite* | Orient Paper | a(ii) | 28-10-70 | 0.01 |
| 19 | Hindustan Motors* | | a(i)(ii)b(i) | 30-10-70 | 102.36 |
| 20 | India Steamship* | | a(i)(ii) | 6-11-70 | 114.48 |
| 21 | Air Conditioning Corp* | Orient Paper | a(ii) | 11-11-70 | 6.26 |
| 22 | Hyderabad Asbestos Cement* | | a(i)b(i) | 12-11-70 | 39.51 |
| 23 | Eastern Spg Mills and Inds | | a(ii) | 14-11-70 | 9.99 |
| 24 | Taylor Instrument Co India* | | a(ii) | 7-12-70 | 9.01 |
| 25 | Jiyajeerao Cotton* | | a(i)(ii) | 7-12-70 | 46.38 |
| 26 | Salt and Allied Inds* | Jiyajeerao | a(ii) | 7-12-70 | 0.34 |
| 27 | Zuari Agro Chemicals | | a(i) | 29- 3-71 | 74.72 |
| 28 | Hindustan Aluminium Corp* | | a(i)(ii)b(i) | 16- 4-71 | 201.72 |
| 29 | National Rolling and Steel Ropes | | a(ii) | 11- 1-72 | 1.88 |
| 30 | Indian Plastics* | | a(ii) | 27- 4-72 | 4.83 |
| 31 | Texmaco* | | a(i)(ii) | 5- 8-72 | 42.26 |
| 32 | Lionel Edwards* | | a(ii) | 13-10-72 | 0.94 |
| 33 | Usha Investment Corp* | | a(ii) | 13-10-72 | 0.02 |
| 34 | Newspapers* | | a(ii) | 13-10-72 | 0.16 |
| 35 | Shobhana Traders* | | a(ii) | 13-10-72 | 0.15 |
| 36 | Padmavati Raje Cotton* | | a(ii) | 28-12-72 | 1.44 |
| 37 | Aditya Investments Pvt* | | a(ii) | 2- 2-73 | 0.11 |
| 38 | Hindustan Wire and Metal Pdts | | a(ii) | 29- 5-73 | 0.05 |
| 39 | Bally Jute* | | a(ii) | 27- 9-73 | 7.82 |
| 40 | Ratnakar Shipping* | | a(i)(ii) | 11-10-73 | 46.00 |
| 41 | Sutlej Cotton Mills* | | a(ii) | 4- 1-74 | 18.04 |
| 42 | Minerals and Minerals* | HINDALCO | a(ii) | 11- 4-74 | 0.50 |
| 43 | Associated Industrial Devt Co | | a(ii) | 4- 6-74 | 0.27 |
| 44 | Hercules Tdg Corp | | a(ii) | 4- 6-74 | 0.46 |
| 45 | Ghillidary Tea* | | a(ii) | 9- 7-74 | 1.07 |
| 46 | National Bearing Co (Jaipur)* | Ntnl Engg Ind | a(ii)b(ii) | 24- 7-74 | 0.50 |
| 47 | Mysore Cements* | | a(ii) | 3- 8-74 | 35.04 |
| 48 | Punjab Ginning and Pressing* | | a(ii) | 25- 9-74 | 0.69 |
| 49 | Bengal Stores* | | a(ii) | 23-11-74 | 0.16 |
| 50 | Indian Rockwool* | | a(ii) | 5- 2-75 | 0.09 |
| 51 | Jaipur Finance and Dairy Products | | a(ii) | 29- 3-75 | 0.11 |
| 52 | Rameshwara Jute Mills* | | a(ii) | 31- 3-75 | 3.13 |
| 53 | Indian Shipping Co* | | a(ii) | 31- 3-75 | 0.13 |
| 54 | New Swadeshi Mills of Ahmedabad* | | a(ii) | 5- 5-75 | 14.13 |
| 55 | Eastern Economist* | | a(ii) | 6- 8-75 | 0.04 |
| 56 | Rajasthan Inds* | | a(ii) | 23-12-75 | 0.94 |
| 57 | General Marketingh and Mfg | | a(ii) | 25- 5-76 | 4.43 |
| 58 | Wood Craft Products* | | a(ii) | 4- 5-77 | 7.45 |
| 59 | Bharat Commerce and Inds* | | a(i) | 2- 1-78 | 30.85 |
| 60 | Jayshree Tea and Inds* | | a(i) | 10- 3-78 | 42.61 |
| 61 | Modern India Construction@ | | a(ii) | 11- 6-79 | 3.36 |
| 62 | Oriental Machinery and Civil Const | | a(ii) | 11- 5-81 | 1.02 |
| 63 | Universal Cables* | | a(ii) | 3- 9-81 | 24.70 |

*Notes:* * Indicates that the company was included in the Birla House by the ILPIC.
@ Indicates that the company was shown as a 2-tier one.

*Sources*: House composition and asset data are based on the reply to the Unstarred Question No 10 provided in the Rajya Sabha on July 25, 1983. Date of registration and the section(s) under which a company is covered are based on the 1979 Alphabetical List of Undertakings registered under the MRTP Act (available with the Corporate Information System, IIPA) and various issues of *Company News and Notes*. Assets of Express Dairy, Hindustan Wire and Metal, Indian Plastics, Indian Rockwool and Texmaco are for 1980 and in all other cases they refer to 1981.

till 1971 as many as 12 were subsidiaries of other companies. Thus a simple IC of parent-subsidiary relationship can be established between the 12 subsidiaries and their seven respective parent companies.[34] One company, namely Hyderabad Asbestos Cement has been registered as an a(i)b(ii) undertaking.[35] While National Engg Industries is shown in the Table as an a(ii)b(ii) undertaking it was initially registered as a b(i) undertaking only.[36] Zuari Agro Chemicals, a company promoted by Birla Gwalior in collaboration with Armour and Co USA, in 1967, was registered as a single large undertaking in 1971.[37] One can notice clearly that registration of the ILPIC-identified companies was continuing into the eighties. Some of the well-known Birla companies which took a long time to register under the Act include Jayshree Tea and Bharat Commerce and Industries both of which got registered in 1978 as single large undertakings.

A study of the MRTP Commission's reports on HINDALCO and other Birla companies clearly brings out the difficulty in making the companies of the Birla House accept ICs. For instance, the report on HINDALCO reveals that companies like HINDALCO, Kesoram Industries, and Gwalior Rayon had not admitted IC *inter se* or with any other companies excepting their own subsidiaries in terms of Section 2(g) of the MRTP Act. However, after a long delay in the clearance of its proposal, HINDALCO amended its application. According to the Commission report in the revised application submitted to the government it was stated that

> considering the provisions of the law the applicant company is not inter-connected with any company except those mentioned in its original application. However, purely with a view of facilitating and expediting the disposal of the application, the applicant agrees for the limited purpose of the disposal of the present application, that it may be assumed that the applicant company is inter-connected with the following companies.[38]

Similar amendments were also made by Birla Jute, Kesoram Industries, Gwalior Rayon and Century Spinning in their applications. When the Commission wrote to all the companies IC in such a manner, to ascertain views on the IC no company except Zuari Agro denied the assumption of IC or raised any objection.[39] It may be noted that before deciding on the proposals of the above mentioned companies, the Commission had entrusted the task of studying the IC of selected Birla companies to the Director of Investigation. (His report was annexed to the Commission's report on the application of Kesoram Industries.) The Director of Investigation in his report felt it pertinent to mention that

> even a limited study of 12 selected com-

> panies has revealed inter-connection amongst 72 Birla Group of Companies and as such if a full scale study is undertaken, it may be possible to establish inter-connection amongst a very large number of Birla Group of Companies.[40]

The Commission, however, decided not to proceed further in the matter of IC as it was satisfied that the type of amendment made by the applicant companies was sufficient for the purpose of disposing of their applications.[41] It seems that the government did not meet with much success in getting at least all the companies which accepted IC in the above stated manner. Companies like Birla Cotton, Birla Bombay, Birla Brothers, and Birla Consultants which did not reject IC are yet to register under the Act, in spite of default notices being served on them.[42] Another such company, namely, Sirpur Paper Mills had got itself registered in 1982 as an a(i) undertaking.

In the case of the Birla House also it was reported that two more companies had got registered during January 1980 to December 1981.[43] However, from Table 4 it can be observed that during this period four companies got registered which can be traced to the Birla House. Since Oriental Machinery and Universal Cables also appear in Table 3, we can assume that the reference was to these two companies only. The other two, which were registered as single large undertakings are again known to be Birla companies and both were included in the Birla House by the ILPIC. Then why were they not included in the Birla House in the reply relating to the 1981 assets position of Birla companies? Was it because they have been registered as a(i) undertaings? In that case why were the other a(i) companies like Zuari Agro Chemicals, Hyderabad Asbestos Cement and Jayshree Tea shown as belonging to the House?

A little more insight into the grouping of companies for the purpose of reporting House-wise asset figures can be obtained from the following. The Indian Rayon Corporation was shown as a part of the Birla House after its registration in 1979, but the subsequent House-wise lists did not include the company. Indeed, the company was later referred to as an independent/Indian Rayon House company,[44] Needless to say, this company was also recognised (ILPIC) Birla House company.[45] A number of companies which were till then being shown as part of the Birla House, were transferred in 1980 to the Somany Group. The companies were: Hindustan Sanitaryware and its two subsidiaries Soma Plumbing Fixtures and Ceramic Services; Hindustan National Glass and its subsidiary Glass Equipment (I); Somany Pilkington, Somany Properties and R B Rodda and Co.[46] Thus one can observe the tendency to shift companies from a House to another or to create a new House whenever there is any objection.

The post-1979 registrations further indicate that a number of well-known Birla companies did not accept IC with any other undertakings. Prominent among them are, Electric Construction and Equipment (ECE), Central India Machinery Manufacturing Co (CIMMCO), Century Enka and Zenith Steel Pipes.[47] CIMMCO was earlier registered in 1970 as a b(i) undertaking but got de-registered in May 1976. While Indian Tool Mfrs is registered as an a(i) company, the government feels that the "provisions of Section 20a(ii) are also applicable as the company belongs to the Birla Industrial House".[48]

Recently Parliament was informed that the assets of the Birla House rose from Rs 2,004.74 crore in 1982 to Rs 2,830.94 crore in 1983.[49] That is in one year their assets increased by Rs 826 crore. We find from Table 4 that four Birla companies got registered as a(i) undertakings during 1983.[50] Out of these four, one company, *viz*, CIMMCO did not accept IC with any other undertaking. If the remaining three companies were treated as constituents of the House then part of the increase in assets of the House in 1983 should be attributed to their inclusion. This again is related to the more fundamental questions of how the composition of Houses is determined and how far the reported asset figures of different Houses reflect their true strength? Our suspicion is that their growth rate could be an overestimate while the quantum of assets is an under-estimate. This is mainly because the House composition is being determined on the basis of registrations at a particular point of time.[51] When another company which is *otherwise* known to be a part of the House, is registered, it is included in the House provided it does not object to it. Thus a situation arises when no new company comes into existence nor any new ICs are established, the assets of a House increase simply because the status of a company has changed in terms of the MRTP Act. The tentative nature of the House composition and the asset figures becomes clearer from the careful wording of the following extract from the answer to a Parliament question given in 1977:

> Assuming registration under Section 26 of the Monopolies and Restrictive Trade Practices Act, 1969, as the basis for the grouping, as on September 30, 1977, 69 undertakings appear to belong to Birla Group.[52]

## OTHER INDUSTRIAL HOUSES AND SINGLE LARGE UNDERTAKINGS

In the following we present a few important cases which further illustrate the fact of non-acceptance of IC by companies of other industrial Houses. The relevant cases are shown in Appendix I. Ballarpur Industries Ltd (formerly Ballarpur Paper and Straw Board Mills) which was identified as a Thapar House company by the ILPIC, accepted IC with only 17 other undertakings, notable exceptions being Greaves Cotton and Co (also identified as a Thapar company by the ILPIC) and its subsidiaries.[53] Greaves Cotton later accepted IC with 23 undertakings, which was still less than the total

TABLE 4: SELECTED BIRLA HOUSE RELATED COMPANIES REGISTERED UNDER THE MRTP ACT DURING THE POST-1979 PERIOD

| S No | Name of the Company | Parent Company | Covered under Section | Date of Registration |
|---|---|---|---|---|
| 1 | Century Enka* | | a(i) | 24-12-80 |
| 2 | Zenith Steel Pipes and Inds* | | a(i) | 6- 3-81 |
| 3 | Oriental Match and Civil Const | | a(ii) | 11- 5-81 |
| 4 | Universal Cables* | | a(ii) | 3- 9-81 |
| 5 | Sirpur Paper Mills Ltd* | | a(i) | 18- 3-82 |
| 6 | Electric Const and Equip* | | a(i) | 26- 6-82 |
| 7 | Mangalam Cement | | a(i) | 16- 9-82 |
| 8 | Indian Tool Manufacturers* | | a(i) | 15- 3-83 |
| 9 | Central India Machinery Mfg* | | a(i) | 1- 3-83 |
| 10 | Upper Ganges Sugar Mills* | | a(i) | 9- 6-83 |
| 11 | Oudh Sugar Mills* | | a(i) | 9- 6-83 |
| 12 | East India Carpet Co | OCM | a(ii) | 6- 7-83 |
| 13 | Trinity Textiles | OCM | a(ii) | 6- 7-83 |
| 14 | Oriental Carpet Mfrs (OCM) | | a(ii) | 6- 7-83 |
| 15 | Leatherite Industries | OCM | a(ii) | 6- 7-83 |
| 16 | Gobind Sugar Mills* | | a(i) | 27- 1-84 |
| 17 | Universal Electrics* | | a(ii) | 24- 3-84 |
| 18 | Universal Plast | OCM | a(ii) | 24- 3-84 |

*Note*: * Indicates that the company was included in the Birla House by the ILPIC.
*Source*: These are selected from the lists of undertakings registered under Section 26 of the MRTP Act published in various issues of *Company News and Notes*. Date of registration and section(s) under which covered are also taken from the journal.

strength of the House as shown in the December 1978 list. There is a possibility of the House comprising of two independent GICUs since we can see from the Appendix that Ruston and Hornsby (India), a subsidiary of Greaves Cotton and Co, accepted IC with only 8 other undertakings while the total number of companies shown in the Group at the end of 1978 was 33.

Similarly, Atul Products of the Kasturbhai Lalbhai Group did not accept IC with any of the so-called Lalbhai Textile companies, *viz* Arvind Mills, Ashoka Mills, Nutan Mills, etc.[54] This fact came to light at the time of the examination of the Atul Products' proposal for manufacture of two antibiotic drugs and three types of weedicides by the MRTP Commission during 1973-74. The Commission felt that it was not necessary to go into the details of ICs of the company as far as the application of the company in question was concerned. They, however, noted that they "would not like to express any opinion in this report regarding this company's inter-connection with other companies belonging to the Kasturbhai Lalbhai and Imkemex India Ltd (of the ICI Group)".[55] Another company, Anil Starch Products, which was also identified as belonging to the House by the ILPIC accepted IC with only two companies.[56]

Another important example for non-acceptance of IC is that of Sarabhai Sons Pvt Ltd. The company which was included in the Sarabhai House by the ILPIC, had not accepted IC with Ahmedabad Mfg Calico Ptg Co (CALICO) another company included in the Sarabhai House, in view of the abolition of the managing agency system. It had also not accepted IC either with Suhrid Geigy Ltd or with Suhrid Geigy Tdg Ltd. The company, however, stated that these two companies were registered under the Act only by way of abundant caution.[57] It is interesting to note that out of the 11 companies with which the company had admitted IC four companies namely, Symbiotics, Standard Pharmaceuticals, Sarabhai Technological Development Syndicate and Travelera were shown as constituents of the Sarabhai House along with CALICO, Suhrid Geigy and Suhrid Geigy Tdg Co in the December 1978 list.[58] There was a reorganisation of a number of Sarabhai Group companies in 1977, which finally culminated in the emergence of the Ambalal Sarabhai Enterprises Ltd. Ambalal Sarabhai Enterprises got registered under the Act in 1979 and one finds that it is being treated as a constituent of the Sarabhai House along with CALICO.

Some other noteworthy cases are: DCM Ltd accepting IC with only DCM Intl (its subsidiary) and Shriram Fibres Ltd; Modi Rubber accepting IC with only three companies of the Modi Group; Dhrangadhra Chemical Works accepting IC with only its subsidiary namely, Plastic Resins and Chemicals; Premier Automobiles admitting IC with only its subsidiaries; and Bombay Dyeing accepting IC with only Nowrosjee Wadia and Sons Pvt Ltd. However, there are some Houses like Simpson, G V Naidu, Chowgule and Mafatlal in which the problem of non-acceptance of IC at least among the registered undertakings does not appear to be significant.

The following are a few more important cases which were not included in Appendix I. Bajaj Auto had contended that it was not inter-connected under the MRTP Act, and "it specifically pointed out that it was not IC with any companies in the so-called Bajaj Group".[59] It may be noted that the company was initially registered as a b(i) undertaking and subsequently as an a(i) undertaking also. Phillips Carbon Black Ltd, promoted by Duncan Brothers and Co Ltd and Phillips Petroleum Co USA, was shown alongwith Duncan Brothers and Co and four other companies as a Goenka Group company in the June 1978 list. However, in the December 1978 list, the company was not shown as a part of the House. This probably should be understood in the background that the company was registered as a b(i) undertaking, thus not accepting IC with any other undertaking in terms of Section 20a(ii). Similarly, Bharat Forge which was included in the Kirloskar House by the ILPIC has been registered as an a(i) undertaking and appears as a Kirloskar company in the June 1978 list. However, in the list it was explained that the company had represented to the government that it was not a part of the Group. It appears that the company's contention was accepted as it was taken out of the House and shown as a single large undertaking in the December 1978 list. Similar was the case with Swadeshi Polytex Ltd which was initially shown as a constituent of the Jaipuria Group.

It is interesting to note that in the case of J K Synthetics Ltd which has been treated as a company belonging to the J K Singhania House for purposes of arriving at the House-wise asset figures, a government order under the MRTP Act observed that the " . . . company was registered on December

TABLE 5: LIST OF SELECTED COMPANIES COVERED UNDER 20a(i) REGISTERED DURING JANUARY 1980 TO JUNE 1984

| Sr No | Name of the Company | Date of Registration | Remarks |
|---|---|---|---|
| 1 | George Williamson Assam | 23- 1-80 | FERA |
| 2 | Bhadrachalam Paper Boards | 24- 1-80 | Promoted by ITC |
| 3 | Britannia Industries | 11- 3-80 | Formerly under FERA |
| 4 | Orissa Cement | 17- 4-80 | Dalmia J |
| 5 | Tribeni Tissues | 18- 6-80 | FERA |
| 6 | Sandoz (India) | 22- 8-80 | FERA |
| 7 | Swan Mills | 27-12-80 | J P Goenka |
| 8 | Assam Company (India) | 27- 1-81 | FERA |
| 9 | Bayer India | 30- 1-81 | FERA |
| 10 | Bajaj Tempo | 29- 6-81 | Firodia |
| 11 | Sree Rayalaseema Paper Mills | 25- 7-81 | TGL |
| 12 | Dalmia Cement (Bharat) | 25- 8-81 | Dalmia J |
| 13 | Machinery Mfrs Corpn | 29- 3-82 | Mahindra |
| 14 | Vazir Sultan Tobacco Co | 4- 5-82 | Formerly under FERA |
| 15 | Hindustan Development Corpn | 22- 7-82 | Mody (Calcutta) |
| 16 | Aluminium Industries | 5- 1-83 | Seshasayee |
| 17 | Sandvik Asia | 9- 6-83 | FERA |
| 18 | Goodricke Group | 17- 2-84 | FERA |
| 19 | Hindustan Dorr Oliver | 1- 3-84 | FERA |
| 20 | Modi Alkalis and Chemicals | 24- 3-84 | Promoted by Modi Inds, Modi Rubber, Modi Spg and Modipon |
| 21 | Ingersoll Rand (India) | 19- 5-84 | FERA |
| 22 | Grindwell Norton | 19- 5-84 | FERA |

*Notes:* Though Orissa Cement and Vazir Sultan Tobacco are reported to have been registered under 20a(i) it appears that the provisions of 20a(ii) are also applicable to them as Konark Minerals and Vishwarama Hotels, subsidiaries respectively of these two companies, are also registered under the Act.

FERA status is as per the list of FERA companies reported in the Rajya Sabha on 26-3-1985 in reply to the Unstarred Question No 883 (reproduced in *Assocham Parliamentary Digest*, No 5, March 25-30, 1985).

*Source:* These are selected from the lists of undertakings registered under Section 26 of the MRTP Act published in various issues of *Company News and Notes*.

4, 1970 as an undertaking to which the provisions of Section 20(a)(i) of the Act are applicable and belongs to J K Singhania Group".[60] The 1979 alphabetical list also shows that the company to have been registered under a(i)b(i) only. The 1982 House-wise assets list shows Jyoti as a separate House. Jyoti Ltd which was registered under the Act in February 1982, however, was placed in the Amin House by the ILPIC along with Alembic Chemical Works and Alembic Glass and a number of other companies. Since the latter two have not yet been registered under the Act, one can infer that they did not accept IC with Jyoti Ltd.

It is also interesting to find that while the House-wise lists show Southern Industrial Corpn as a company belonging to the M A Chidambaram Group, it was mentioned to be belonging to the SPIC Group in one of the orders issued by the government under the MRTP Act.[61] It may be noted that SPIC (Southern Petrochemcial Inds Corpn) was promoted by Tamil Nadu Industrial Development Corpn in the joint sector with M A Chidambaram and K R Srivasta as the private promoters and is registered as an a(i) company and is shown as a single large undertaking in December 1978 list.

As has already been brought out, a number of House companies have been registered as single large undertakings. At the end of 1979, there were 46 undertakings which were registered either as a(i) or a(i)b(i) undertakings.[62] A further 48 were registered under a(i) during January 1980 to June 1984, the latest period for which information is available. Table 5 shows a list of selected companies registered during the latter period, excluding the ones which were already covered in Tables 2 and 4. This is intended to provide an idea of the composition of the single large undertakings category.

Apart from the presence of a number of companies which are covered under the Foreign Exchange Regulation Act, 1973, one also finds a number of companies which are believed to be constituents of different industrial Houses. For instance, Dalmia Cement (Bharat) has been registered as an a(i) undertaking. Further, a government order under the MRTP Act clearly states that the company had not admitted IC with any other undertakings.[63] However, it is pertinent to mention that the company (identified by the ILPIC as Dalmia J company) had been earlier under default notice since June 25, 1975 to register itself as an undertaking IC with Dalmia J Group of companies. When a number of companies to whom default notices were sent in a similar manner had contended that they did not form a Group, the Central government approached the Company Law Board to determine the question of Group as per Section 2(18A) of the Companies Act. The Company Law Board decided that

> the facts of the case clearly demonstrate that Shri J Dalmia and his relatives listed in Statement 'I', appended to the petition, constitute a Group within the meaning of Section 2(18A) of the Companies Act, 1956. We also hold that the said Group along with the companies listed in Statement 'II', annexed to the petition, and M/s Orissa Cement Ltd, M/s Dalmia Cement (Bharat) Ltd and M/s Dalmia Dairy Industries Ltd, constitute a Group within the meaning of Section 2(18A) of the Companies Act, 1956.[64]

Inspite of this, in the 1982 House-wise assets list, the company does not seem to have been treated as a part of the Dalmia J Group. The list contains a Orissa Cement House with assets of Rs 55.13 crore. However, Dalmia Cement (Bharat) is unlikely to have been included in this House as the assets of Orissa Cement itself were more than Rs 50 crore in 1982.

Similarly, Hindustan Development Corpn which was earlier asked to register under the Act as a part of the Mody (Calcutta) Group has been registered as an a(i) undertaking only. Another interesting case is that of Tata Finlay Ltd which had admitted IC with 8 undertakings of the Tata Group. The company had often been referred to as a Tata Group company, but now shown under the House in the House-wise lists. This has been continuing even after the dissolution of the James Finlay Group in India. While the June 1978 list shows it as part of the James Finlay Group in the December 1978 list the company was shown as a single large undertaking. As can be seen from Table 1, the company is not included in Tata House even in 1981.

Another important case is that of the Indian affiliates of the British American Tobacco (BAT) Group of UK, *viz*, ITC, Vazir Sultan Tobacco (VST), Tribeni Tissues and Molins of India.[65] ITC has been registered under the Act since 1970. It had promoted Bhadrachalam Paper Boards (BPBL) in 1975. From Table 5 we find that BPBL is registered as an a(i) undertaking. ITC's share in BPBL's equity is approximately 32 per cent while that of VST is 14 per cent. Interestingly enough, from the prospectus of BPBL one finds that ITC enjoys the right to appoint two or more directors, but always constituting less than one-third of the strength of BPBL's Board as long as ITC holds 25 to 33 per cent of equity of BPBL.

Unlike in the case of Gillanders Arbuthnot and Goodlass Nerolac we find that the operations of ITC and VST have not been altogether independent. For instance, it was complained to the MRTP Commission that these two companies have been indulging in restrictive trade practices and that they co-operate with each other by producing each other's brands. For instance, it was alleged that while ITC got some of its brands made by VST, ITC manufactured Charminar special brand of cigarettes for VST. ITC was the sole distributor for a number of brands of VST and it had "exclusive distribution rights for Charminar brand of cigarettes over many parts of the country".[66] We observed that except for three (out of seven) the rest of the directors of VST in 1983 were earlier with ITC. One of the remaining three was from Molins of India. Both ITC and VST hold shares in Molins of India, Vishwarama Hotels (subsidiary of VST) and Bhadrachalam Paper Boards. Incidentally the 1982 House-wise assets list treats VST as a separate House. Similarly, Tribeni Tissues which had been under default notice for its alleged IC with ITC, is now registered under a(i).

### DE-REGISTRATION

Another important aspect of the administration of the MRTP Act which had generally not been shown the attention it deserves is the de-registration of once registered undertakings. Normally, a company gets de-registered either if it is nationalised or amalgamated with another company or there were changes in the shareholding pattern/constitution of Board of Directors resulting in changes in IC or when a company is nationalised or taken over by another company resulting in the combined assets of the remaining undertakings of the Group falling below the Rs 20 crore limit and so on. Till the end of 1984 as many as 374 undertakings were de-registered while in the case of 408 undertakings applications for de-registration were rejected.[67] As the cases of nationalisation and take-overs are clear in nature and the severance of IC is obvious what one would like to know more about is the companies which have got de-registered either on the plea that they were no longer IC with the ones that continued to be registered or found that the IC cannot be established. This is because of the fact that a number of companies got themselves registered initially as they thought that they were also covered by the provisions of Section 2(g) of the Act[68] and some even claimed that they have got registered even if they were not IC only out of abundant caution.

The details regarding de-registration have been taken from *Company News and Notes* which, however, does not explain the reasons for de-registration.[69] A selected list of de-registered companies is given in Appendix II. In selecting these companies care has been taken to exclude nationalised and amalgamated cases as far as possible. If these de-registrations were allowed on the basis of changes in IC, a point worth enquiring into is whether these were accompanied by changes in actual control or they were only of a technical nature. This is because, the government sometimes imposes on companies restrictions like reduction of promoter's/controlling family's shareholding in the company so that the shareholding pattern of the company becomes broad-based while approving their proposals.

The following cases tend to suggest that de-registration need not necessarily imply de-linking from the respective industrial House. For instance, we find from Appendix II that Cyanamid (India) got de-registered during 1980. However, there was virtually no change in the board of directors of the company during 1979-1981 as can be seen from its Annual Reports for the years ending in 1979, 1980 and 1981. The only change that occurred during the period was the replacement of one of the representatives of American Cyanamid by another of its representatives. This should be seen in the background of the fact that Amercian Cyanamid Company and Atul offered a part of their shareholdings in the company to the public which resulted in the reduction of foreign equity in Cyanamid India from 65 to 55 per cent and that of Atul from 35 to 30 per cent. Cyanamid (India) applied for de-registration under the MRTP Act as "With the reduction of Atul's shareholding to 30 per cent in Cyanamid India Limited the inter-connection with Atul has been severed and the provisions of Chapter III of the Monopolies and Restrictive Trade Practices Act, 1969, should no longer apply to the Company".[70]

Similarly, while National Insulated Cable Co (NICCO) got de-registered under the Act in 1978, one finds that National Rolling and Steel Ropes (NRSR), a company regarded as a part of the NICCO Group[71] continues to be registered under the Act and the 1981 House-wise List shows NRSR to be a constituent of the Birla House (see Table 3) A comparison of the Annual Reports of NICCO for the accounting years ending in March 1976 and March 1979 brings out that the only change in the composition of the board of directors of the company during the period was the induction of one new director while the same persons continued to be the Chairman and Managing Director of the company. In addition, in 1979 three of the Directors of NICCO were also on the board of Associated Industrial Development Co Pvt Ltd, a company which continues to be registered under the Act and which is shown as a constituent of the Birla House in 1981 (see Table 3) and they constituted 60 per cent (three out of five) of its board.

Another case of interest is that of Roplas (India) Ltd of the Mahindra and Mahindra House. The company was initially registered under the MRTP Act in 1971. In 1972 it got registered with the Directorate of Small Scale Industries for the manufacture of fibreglass reinforced plastic products. However, after the reservation of fibreglass reinforced plastic products for the small scale sector and the change in the policy of the government which would make the company ineligible for exemption under the Industries (Development and Regulation) Act, 1951, the company applied for de-registration under the MRTP Act as according to its understanding "it is no more inter-connected with Mahindra and Mahindra Ltd".[72] A study which discussed the company's case in detail, cited a number of points to show that Roplas was "still a part of the House of Mahindras" and concluded that cancellation of Roplas'

## Appendix I

### VARIATION IN NUMBER OF INTER-CONNECTED COMPANIES AND COMPANIES INCLUDED IN DIFFERENT HOUSES

| Sr No | Name of the Company 1 | House Association 2 | No of Inter-connected Companies 3 | Date of Order under the MRTP Act 4 |
|---|---|---|---|---|
| 1 | Southern Indl Corpn | Chidambaram | 47 (35) | 10- 5-77 |
| 2 | Chowgule and Co Pvt | Chowgule | 19 (20) | 19-11-76 |
| 3 | Lakshmi Machine Works | G V Naidu | 15 (15) | 20-11-74 |
| 4 | Atul Products | K Lalbhai | 8 (19) | 31-10-75 |
| 5 | Anil Starch Products | K Lalbhai | 2 (19) | 4- 9-80 |
| 6 | Cable Corpn of India | Khatau | 36 (46) | 20-12-71 |
| 7 | Neesha and Co (Firm) | Khatau | 36 (46) | 14- 9-71 |
| 8 | Bharat Forge Co | Kirloskar | Nil (15)* | 29-10-79 |
| 9 | Kirloskar Brothers | Kirloskar | 12 (15) | 13-11-79 |
| 10 | Kirloskar Oil Engines | Kirloskar | 4 (15) | 3- 5-76 |
| 11 | Mysore Kirloskar | Kirloskar | 8 (15) | 31- 1-81 |
| 12 | Macneill and Magor | Macneill and Magor | 23 (37) | 23-12-77 |
| 13 | Southern Asbestos Cement | Madras Cement | 8 (11) | 15-10-80 |
| 14 | Indian Dyestuff Inds | Mafatlal | 20 (20) | 29- 2-80 |
| 15 | Mahindra and Mahindra | Mahindra | 8 (13) | 31-10-75 |
| 16 | Mahindra Sintered Pdts | Mahindra | 8 (13) | 5- 2-79 |
| 17 | Modi Rubber | Modi | 3 (14) | 27-12-80 |
| 18 | Modi Spg and Wvg Mills | Modi | 8 (14) | 23- 6-76 |
| 19 | Modi Spg and Wvg Mills | Modi | 3 (14) | 10-12-79 |
| 20 | Modi Spg and Wvg Mills | Modi | 9 (14) | 27- 9-80 |
| 21 | Modipon | Modi | 10 (14) | 19- 2-76 |
| 22 | Carborundum Universal | Murugappa | 10 (13) | 30- 5-77 |
| 23 | Bombay Dyeing and Mfg Co | Nowrosjee Wadia | 1 (8) | 30-11-78 |
| 24 | E I D Parry (India) | Parry | 5 (9) | 21- 2-77 |
| 25 | Batliboi and Co Pvt | Prataplal | 18 (11) | 26-12-75 |
| 26 | Dhrangadhra Chm Works | S P Jain | 1 (14) | 2-12-77 |
| 27 | Kishco Cutlery | S P Jain | 7 (14) | 21-11-77 |
| 28 | Aluminium Indus | Seshasayee | Nil (6)* | 25- 7-84 |
| 29 | Delhi Cloth and Gen Mill | Shriram | 2 (14) | 15- 3-79 |
| 30 | Shriram Fibres | Shriram | 2 (14) | 17- 8-79 |
| 31 | Simpson and Co | Simpson | 29 (29) | 4- 1-77 |
| 32 | J K Chemicals | Singhania J K | 28 (34) | 31- 5-77 |
| 33 | Seven Seas Transportation | Singhania J K | Nil (34) | 21- 7-75 |
| 34 | Asiatic Oxygen | Soorajmull | 1 (9) | 22-11-78 |
| 35 | Singer TVS | TVS | 15 (22) | 29-11-76 |
| 36 | Sundaram Clayton | TVS | 14 (22) | 28- 9-76 |
| 37 | Wheels India | TVS | 18 (22) | 27- 9-71 |
| 38 | Ballarpur Industries | Thapar | 17 (33) | 28- 2-76 |
| 39 | Ballarpur Industries | Thapar | 23 (33) | 28-10-77 |
| 40 | Bengal Ingot Co | Thapar | 8 (33) | 20- 9-76 |
| 41 | Crompton Greaves | Thapar | 9 (33) | 30- 5-77 |
| 42 | Greaves Cotton and Co | Thapar | 9 (33) | 19-10-76 |
| 43 | Karamchand Thapar and Bros (CS) | Thapar | 18 (33) | 2- 7-77 |
| 44 | Ruston and Hornsby India | Thapar | 8 (33) | 27- 9-76 |
| 45 | East India Corpn | Thiagaraja | 25 (31) | 30- 9-76 |
| 46 | Bharat Radiators Pvt | Walchand | 17 (20) | 5- 2-76 |
| 47 | Premier Automobiles | Walchand | 2 (20) | 8- 8-74 |
| 48 | Walchandnagar Inds | Walchand | 8 (20) | 6- 6-75 |

*Source:* Information on number of inter-connected companies is collected from the orders issued under the MRTP Act on the respective dates specified in col 4. For orders issued upto March 1980, we depended on India, Ministry of Law, Justice and Company Affairs, "Orders Passed by the Central Government Under Section 21, 22 and 23 of the MRTP Act, 1969", Vol I and II, 1982 and for the subsequent orders, various issues of the *Company News and Notes*. Figures in brackets indicate the number of companies shown in different houses as on December 31, 1978 in the reply to the Lok Sabha Unstarred Question No 8229 given on April 24, 1979, (see *CNN*, April 1979, pp 87-101). Except in the case of Aluminium Industries Ltd in all other cases the house association in col 2 is based on this list.

registration under the MRTP Act "demonstrates the weaknesses of the Indian anti-monopoly legislation".[73]

We have already seen from Appendix I that Bombay Dyeing accepted IC with only Nowrosjee Wadia and Sons Pvt Ltd. However, from Appendix II we can see that not only the latter company got de-registered but also a number of others like Botanium and Gherzi Eastern have got de-registered leaving only Bombay Dyeing, National Peroxide and Neville Wadia Pvt Ltd from the December 1978 list of Nowrosjee Wadia Group under the purview of the MRTP Act. One also finds that a number of undertakings of Chidambaram, Khatau and Thiagaraja Houses and all companies of the Ruia House got de-registered. The case of one of the Thiagaraja companies is revealing. The government in its Order dated March 5, 1982, approving the substantial expansion proposal of Loyal Textiles Ltd imposed a condition that

> The shareholdings of Thiagaraja Group, their directors, relatives, the bodies corporate holding shares in the applicant company at present and their interconnected undertakings and the directors and relatives of directors of such companies and undertakings shall be reduced to 40 per cent within one year from the date of the order.[74]

As can be seen from the Appendix, the company got de-registered on May 26, 1982 possibly because the Group reduced the required share to less than 33⅓ per cent instead of 40 per cent. However, a comparison of the Board of Directors of the company for the years 1980-81 and 1982-83 shows that out of nine directors of the company in 1980-81, seven (including the two Managing Directors) continued in 1982-83 as well, the remaining two in 1982-83 being nominees of IFCI and SIPCOT.

## CONCLUSION

The fact that the registrations of companies which were existing at the time of enactment of the Act and which were also placed in the Houses of Tatas and Birlas by official committees and commissions was spread over a long period clearly indicates that the criteria under the Act could not capture the relation between them. Considerable direct evidence is also available which shows that a number of companies of these Houses, registered under the MRTP Act, do not admit IC among themselves. This phenomenon is not confined to these two Houses only. Moreover, a number of important recognised House companies are yet to register under the Act. Attempts at getting them registered by issuing default notices and through legal proceedings have met with only limited success.[75] While the Commission itself is not in a position to take up the question of IC on its own, even in cases referred to them they were mainly concerned with establishing IC only when the question of dominance was involved. Barring the aborted attempts of establishing IC of Tata and Birla House companies no significant efforts were made in this direction.

A number of Houses are reported by the government from time to time are made up of smaller groups of IC companies. Many recognised House-companies have been registered under the Act not because they accept IC with the already registered ones, but due to the fact that their assets exceed the Rs 20 crore limit either singly or jointly with companies with which they are closely related. The government has been broadly following the House-classification made by the Industrial Licensing Policy Inquiry Committee and has been including companies under different Houses on that basis whenever they are registered, unless they have any objection. There have been instances of giving separate House status to recognised House companies if representations are made against such inclusion. This practice, one should expect, is adopted by the government as a compromise between what has come to be believed on the basis of earlier findings and what the criteria under the Act could achieve. Otherwise, one should imagine, assets data would have to be reported for a TISCO House, A TOMCO House, a Dhrangadhra House and a DCM House. Such reporting would probably have attracted public attention to the phenomenon of non-acceptance of IC. The reported asset figures are in any case indicative rather than definite proof of the strengths of respective Houses.[76]

This phenomenon acquires further significance in view of the recent proposal to increase the asset limit from Rs 20 crore to Rs 100 crore. In the light of what has been observed above it is only logical to expect that all those GICUs and single large undertakings, whether included in a House or not, would become eligible for de-registraion after the asset limit is increased, provided their assets are less than Rs 100 crore. Thus all Houses, irrespective of their present reported assets, can potentially take advantage of the asset limit hike. However, two points which have a bearing on this possibility need to be taken into account. One, the extent of benefit a House can derive depends to a large measure on its structure. If the GICU is made up of one single large company (assets in the range of Rs 100 crore) and a few smaller ones this hike is not going to affect its MRTP status. Similarly, for Houses in which the holding company type of structure is prevalent, the hike has very little significance. Second, and the more important one, is the change in the criteria for establishing IC introduced through the amendment of the Act which came into force from August 1984. Some of the significant changes incorporated are in respect of

## Appendix II

LIST OF SELECTED INTER-CONNECTED UNDERTAKINGS WHOSE REGISTRATION UNDER THE MRTP ACT HAS BEEN CANCELLED OR DELETED

| Sr No | Name of the Company<br>1 | House Association Before De-registering<br>2 | Date of De-registration<br>3 |
|---|---|---|---|
| 1 | Incon Steel Pvt Ltd | Bajaj | 5- 2-80 |
| 2 | Jamnalal Sons Ltd | Bajaj | 10- 6-80 |
| 3 | Jeewan Ltd | Bajaj | 18- 8-80 |
| 4 | Shree Laxmi Pkg and Allied Pdts Ltd | Bangur | 1- 5-80 |
| 5 | Hindustan Gas and Inds Ltd | Birla | 17-11-76 |
| 6 | National Insulated Cable Co Ltd | Birla | 25-10-78 |
| 7 | Somany Pilkingtons Ltd | Birla | 18- 8-80 |
| 8 | Modern India Construction Co Ltd | Birla | 24-12-82 |
| 9 | Hindustan Sanitaryware Inds Ltd | Birla/B D Somani | 2-11-83 |
| 10 | Thana Electric Supply Co Ltd | Bombay Suburban | 3-10-78 |
| 11 | Tube Suppliers Ltd | Chidambaram | 9- 1-78 |
| 12 | Tubes and Malleables Ltd | Chidambaram | 9- 1-78 |
| 13 | Tuticorn Alkali and Chemicals Ltd | Chidambaram | 6- 2-79 |
| 14 | Automobile Rubber Prd Pvt Ltd | Chidambaram | 1- 5-80 |
| 15 | Commercial Aids Pvt Ltd | Chidambaram | 1- 5-80 |
| 16 | Southern Chloro-Chemicals Pvt Ltd | Chidambaram | 1- 5-80 |
| 17 | Southern Ebonites Pvt Ltd | Chidambaram | 1- 5-80 |
| 18 | William Goodacre and Sons (I) Ltd | Chidambaram | 27- 4-82 |
| 19 | India Radiators Ltd | Chidambaram | 31- 5-83 |
| 20 | Western Thomson (India) Ltd | Chidambaram | 31- 5-83 |
| 21 | Camera Works Pvt Ltd | Chowgule | 22- 3-76 |
| 22 | Ahmedabad New Cotton Mills Ltd | K Lalbhai | 14- 8-81 |
| 23 | Cynamid India Ltd | K Lalbhai | 20-11-80 |
| 24 | Electric Control Gear Pvt Ltd | K Lalbhai | 14- 8-81 |

(Continued on next page)

### Appendix II *(Contd)*

| Sr No | Name of the Company 1 | House Association Before De-registering 2 | Date of De-registration 3 |
|---|---|---|---|
| 25 | Shantikiran Pvt Ltd | Khatau | 30-11-79 |
| 26 | Shantileena Pvt Ltd | Khatau | 30-11-79 |
| 27 | Sukiran Pvt Ltd | Khatau | 30-11-79 |
| 28 | Jayakrishna Pvt Ltd | Khatau | 1-5-80 |
| 29 | Shakti Industrial Wires Pvt Ltd | Khatau | 5-4-82 |
| 30 | Madhya Pradesh Electricals Ltd | Khatau | 7-4-82 |
| 31 | Killick Nixon Ltd (and 6 subsidiaries) | Killick Kapadia | 27-11-80 |
| 32 | Kunal Engg Co Ltd | Kothari (Madras) | 12-5-83 |
| 33 | Pushpanjali Industries Pvt Ltd | Madras Cement | 9-1-80 |
| 34 | Ramsayee Agro Inds Ltd | Madras Cements | 6-10-82 |
| 35 | Advertising Res and Mktg Services (Frm) | Mafatlal | 10-8-81 |
| 36 | Mahindra Spicer Ltd | Mahindra | 8-1-79 |
| 37 | Kent Leeds Meter Mfg Co Ltd | Mahindra | 16-10-79 |
| 38 | Roplas (India) Ltd | Mahindra | 11-12-79 |
| 39 | Vickers Sperry of India Ltd | Mahindra | 14-8-80 |
| 40 | R B Gujarmal Modi and Bros Pvt Ltd | Modi | 12-11-79 |
| 41 | Synfibre Sales Corpn (Firm) | Modi | 7-6-80 |
| 42 | Coimbatore Cotton Mills Ltd | Naidu G V | 4-1-82 |
| 43 | George Wills and Sons (I) Pvt Ltd | Nowrosjee Wadia | 16-2-84 |
| 44 | Nowrosjee Wadia and Sons Pvt Ltd | Nowrosjee Wadia | 28-5-82 |
| 45 | Gherzi Eastern Ltd | Nowrosjee Wadia | 16-2-84 |
| 46 | Botanium Ltd | Nowrosjee Wadia | 20-2-84 |
| 47 | B R T Ltd | Nowrosjee Wadia | 3-5-84 |
| 48 | Boehringer Knoll Ltd | Rallis | 22-4-76 |
| 49 | Bombay Oxygen Corpn Ltd | Ruia | 12-3-76 |
| 50 | Bradbury Mills Ltd | Ruia | 12-3-76 |
| 51 | Ruia and Co Pvt Ltd | Ruia | 17-3-76 |
| 52 | Dawn Mills Co Ltd | Ruia | 29-12-76 |
| 53 | Sterling Re-rolling Mills Pvt Ltd | Ruia | 18-9-78 |
| 54 | Modern Family Planning Products Ltd | Ruia | 18-9-78 |
| 55 | Ruia Industries Pvt Ltd | Ruia | 18-9-78 |
| 56 | Health Products Pvt Ltd | Ruia | 18-9-78 |
| 57 | Ruia Steel and Agri Farms Pvt Ltd | Ruia | 18-9-78 |
| 58 | Secals Ltd | Seshasayee | 17-5-83 |
| 59 | Cloth Traders Pvt Ltd | Shri Ambica | 7-9-81 |
| 60 | Vulcan Lavel Ltd | Swedeshi Match | 3-2-82 |
| 61 | Union Home Product Ltd | TVS | 23-11-79 |
| 62 | Trichy Steel Rolling Mills Ltd | TVS | 15-11-80 |
| 63 | Karam Chand Thapar and Sons Ltd | Thapar | 25-10-78 |
| 64 | Mather Greaves Ltd | Thapar | 25-10-78 |
| 65 | Standard Refinery and Distillery | Thapar | 25-10-78 |
| 66 | Tentulia Khas Collieries | Thapar | 25-10-78 |
| 67 | United Collieries | Thapar | 25-10-78 |
| 68 | Rukmini Mills Ltd | Thiagaraja | 8-1-79 |
| 69 | Sree Rajendra Mills Ltd | Thiagaraja | 9-1-79 |
| 70 | Coimbatore Kamala Mills Ltd | Thiagaraja | 26-5-82 |
| 71 | Loyal Textiles Mills Ltd | Thiagaraja | 26-5-82 |
| 72 | P Orr and Sons Pvt Ltd | Thiagaraja | 26-5-82 |
| 73 | Saroja Mills Ltd | Thiagaraja | 26-5-82 |
| 74 | Virudhnagar Textiles Ltd | Thiagaraja | 26-5-82 |
| 75 | Sree Sivakami Mills Ltd | Thiagaraja | 14-4-83 |
| 76 | V Ramakrishna and Sons Pvt Ltd | V Ramakrishna | 14-4-83 |
| 77 | Precision Bearings India Ltd | V Ramakrishna | 18-8-81 |

*Note:* House association of companies de-registered after June 1978 is based on the June 1978 and December 1978 House-wise lists. In all the other cases it is based on ILPIC classification or information on inter-corporate investments or orders under the MRTP Act.

*Source:* Selected from various issues of *Company News and Notes.*

bringing investment companies under the purview of the Act, reducing the required control on equity and on the Board to one-fourth and introducing the definition of Group.[77] So far there are no clear indications as to the type of new registrations that had taken place due to the amendment except that 462 undertakings were registered under the Act during the period April 1, 1984 to December 31, 1984.[78] Though this number looks quite large compared to what has been the experience of recent years, it is still far short of the total number of companies which were expected to be registered.[79] However, one cannot ignore the fact that a number of companies got registered under the Act initially, some even out of 'abundant caution', but later got de-registered once they found that IC cannot easily be established. The relevant cases discussed above show that de-registration need not always be accompanied by severance from the respective Houses.

Bringing legal provisions nearer to reality and making them acceptable by those who would be affected by them is a difficult task. Doubts have already been expressed whether even with all the clarifications introduced "the concept (group) will fully and properly serve the purpose for which it is intended".[80] A number of Houses control their companies through a maze of inter-corporate investments with investment companies playing a major role.[81] Establishment of control of the House over all such companies requires an extensive organisational structure in the absence of which only the obvious type of ICs, particularly where direct shareholdings are involved, can be established. Another likely hurdle would be in identifying Associated Persons for purpose of establishing the Group. Much also depends on how the new criteria would be interpreted in respect of relatives, particularly brothers who are legally separated. Deciding House association may also become a difficult task as many companies may now turn out to be technically IC with more than one House. It took nearly six years for the changes in criteria to be introduced after the Sachar Committee had recommended them in 1978 and this period was enough for affecting suitable modifications in ownership and control structures by interested Houses. In many case with the increase in asset limit, the scope and in turn the desire for such readjustments would also increase. Necessity to continue to operate in and to enter into fresh areas which are outside the Appendix I industries will force the Houses to devise new methods to overcome the MRTP legislation.

There is a need for periodic studies to keep track of the trends in economic concentration. From this point of view also efforts at keeping track of the composition of industrial houses,[82] not necessarily from the point of registrations under MRTP Act, are necessary. Such studies would be useful in evaluating the contribution of the industrial policies in promoting new entrepreneurs. This information would also be a vital and necessary input in efforts at controlling product monopolies.

Looking from a different angle, rectification of a few important lacunae in the functioning of the Act which would have paved the way for realisation of its objectives, was not attempted by the 1984 amendment. For instance, the government still holds the option whether to refer the proposals of individual companies to the Commission or not. Similarly, appointing the staff of the Commission, though in consultation with the latter, continues to be its prerogative. How these factors have been affecting the working of the Commission and the administration of the Act are too well-known to be repeated here. Thus whatever may be the ultimate coverage of the Act one cannot expect much from the point of achieving the objective of prevention of concentration of economic power to the common detriment. With the donations to political parties by the corporate sector now being legalised, the chances of abuse of economic power by big business have become more pronounced.[83] Giving the MRTP Commission its due place would be a step in the right direction which would also save the government from avoidable criticism. It would be in the fitness of things if such changes are brought in along with the asset limit increase.

## Notes

[The author is grateful to S K Goyal for his encouragement and useful comments. Thanks are also due to all his colleagues in the Corporate Studies Group and to Nagesh Kumar and Michael Howard for the interest shown and helpful suggestions given. However, the responsibility for the views expressed lies entirely with the author.]

1 The Draft Bill on Monopolies and Restrictive Trade Practices presented by the Monopolies Inquiry Commission (MIC) in its report became the basis for the Act. However, the Act and the recommendations of the MIC differ in some respects. While the Commission envisaged control over dominant undertakings, the Act provided for control of large sized undertakings and industrial Houses also. The ILPIC studied the composition of 73 large industrial Houses and termed 20 of them whose assets for 1964 exceeded Rs 35 crore as Larger Industrial Houses (LIHs). For the Committee the guiding principle was that the "House should include those business concerns over which a common authority holds sway" (p 74). One of the principal criteria adopted for identifying a company as belonging to a House was that of the House controlling one-third effective equity. The Committee also took adequate note of special characteristics like persons closely associated with the House being on the Board of Directors, sole selling agency agreements and sharing of common facilities like office premises and telephones. One of the principal recommendations of the Committee was that LIHs and foreign concerns should concentrate "their resources on the development of complex and heavy investment industries which would mainly belong to the core sector" (p 190).

2 See for instance, Oza, A N, 'Putting Teeth into the Monopolies Act', *Economic and Political Weekly*, Special Number, July 1971; Chandra, N K, 'Monopoly Legislation and Policy in India', *EPW*, Special Number 1977, pp 1405-18; India, Ministry of Law, Justice and Company Affairs, "Report of the High-Powered Expert Committee on Companies and MRTP Acts", 1978 (also referred to as Sachar Committee after its Chairman, Justice Rajender Sachar); Goyal, S K, "Monopoly Capital and Public Policy: Business and Economic Power", Allied, 1979; Khurana, Rakesh, "Growth of Large Business: Impact of Monopolies Legislation", Wiley, 1981; Verma, D P S, 'A Decade of MRTPC', *The Economic Times* (New Delhi), April 7, 8, 9 and 10, 1981; and Paranjape, H K, 'Curbing Monopoly: Plans and Pitfalls', *Mainstream*, October 10, 17, 1981.

3 The lower limit was in fact seen as a more radical step. For instance, the 'Industrial Policy—Government Decisions', a statement issued on February 2, 1973 informs: " . . . the adoption of the lower limit of Rs 20 crore as well as the definition of inter-connected undertakings as provided in the MRTP Act, 1969 will result in a more effective control on the concentration of economic power".

4 Goyal, op cit, pp 26-27. The study cited a number of companies like Tata Industries, National Ecko, Investment Corpn of India, Indian Standard Metal—all included in Tata House by the ILPIC; and Birla Cotton Spg, Electric Construction and Equipment, Indian Rayon, Oudh Sugar and Pilani Investment Corpn—all of Birla House, which were not registered under the MRTP Act.

5 For instance, N K Sengupta finds that "the abolition of the managing agency removed the most important visible mark of inter-connection among companies". Cf Sengupta, "The Monopolies and Restrictive Trade Practices Act, 1969", Eastern Law House, 1980, p 30.

6 See Kumar, Nagesh, 'Regulating Multinational Monopolies in India', *EPW*, May 29, 1982, pp 909-917 for details.

7 The Committee's recommendations included: (i) reduction of the requirement of one-third equity for establishing inter-connection to one-fourth; (ii) introduction of the definition of 'Group'; and (iii) bringing investment companies under the definition of undertakings.

8 See Press Note of the Ministry of Industry dated March 9, 1979. Summary of the Committee's recommendations were reported in India, Ministry of Industry, "Guidelines for Industries", Part I, June 1979, p v-68.

9 See Goyal, op cit, p 6.

10 Paranjape, H K, 'The MRTP Amendment Bill: A Trojan Horse', *EPW*, April 28, 1984, p 725.

11 Federation of Indian Chambers of Commerce and Industry, "Pre-Requisites of Accelerated Industrial Growth", a report of the Ad Hoc Committee headed by Bharat Ram, January, 1985.

12 See *The Economic Times* (New Delhi), March 18, 1985 and *Business Standard* (Calcutta), dated March 28, 1985, respectively, for the manner in which these estimates were arrived at.

13 See *BS* (Calcutta), dated March 25, 1985.

14 The required market share for determining dominance was brought down from one-third to one-fourth in 1982 through an amendment to the Act.

15 These lists are available in the February 1976 (pp 53-77) and February 1977 (pp 63-84) issues of the journal.

16 See the April 1979 issue of *Company News and Notes*, (pp 87-101). The journal is hereafter referred to as *CNN*.

17 See the Reply to the Rajya Sabha Unstarred Question No 10 answered on July 25, 1983. (Reproduced in the *CNN*, Vol XXI, July 1983, pp 85-90.)

18 See the Reply to the Lok Sabha Unstarred Question No 471 given on February 2, 1984. (Reproduced in the *CNN*, Vol XXII, February 1984, pp 52-53.)

19 In the following any reference to 'Tata' or 'Birla' companies would normally mean that the respective company was identified as such by the ILPIC.

20 See India, Ministry of Law, Justice and Company Affairs, orders passed by the Central government under Sections 21, 22 and 23 of the MRTP Act, 1969, Vol I, 1982, p 570. (This publication is hereafter referred to as *MRTP Act Orders*.) The order dated May 31, 1978 states that the three companies jointly own and operate a thermal plant at Trombay and all the three companies are inter-connected with each other.

21 See the Reply to the Lok Sabha Unstarred Question No 5813 answered on April 3, 1979. (Reproduced in *CNN*, April 1979, p 70.) In addition, it can be understood from the MRTP Orders that TISCO admitted inter-connection with eight other undertakings of the Tata Group. (*MRTP Act Orders*, Vol I, p 574.) Some other references also show TISCO to have been registered under Section 26 read with Section 20a(i)/a(ii) of the MRTP Act. (*MRTP Act Orders*, Vol II, p 613, order dated December 15, 1971.)

22 Going through some of the older lists of MRTP undertakings one finds that Tata Chemicals was initially registered as a b(i) undertaking only and later it was registered under a(i) also as its assets exceeded Rs 20 crore. Further evidence to this fact also is

available in one of the orders under the MRTP Act, It was stated that the company denied its inter-connection with any other company of the Tata Group. The government felt that it was not necessary to go into the further details of inter-connection as it was already registered as a b(i) undertaking. (*MRTP Act Orders*, Vol I, p 551.) In 1977 it was stated that the company was registrable under a(i) also. (*MRTP Act Orders*, Vol I, 557, order dated May 5, 1979.)

23 This view gets confirmed by the evidence available in the *MRTP Act Orders*, Vol II, wherein it was stated that the company admitted inter-connection with two other undertakings namely Lakme Limited and International Fisheries Limited of the Tata Group (p 439, order dated May 18, 1974).

24 It was explained in the order issued in connection with the application of Associated Bearing Company for effecting substantial expansion, that the company accepted inter-connection with Skefko India Bearing Company. (See *MRTP Act Orders*, Vol I, p 26, Order dated July 24, 1974.)

25 See *MRTP Act Orders*, Vol II, p 448.

26 See India, Ministry of Law, Justice and Company Affairs, 'Report Under Section 21 (3)(b) of the Monopolies and Restrictive Trade Practices Act, 1969, in the Case of Tata Engineering and Locomotive Company Limited, Bombay', *Reports of the MRTP Commission and Orders Thereupon of the Central Government Under Section 21, 22 and 23 of the MRTP Act, 1969*, Vol II, Section 21, 1982, p 352. The report was submitted to the government in December 1971. These reports are hereafter referred to as *MRTPC Reports*.

27 In one of the replies given in the Parliament the government in fact explained that in the context of "the present industrial licensing policy and the Monopolies and Restrictive Trade Practices Act only those companies are considered as companies of the Tata Group which are registered under Section 26 of the MRTP Act as undertakings to which Section 20(a) of the Act applies, and which at the same time either (i) figured in the list of companies identified by the Industrial Licensing Policy Inquiry Committee as companies belonging to the large industrial house of Tata or are (ii) inter-connected with such companies." (See Reply Lok Sabha Unstarred Question 4817 answered on March 27, 1979—reproduced in *CNN*, March 1979, p 88.) Similar explanation was given in the case of TVS, Mahindra and Mahindra, Sarabhai, Kasturbhai Lalbhai and Birla Houses also. Further evidence in this regard is available in a study of assets, turnover and PBT of large industrial houses prepared by the Monopolies Research Unit of the Department of Company Affairs. It says that information had been compiled in respect of assets, turnover and profits of companies "as belonging to industrial houses *on the basis of inter-connection and other association authenticated by past studies by expert bodies as also similar information in respect of single large undertakings*", (emphasis added), see *CNN*, November 1978, p 1.

28 A House-wise distribution of the 76 companies registered under the MRTP Act during January 1980 to December 1981 was given in answer to the Lok Sabha Unstarred Question No 1657, answered on March 15, 1982. (Reproduced in *CNN*, Vol XX, March 1982, pp 71-72.)

29 The asset of figures are taken from the Bombay Stock Exchange Official Directory.

30 See reply to the Lok Sabha Unstarred Question No 3923 provided on March 17, 1981 for a list of pending cases of default notices with regard to registration under Section 26 of the MRTP Act as on December 31, 1980. (Reproduced in *CNN*, April 1981, pp 68-73.)

31 See Kumar, op cit, p 915 (Annexure).

32 Waldies Ltd became a subsidiary of the company during 1983-84. Earlier Gillanders held about 36 per cent of the equity capital of Waldies. We tried to find the possible inter-connection between Ogilvy Gillanders and Co Ltd and Lead Industries Group Ltd with the help of Dunn and Bradstreet, "Who Owns Whom: United Kingdom and Republic of Ireland", Vol 1 and Vol 2, 1978/79 and 1984 but were unable to find Ogilvy Gillanders or Gillanders Arbuthnot in them.

33 See the Directors' Report to the Shareholders in the Reports and Accounts of Gillanders Arbuthnot and Co Ltd for the years ended March 31, 1982 (p 9) and 1983 (p 7), respectively.

34 See also Paranjape, H K, (October 10, 1981), op cit, p 14, wherein it was observed that registrations under the Act were mainly of those companies with assets of Rs 20 crore or more and of those who were found to be clearly inter-connected with them such as subsidiaries.

35 However, an examination of the earlier lists of undertakings registered under the Act reveals that Hyderabad Asbestos was initially registered as a b(i) undertaking only (*CNN*, February 1977, p 72). The provisions of Section 20a(i) became applicable to it since May 26, 1979 (*CNN*, November, 1981, p 25, and *CNN*, October 1982, p 35).

36 See *CNN*, February 1977, p 77. It appears that the provisions of Section 20a(ii) became applicable to the company during 1979 (see *MRTP Act Orders*, Vol II, p 335, order dated September 22, 1979).

37 The fact that Zuari Agro Chemicals did not accept inter-connection with any other Birla company is explained a little later.

38 See "Report Under Section 22(3)(b) of the Monopolies and Restrictive Trade Practices Act, 1969, in the Case of Hindustan Aluminium Corporation Limited, Bombay", reproduced in *MRTPC Reports*, Vol III, p 272. The report was submitted to the government in August 1973.

39 See "Report Under Section 22(3)(b) of the Monopolies and Restrictive Trade Practices Act, 1969, in the Case of Kesoram Industries and Cotton Mills Limited, Calcutta", reproduced in *MRTPC Reports*, Vol IV, (Section 22), p 7. The report was submitted to the government in June 1973.

40 Ibid, p 122.

41 Ibid, p 8. See also the report on HINDALCO (note 38 above), p 273.

42 These companies did not register under the Act till the end of June 1984. See note 30 above.

43 See note 28 above.

44 See *CNN*, May 1980, pp 48 and 49, and *CNN*, August 1980, p 80, respectively.

45 It is not out of place to mention that Indian Rayon was shown as one of Aditya Birla's Indian companies, the others being Gwalior Rayon, HINDALCO, Eastern Spg Mills (all three shown under the Birla House under MRTP) and Hindustan Gas and Industries (de-registered under the Act in 1976). See 'The Quiet Rise of Aditya Birla', *Business India*, May 7-20, 1984, pp 52-62.

46 See Lok Sabha Unstarred Question No 2607 replied on March 9, 1982 (reproduced in *CNN*, Vol XX, 1982, pp 83-86). It was explained in the reply that these companies were de-linked from the Birla Group and were transferred to the Somany Group in 1980.

47 For further evidence in this regard see *CNN*, September 1984, pp 73-74 in respect of CIMMCO; *CNN*, September 1984, p 61 in respect of ECE; *CNN*, October 1984, p 39, in respect of Century Enka; and *CNN*, September 1984, p 67 in respect of Indian Tool Manufacturers.

48 See *CNN*, February 1984, p 28.

49 See reply to the Rajya Sabha Unstarred Question No 821 provided on March 25, 1985.

50 The companies are Indian Tool Manufacturers, Central India Machinery, Upper Ganges Sugar Mills and Oudh Sugar Mills. Their assets were Rs 23.12 crore (1982), Rs 30.19 crore (1983), Rs 21.02 crore (1982), and Rs 20.57 crore (1982) respectively. The asset figures are taken from the Bombay Stock Exchange Official Directory.

51 For instance, it was explained in 1979 while providing a comparative picture of the assets of Tata and Birla Houses, that the data about only those undertakings which were registered under Section 20 of the MRTP Act were being compiled and the assets figures of the houses would be higher if the data on companies to which default notices were issued. (See Reply to Rajya Sabha Unstarred Question No 509 given on July 16, 1979—as reported in *CNN*, July-August (combined) 1979, p 70.)

52 See Reply to the Rajya Sabha Unstarred Question No 1266, answered on December 19, 1977 (Reproduced in *CNN*, Vol XVI, February 1978, p 36).

53 For details of companies Inter-connected with Ballarpur Industries see the Report on the Company's proposal published in *MRTPC Reports*, Vol III, pp 67 and 95.

54 See the Report submitted to the government in June 1974 on the Company's proposal in *MRTPC Reports*, Vol I, pp 101-149 wherein it was reported that the company admitted IC only with only Atic Inds, Cyanamid India, Cibatul, Ameer Trading, ICI, Indian Explosives, Chemicals and Fibres, Alkali and Chemicals and Ciba of India.

55 Ibid, p 108.

56 For more details in this regard see the Commission's Report on the Company's proposal to set up a new company published in *MRTPC Reports*, Vol III, pp 1-59. The report was submitted in March 1974.

57 See *MRTPC Reports*, Vol II, p 220.

58 See the December 1978 List.

59 See the Dissenting Report of Paranjape in the combined report on the expansion proposals of Bajaj Auto and Automobile Products of India in *MRTPC Reports*, Vol I, p 164.

60 See *MRTP Act Orders*, Vol II, p 232, order dated March 2, 1979.

61 See *MRTP Act Orders*, Vol II, p 416, (order dated May 10, 1977).

62 Kumar, op cit, p 910 (Table).

63 See the Order dated March 27, 1984 issued under the MRTP Act regarding Dalmia Cement (Bharat)'s proposal (Reproduced in *CNN*, April 1984, p 37).

64 The Company Law Board's Order is reproduced in the *CNN*, February 1980, pp 39-58.

65 Kumar, op cit, pp 914-915 (Annexure).

66 See India, Law, Justice and Company Affairs, "Restrictive Trade Practices in India", Vol I, 1979, pp 261-263.

67 India, Ministry of Industry and Company Affairs, Report: 1984-85, p 24.

68 See for instance, UNCTAD, 'Control in India of Restrictive Business Practices' (A report prepared by H K Paranjape), wherein it was stated that "some of them (companies registered under the Act) applied for de-registration later when they realised that proving "inter-connexion" was not going to be easy" (p 3).

69 Information on de-registrations allowed during the periods November-December 1978 and July-September 1979 could not be obtained from the journal. The period covered otherwise is 1976 to June 1984.

70 See Cyanamid India Ltd, 'Annual Report', 1979, p 3.

71 NRSR was shown as a part of the NICCO group alongwith companies promoted by NICCO. See 'NICCO's Big Bounce Back', *Business World*, October 22-November 4, 1984, p 73.

72 Roplas India Ltd, 'Prospectus', dated April 23, 1979, p 5.

73 See Goyal, S K, K S Chalapati Rao and Nagesh Kumar, 'Small Scale Sector and Big Business', a study of the Corporate Studies Group, Indian Institute of Public Administration, 1984, (mimeo). It is also not surprising to find that Roplas along with Vickers Sperry and Mahindra Spicer (both de-registered under the Act) is being considered as a part of the 'Mahindra and Mahindra' group even after de-registration. See 'Mahindra and Mahindra: Making up for Lost Time', *BI*, March 15-28, 1982, p 47.

74 See the order dated March 5, 1982 on the Company's Proposal in *CNN*, April 1982, p 35.

75 In all 2,214 companies were sent default notices till the end of 1984, for their liability to register under Section 26 of the Act. Out of these only 642 got registered and in another 982 cases the default notices were vacated. Out of the remaining companies some had obtained stay orders from Courts. (See India, Ministry of Industry and Company Affairs, Report: 1984-85, pp 24-25). A few companies have been under default notice for a long time, but are not registered yet. See reply to the Lok Sabha Unstarred Question No 3923 provided on March 17, 1981 for cases like Ashoka Cement (Sahu Jain, December 12, 1972; *Hindustan Times* (Birla, June 18, 1974); Mohan Gold Water Breweries (Mohan Meakin, December 24, 1974); Gangeshwar (Sawhney, July 14, 1971); Tobu Enterprises (Shriram, November 6, 1974); Dalmia Dairy Inds (Dalmia J, June 25, 1975); Haldibari Jute (Soorajmul Nagarmull, April 20, 1973); and National Standard Duncan (K P Goenka, July 5, 1975). (Reproduced in *CNN*, April 1981, pp 68-73).

76 For instance, on the basis of ILPIC classification it was estimated that the assets of Birla and Tata Houses in 1976 were Rs 1,300 crore and Rs 1,100 crore against the reported assets of companies of the two Groups under the MRTP Act at only Rs 975 crore and Rs 980 crore respectively. See Goyal, S K, op cit, pp 70-71.

77 For a discussion on the implications of the changes proposed through the MRTP (Amendment) Bill 1983, see Paranjape, H K, 'The MRTP Amendment Bill: A Trojan Horse', *Economic and Political Weekly*, April 28, 1984, pp 715-729.

78 See India, Ministry of Industry and Company Affairs (Department of Company Affairs), Report: 1984-85, p 24.

79 In his speech delivered at a seminar organised by the Bengal Chamber of Commerce and Industry S M Dugar, Joint Secretary in the Department of Company Affairs said that as a result of the amendment about 1,500 more companies would get covered by the Act. (As reported in *Economic Times* (New Delhi), June 10, 1984.)

80 Paranjape (1984), op cit, p 717.

81 For the way in which inter-corporate investment are used in the control mechanism of Houses see Hazari R K, "The Structure of Corporate Private Sector", Asia, 1966 and Singhania, Vinod K, "Economic Concentration Through Inter-Corporate Investments", Himalaya, 1980.

82 The Monopolies Inquiry Commission discussed specifically the issue of political donations and observed that "big business has the power to corrupt and that the danger that the power may be extensively used is not imaginary". (See India, "Report of the Monopolies Inquiry Commission", 1965, Vol I, p 136).

83 The need to set up an agency to collect information on large industrial sector was felt by the ILPIC. Similar observations were also made by the Mahalanobis Committee and the MIC.

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## Terpene Industries

TERPENE INDUSTRIES is diversifying into manufacture of expanded polyethylene (EP) and products thereof in technical and financial collaboration with Packaging Industries Group, USA, one of the leaders in the field commanding about a third of the entire market of this product in USA. Its main use as packaging in the form of blocking and brasing, wrapping, interleafing apart, EP also finds extensive uses in insulation, foundation pads, auto upholstry, water sports equipment and commercial floatation. EP in converted form of finished articles like pouches, bags, mailers, etc, would find extensive use as packaging material in exports as well as home consumption for sophisticated electronics items, glassware, artware, and other fragile articles, thus ensuring a good market. The project, being set up at Nandesari in Baroda district of Gujarat, is expected to go on stream by December 1985. According to Jayant Dalal, Chairman, at full capacity the project is expected to produce in a year 1,500 tonnes of EP and give a turnover of well over Rs 10 crore with profit commensurate with the operations. Terpene has already tied-up the necessary foreign currency loan of Rs 178 lakh and rupee loans and deferred credits for Rs 208 lakh. It is now issuing 8 lakh equity shares of Rs 10 each at par to existing equity shareholders of the company whose names appear on the register of members as on May 27, 1985 on a 'rights' basis in the ratio of 40 new equity shares against every 25 equity shares held. The rights issue of equity shares opened on June 10 and will close on July 15. Apart from this, the US collaborator will subscribe to equity shares of the face value of Rs 18 lakh in this joint venture. Terpene was established in 1973 in Himachal Pradesh to manufacture terpineol and other perfumery products with process know-how and technical assistance from Camphor and Allied Products. It has a capital base of Rs 50 lakh with its reserves standing at 67 lakh. It has paid dividends regularly in the last six years, the latest distribution being 15 per cent for the year ended June 1984.

# 'Resurgent Democracy' in Latin America

## Rhetoric and Reality

**Edward S Herman**

**James Petras**

*The Reagan administration's policy is operating on four tracks in Latin America.*

*In Central America where there is a mobilised population pressing for democracy and structural change, Washington has opted for the 'terror-with-demonstration elections' formula, attempting to destroy the social movements and then promote (and publicise) elections among local loyalists that will ratify the status quo.*

*The second track, used in South America, involves supporting elections where liberal politicians have gained hegemony over the mass movements and are willing to trade off soico-economic policies acceptable to the banks and armed forces for political democracy.*

*The third track may be seen in operation in Chile. There the mass movements are powerful and mobilised, as in Central America, so that the core policy is one of continued support of authoritarian rule and state terror, with a subsidiary thrust of gently urging (but not insisting upon) gradual accommodation with centre-right civilian political forces.*

*The fourth track, and the main thrust in Washington's Central American policy today, is to escalate the economic, political and military assault on Nicaragua. By neutralising US liberals and their Latin American civilian counterparts with rhetoric on 'resurgent democracy', the Reagan administration hopes to obtain a free hand in securing a military victory against this dangerously vital example of soical and economic (as well as political) democracy in Central America.*

IN recent months Reagan administration officials and the US press have spoken with increasing frequency and enthusiasm about the 'resurgence of democracy' in Latin America. According to Secretary of State George Shultz, we have been witnessing "more people voting in more elections in more countries than ever before in the history of this hemisphere". Alan Riding, writing in the *New York Times* of November 11, 1984, expressed the new vision under the byline: "A Latin Spring: Democracy in Flower". This spate of publicity has had several notable features. One is its excellent fit to the public relations requirements of the Reagan administration, which has urgently sought means of counteracting the widespread negative responses to its Central American policies. The administration itself has sponsored elections in delicate situations (El Salvador, Grenada, Guatemala) as legitimising projects, and it has asserted its devotion to democracy as an important reason for its anti-Sandinista policies.

The administration suffered setbacks in the Nicaraguan election, the Sandinista acceptance of the Contadora proposals (which required an administration rebuff to the Contadora countries and process), and the World Court's decision on the mining of Nicaraguan harbours (which necessitated a costly rejection of World Court legitimacy). It is therefore very useful to the administration to have the press join with it in celebrating a flowering of democracy in our backyard during the Reagan term, even suggesting (in the words of Alan Riding) that "given the United States' enormous weight in the area, the administration's public preference for democracy proved influential". By inference, given the general resurgence of democracy under the Reagan administration's leadership, any small failings—such as forcefully overthrowing the governments of one or two small backyard defectors from 'democracy'—can surely be overlooked.

A second relevant characteristic of the new publicity is its superficiality and neglect of context. These are all in the same direction, exaggerating the scope and substance of the changes, playing down the important exceptions, and misrepresenting the administration's role in the transformations. The news reports in question are all breezily optimistic: the democratic 'contagion' is spreading, and we may expect that trend to continue into the indefinite future. The word 'democracy' is used loosely, and is assumed to prevail if the formal machinery of elections is put in place and civilians are allowed to occupy high office. There are no detailed analyses of the economic and political conditions that underly the military retreat, nor of the extent to which the military establishments may be maintaining effective power by retaining their prerogatives of authority in 'security' matters and their control of key instrumentalities of the state. Finally, no distinction is made between nearby Central America, where political conditions have been steadily deteriorating under active US intervention, and South America, where some kind of resurgence may really be occurring.

What follows is a discussion and analysis of the roots, scope, and future of resurgent democracy in Latin America.

### ROOTS OF RESURGENT DEMOCRACY: REAGANISM OR ECONOMIC FAILURE?

In the beginning, the Reagan administration openly proclaimed its support for friendly ('non-totalitarian') authoritarian military dictatorships. Now it claims to have fathered the upsurge of democratic regimes. What has happened in the interim? From whence come these born again democrats? Jeane Kirkpatrick is already insisting that she was 'misunderstood', her position distorted. She too is strong for Brazilian democracy. The fact is that the resurgence of democracy in South America took the Reaganites quite by surprise and has turned out of office some of their closest and most reliable allies. They are making the best of a bad situation.

It should be noted that the return to civilian rule is taking place in states which had abandoned democratic institutions earlier with US assistance and approval. The overthrow of the Goulart government of Brazil was greeted enthusiastically in Washington, as was the military coup in Chile. The satisfaction of the US establishment with the military regime in Argentina is best captured in David Rockefeller's pronouncement that that country finally has a government that "understands the private enterprise system". This approval of the 'resurgent authoritarianism' of the 1960s and 1970s is also attested to by the enormous flow of credit, aid, and investment which the United States lavished on the military regimes during their tenure of power. These regimes all put into place an economic model well geared to serve the interests of a small strata of local business and foreign capital. The army had the responsibility of keeping the masses disorganised by terror, thus assuring low wages and a no strike environment. The military regimes provided subsidies to business, sold off public assets to the private sector at favourable prices, and promised foreign lenders that interest payments would be met. The suspension of parliamentary government assured the banking and multinational corporate community that unruly legislatures would not interfere with the freedom of business.

This system of 'supply side economics with machine guns' did not work in Latin America even on its own terms. Even before the 1980s collapse, Argentinian, Chilean and Uruguayan rates of savings and investment never reached their pre-coup averages. Foreign capital failed to rush in to invest in industry, instead confining itself largely to finance, trade, and agri-business. All three of these countries suffered from sharply increased concentration of ownership and control, denationalisation, and economic stagnation, among other problems. Only in Brazil did savings and investment rates eventually moderately overtake those of the years before the military takeover. For the entire period of military rule in Brazil upto the 1980s collapse, however, the rates of growth of the gross domestic product (GDP) were not superior to those of the preceding years of non-military rule. The rapid growth during the 'miracle years' of 1968-74 was fuelled by massive foreign credits, and the miracle terminated with a whimper, ending up in default, increased dependence, and with none of the country's basic problems yet addressed.

The oil price increases of the 1970s were devastating blows to the fragile, dependent economies of Latin America, and the recession and interest rate increases of the early 1980s put the finishing touches on a system of growth which, in the end, involved borrowing to pay interest on previous borrowings. Real GDP in Latin America increased from $ 257 billion to $ 336 billion betwen 1975 and 1984, or by 31 per cent;[1] in the same period the gross external debt increased from $ 89.4 billion to $ 360.2 billion, or by 302 per cent; while net payments of interest and profits rose from $ 5.6 billion in 1975 to $ 37.3 billion in 1984, or by 566 per cent. Assuming a 9 per cent rate of interest, the interest cost on a $ 360 billion debt would be $ 32.4 billion, a sizeable bite out of Latin American GDP.

The extent of the collapse and seriousness of the crisis are still not fully appreciated. The GDP of Latin America (exclusive of Cuba), which had increased by 4.8 per cent a year in 1975-78, and 6.1 per cent in 1979-80, fell to 0 per cent on average for 1981-84. Given the continuing rapid population growth, Latin American GDP per capita *fell* an average of 2.2 per cent per year in the latter period. Unemployment, already high, reached new and higher levels in the early 1980s. Despite the massive unemployment, the price level shot up from a weighted average of about 50 per cent a year in 1976-81 to 84.5 per cent in 1982, 130.8 per cent in 1983 and 175.4 per cent in 1984.

The crisis came to a head when major Latin American debtors were unable to pay interest and principal on their loans. Once the bubble broke, foreign capital flows dropped from $ 37.6 billion in 1981 to only $ 4.4 billion in 1983. As interest and profit repatriation amounted to $ 27.7 billion in 1983, there was a net capital *outflow* from Latin America totalling $ 23.3 billion.

The inability of the Latin economies to meet their foreign debt obligations, and the drying up of credit, threatened a wholesale collapse of the Latin American economies and the system of world credit. There ensued a massive patching up operation under US and IMF auspices, in which government credits were extended to the Latin debtors and the private banks were dragooned into putting up more money, and rates and terms were adjusted (mainly, stretched out) to give the debtor countries more breathing space. In their turn, however, the debtors were compelled to give policy priority to increasing their foreign exchange receipts and doing that which the creditors deemed essential to the debtors meeting their external obligations. Twelve Latin American countries signed conditionality agreements with the IMF in 1982 and 1983. These agreements required that the debtors sharply cut their social expenditures, deficits, and inflation rates, and make diligent efforts to keep wage rates and imports down and to facilitate exports.

The IMF and creditor formulas for alleviating the crisis, in short, involved placing the burden of adjustment for economic failure once again on the same victims who had borne the brunt of costs of the prior system of 'growth'. It is doubtful that this new medicine will work. The external interest drain is too vast, and it may not even shrink as a proportion of GDP given the limits on growth imposed by the IMF's deflationary policies. Whether the debtors will be able to generate the large export surpluses necessary to fund these enormous obligations is also doubtful, when we consider the instability of exchange rates and terms of trade, and the increasing protectionism in the industrialised states, many of whom also suffer from serious unemployment. But another question, too, is whether the Latin American populations will be willing to accept the hegemony of the international banking community, devote their surpluses to paying interest on debts accumulated in the National Security State years,[2] and quietly accept IMF deflationary medicine in that service.

By 1982 the US-backed military regimes that had featured export-oriented growth with open economies were effectively bankrupt. In the course of their collapse, the socio-economic position of many important groups, including industrialists, farmers, salaried professionals as well as wage workers and peasants, had been undermined, and major social movements had re-emerged demanding democracy and new economic policies. Huge demonstrations, general strikes, overwhelming support for civilian rule in public opinion polls all indicated that time was running out on the military establishments, which were politically isolated and divided.

It is in this context of failure of the US and military backed economic model that we must explain the return to civilian government. The latter was by no means a preferred option that had been sought in advance by Washington and its military allies; on the contrary, it represented a strategic retreat for both. If this is so, our focus should be on the terms of the transition and the limits imposed on the civilians by the retreating generals and Reaganites. It follows also that the conception of the resurgence as a triumph of Reaganism could hardly be farther from the truth.

## RESURGENT DEMOCRACY: AMALGAMATION OF TERRORISTS AND DEMOCRATS

In his accolades to resurgent democracy in Latin America, George Shultz and his speech writers have treated as identical very distinct sets of political experiences with totally different meanings. For Shultz, as long as elections take place in a client state, they are equated with democracy irrespective of substantive conditions that might make electoral exercises mere facades. Thus he lumps together the fairly 'open' elections in Argentina, Uruguay, Brazil, Bolivia, Peru and Ecuador with those in both the terror ridden societies of El Salvador and Guatemala and in US occupied Honduras and Grenada.

Elections are meaningful, however, only when they are associated with basic freedoms: when trade unions, peasant and co-operative associations, professional organisations, local opinion leaders, and ordinary citizens can meet, discuss, put forward candidates, and make choices without constraint and fear. Such freedoms exist in the South American countries to greater or lesser degree—they do not exist in El Salvador and Guatemala. In these 'death squad democracies' electoral counts are accompanied by civilian body counts. El Salvador lacks the most elementary freedom: the right to dissent without being assassinated. Under the two Duarte regimes and the in-between openly military governments, 50,000 Salvadoran civilians were murdered, and a large fraction of dissident trade union, university, professional and other groups was physically eliminated. The situation in Guatemala is little different: elections are being prepared there for a terrorised, atomised population, herded into strategic hamlets and killed by the army and death squads at rates that have averaged several thousand per year over the past decade. In El Salvador and Guatemala, despite the existence of mass movements of the left, no left candidates can qualify to run in elections (a point which does not interfere with US media encomiums to the quality of these elections).

The terror-cum-elections format in Central America is essentially a public relations exercise for US public and congressional consumption: to provide a rationale for pumping US aid into these states. Reagan administration efforts to amalgamate the Central American elections with those in South America is designed to ride the coat-tails of positive liberal responses to the latter, using them to provide a further electoral cover for an essentially military policy in Central America.

### RESURGENCE IN SOUTH AMERICA: PROBLEM OF MILITARY POWER

It should be obvious that elections may not involve any shift in power if the menu of candidates is limited to an official list approved by a behind-the-scenes power elite. It is also clear that power transfers may be limited or non-existent if 'deals' are made with the restricted list of eligible civilians and/or if an institutional structure of privilege and repression is maintained intact by prior agreement with the civilians who take office.

It is noteworthy that the US media do not raise such issues in reference to the resurgent democracies, but instead take the emergence of civilian rule at nominal and superficial value. It is interesting, further, to observe how this 'optimism-superficiality rule' is operative in contemplating, say Uruguay, but is not applicable to Nicaragua. In the former case, during the recent elections returning Uruguay to civilian rule, the man generally acknowledged to be the most popular political figure in the country, Wilson Ferreira Aldunate, was not allowed to run for office and was kept in jail through the election period. A second major political contender and popular candidate, General Liber Seregni, was also kept off the ballot by army fiat. The election was held under conditions negotiated with the army, whose institutional status and power remained intact and were to be adjusted, if at all, by future negotiations between the elected government and the semi-autonomous institution which monopolises the state instruments of coercion. But Uruguay is an 'approved' state, and the election winner, Julio Maria Sanguinetti, was even given the blessing of the US ambassador. Thus, despite the disqualifications of major candidates, it would follow that Uruguay represents a truly resurgent democracy. In the words of the newspaper of record, "Still, Uruguay is resuming its democratic vocation" (*New York Times*, ed, December 1, 1984).

In the case of Nicaragua, by contrast, the fact that potentially important candidates were much freer to run than in Uruguay, the equally free electoral environment, could not offset Nicaragua's disabilities. The *voluntary* refusal to run by Jose Arturo Cruz (which was almost surely preplanned to help discredit the election), and the Sandinista domination of the army, were too much. Poor Nicaragua is not part of the 'resurgence'. Again quoting the newspaper of record, "only the naive believe that Sunday's election in Nicaragua was democratic or legitimising proof of the Sandinista's popularity" (*New York Times*, ed, November 7, 1984).

The stress on the Sandinista link to the army as a point qualifying Nicaraguan democracy, and the contrasting downplaying of the role of the army in resurgent states like Uruguay, would seem wholly unjustified in light of the historical background. In Nicaragua the army was part of a broad-based movement that brought a popular government into power. Its army was not a repressive instrument of minority rule. In Uruguay and virtually all of the other countries undergoing resurgence, by contrast, the army has been an elite instrument whose prime function was to keep the masses under control. Upon taking power in Argentina, Brazil, Chile, Uruguay, and elsewhere, the armies sought to destroy popular organisations and to reduce ordinary citizens to powerless atoms. As was pointed out in Church documents produced during the 1960s and 1970s (e g, "The Cry of the People", put out by bishops of the Catholic Church in Brazil in 1973), army terror was an integral element of the workings of the 'development model' put in place throughout Latin America in those years. The number of civilian casualties from this reign of terror ran to an estimated 90,000 or more 'disappeared' alone.

The armies seizing power in the name of national security used that power to advance their own interests, just as they served to depress the condition of ordinary citizens. In Argentina, for example, military spending rose by 200 per cent between 1972 and 1980, while public spending on education and health *fell* by 50 per cent and 30 per cent respectively. By 1983 military spending in Argentina had risen to 8 per cent of GDP, as compared with 2.2-2.5 per cent under prior administrations.[3] These enlargements of military outlays have been mainly income transfers, with no proportionate spinoff in military capability. A recent analysis of Chilean military expenditures, which like Argentina's swallow in the vicinity of 7-10 per cent of GDP, notes the large fraction going to wages, pensions and other forms of remuneration rather than to the purchase and maintenance of weapons. Chile spends 60-80 per cent of its military budget on remuneration, as contrasted with 20 per cent for the British. Basic Chilean military pensions are five times those of ordinary citizens.[4]

The armies of the resurgent democracies are not only accustomed to power and privilege, with minor exceptions their officer corps are ideologically hostile to democratic rule. Thus it is extremely important that they are exiting from office with their personnel and institutional privileges largely intact. Instead for this repressive and powerful institution being dismantled, it retreats and bargains for retention of its place and power. The deals struck are not on the public record, and in some cases are still subject to further negotiation, but assurances of protection of budgets, the avoidance of 'vendettas' based on prior human rights violations, and continuing authority, at least partial, on security matters seem generally applicable.

The Argentinian experience represents at the moment the most enterprising and progressive effort to reduce military power in a resurgent state. It is also a favourable case, as the army retreated from overt rule by virtue of an overwhelming and massive refusal to heed its discredited representatives. Even in this instance, however, the army has merely retreated, and the reform efforts have been modest in scope and effect. The army retains considerable autonomy, is able to continue sporadic violent attacks on its perceived enemies, and has proven to be effectively beyond prosecution for horrendous crimes. Alfonsin's procrastination and vacillation in bringing the military officials responsible for torture and disappearances to an accounting has sorely tried the patience of an important part of his democratic constituency. The pressures have been mounting with over 50,000 Argentines marched in Buenos Aires in mid-March demanding that the military officials be brought to trial. The negotiated agreements between centrist politicians in the resurgent democracies and the armed forces put democracy under great strain. Alfonsin is being pressed to choose between human and military rights, and he is not finding it easy.

While the Alfonsin government has made a number of efforts to decentralise the military, reduce its financial independence, and reduce somewhat its funding, these have proven difficult and of uncertain effect. Alfonsin talked initially of a 20 per cent budget cut, but shortly thereafter Defence Minister Barras spoke of merely 'reallocating' military resources, and Undersecretary Cuchiara finally explained that "no spectacular savings must be expected. There will be some military cuts, but no one must think we are about to leave the nation defenceless."[5] More recently, Alfonsin has made a further attempt to slice the military budget, but a much discussed study by Paul Roger's of the Bradford University School of Peace Studies suggests that under civilian rule the country continued with an arms build-up, not only completing the replacement of lost equipment and supplies from the Falkland Islands War, but engaging in significant further modernisation and growth.[6]

Thus, while efforts are being made to curtail military privileges and power in several of the resurgent democracies, their armies remain largely intact in personnel and as institutions and power centres. In an important sense, therefore, they hold these democracies as hostages to their continued rights and adherence to sound principles. Real democratisation will require a further major erosion of military power and status. But it remains to be seen whether democracy can survive any serious threat to army or elite privilege.

### RESURGENT DEMOCRACY: ECONOMIC CONSTRAINTS

The new civilian regimes have taken office in very inauspicious economic and social circumstances. The economies which they are obliged to manage are in a shambles, with both serious inflation and mass unemployment at the same time, and an external debt burden that demands attention and continuous action. These new regimes came into power on a wave of popular support, but the economic crisis which they must confront gives them little room for manoeuvre. If, in negotiating the transition, the new civilian rulers promised faithfully to abide by all international debt agreements, in an important sense they assumed the political role of enforcers of deflationary policies. And if the new civilian leaders have also promised to respect army budgetary claims and power over security matters, they themselves have guaranteed a second level of enforcers who can prevent them from violating their commitments to creditors.

Thus, the leaders of the resurgent democracies find themselves in a contradiction. Alfonsin has promised real wage increases to his constituents, but these are not compatible with the actions required to generate adequate export surpluses to service the foreign debt. The latter call for reduced public expenditures and deficits, curtailed subsidies on consumer goods, devaluation, reduced imports, and the acceptance of substantial unemployment. Cuts in military expenditures would help, as would the collection of the estimated $ 4 billion annually lost in evaded taxes. But Alfonsin has made little headway on these fronts. He struggles hardest to keep the IMF and bankers at bay, with exceptions to the deflationary rules and stretch-outs and concessions on interest and principal obligations. The Alfonsin government has encouraged a consortium of Latin American debtors, with co-ordinated information and perhaps policies. But as long as the rules of the game are adhered to, Alfonsin must face the grim reality that interst payments on the deadweight external debt will swallow 50 per cent or more of export earnings and 6-8 per cent of GDP into the indefinite future. The policies that will allow these transfers will surely be regressive. No plausible scenarios of economic growth and interest rate movements will alleviate the situation. Real wages have already declined in the Alfonsin term, and we may expect them to decline further, barring radical change.

The optimistic tone of the commentators on resurgent democracy fails to give adequate weight to the parlous economic and social conditions faced by the new civilian rulers. Is it possible that they are 'fall guys' being allowed to take primary responsibility for built-in economic failures? The military regimes and their US partners having built up an impossibly large foreign debt, and having allowed the festering of social and economic sores while they 'developed' their own bank accounts, now move to the wings to wait. The civilian government will now impose the IMF-banker conditions on the already long-suffering populations. They will not be able to meet any popular needs and demands, barring a repudiation of the foreign debt and a basic economic transformation. Can democracy survive in such an environment? With the military machines still intact, won't the inevitable 'disorder' lead to a renewal of military rule? These are questions that are not posed by the press.

### DETERIORATING DEMOCRACIES: PERU AND BOLIVIA

To the degree that the new civilian leaders respond to the banks, military, and US officials, they are obliged to disregard popular demands. There is a real possibility that such continuities can alienate electorates and create new cycles of militancy and resurgent authoritarianism (which will then confirm the view of mindless cynics who see Latin America in perpetual cycles of freedom and dictatorship). Ample evidence for these concerns is found in the experiences of the early cases of democratisation.

Peru and Bolivia are two of the 'oldest' of the recently democratised countries. Presidents Siles Suazo and Belaunde Terry took power in Bolivia and Peru under conditions similar to those facing the later democratisers in the region: stagnant economies, high rates of inflation, spiralling debts and interest obligations, and the military institutions intact.

In Peru, Belaunde's accession was accompanied by the government's agreement to meet its financial obligations to its international creditors, accpetance of IMF financial and economic prescriptions, and increased military spending as an accommodation to the outgoing military regime. A policy of economic liberalisation was adopted, premised on the belief that free trade would stimulate export-led growth. Large-scale overseas borrowing, greater incentives to foreign investors, and the denationalisation of local state enterprises, were also parts of the banker-IMF orthodoxy put in place by the new civilian regime.

These policies, combined with the recessionary and high interest rate conditions of the Reagan era, produced the worst socio-economic crisis of the century in Peru. GDP growth came to a halt in 1982, fell by 11 per cent in 1983, and then made a modest (2.3 per cent) recovery in 1984. Per capita income fell by 13.3 per cent between 1981 and 1984. Manufacturing output declined by almost 20 per cent during the first three years of the Belaunde term. The ratio of external interest payments to exports rose from 21.8 per cent in 1981 to 35.5 per cent in 1984. Unemployment and underemployment reached a staggering 63 per cent of the economically active population in 1983. Far and away the most important occupation of the population of Lima is street vending. Inflation rose from 73 per cent in 1981 to 106 per cent in 1984. Real wages of the shrinking number of employed declined steadily in this period.

Failing entirely to cope with this severe economic crisis, the governing centre-right Popular Action Party has plummeted to third place among the major parties. Deep polarities are emerging: in the interior, Sendero Luminoso, the 'Maoist' guerrila group has gained considerable support, particularly in Ayacucho, and appears to be spreading to other provincial areas. On the other hand, the military has taken over *de facto* control of the areas contested with the guerrilas. Military rule has been accompanied by widespread terror, generating the worst Peruvian human rights abuses in this century (over 4,000 killed or disappeared over the past three years and many more victims of army torture). The free market economic policies and Belaunde's decision to funnel major resources to the overseas banks has surely contributed a great deal to the remilitarisation of Peru. While the major political damage has been incurred by Belaunde's party and regime, there is little doubt that the democratic process in Peru has also suffered.

It is likely that elections will take place this fall in Peru—the two leading candidates are from the socialist left (Barrantes) and the centre-left social democrats APRA (Garcia). But given the enlarged role of the military in Peruvian affairs, and the economic crisis that the Belaunde regime has greatly exacerbated, it will be difficult for any new government to attempt to alleviate mass unemployment and poverty without facing serious threats from the banks, the military, and their US backers.

In Bolivia a similar pattern has emerged. The democratic regime of Siles Suazo initially attempted to honour past debts and abide by IMF formulas prescribing salary freezes, public sector austerity, and a lessening of state controls. The consequences were disastrous. Between 1981 and 1984, GDP fell by 16 per cent—a staggering 24.6 per cent decline on a per capita basis. Export earnings fell from about $ one billion in 1980 to $ 700 million in 1984. With the foreign debt steadily rising, the ratio of debt service to exports reached 57 per cent in 1984. Inflation, which had been 25 per cent in 1981 reached 328 per cent in 1983, soared to 2,177 per cent in 1984, and is over 3,000 per cent in 1985. Bolivia's interest obligations on its foreign debt now amount to about $ 400 million a year. Its export-oriented growth has also elevated its bills for freight and insurance, adding another $ 200 million per year to the Bolivian balance of payments deficit. These sums, if invested in productive activities, might well have made a difference in turning the economy around.

Through massive and sustained strikes, the Bolivian labour movement forced Siles to place a temporary moratorium on debt payments in the Spring of 1984 and to ease up on the IMF austerity programme. Economic conditions have not improved since then, and budget deficits and inflation are wildly out of control. Brutal impoverishment—wages of employed miners are under $ 60 a month—provoked a two-week general strike in early March 1985 that shut down the economy. Siles responded by calling out the armed forces to break the strike. Once again Bolivia is polarised between a radical democratic socialist movement and a regime relying heavily on military repression. The environment of uncertainty, conflict and economic deterioration has been a propitious one for military intrigues from the narco-milicos (the various factions of the military command who deal in drugs, and right-wing politics). Ironically also, the current stalemate has aided a new bid for power by ex-dictator Hugo Banzer, under whose rule the cocaine mafia was institutionalised in Bolivia and the bulk of the country's $ 4.5 billion debt was incurred. Banzer, friend and protector of Klaus Barbie, and a major human rights violator, was an invited guest at the Republican national convention in Dallas, Texas.

However beneficient the intentions of the democratic regimes in Bolivia and Peru, by assuming past debts and working within orthodox policy constraints they have been unable to stem the tide of deepening economic crisis. The result has been that democratic institutions have lost their appeal to many people, as they have been increasingly associated with ineffective and retrograde policies. In the case of Peru, the socio-economic and human rights situation is decidedly worse under the democratic civilian regime than it was during the previous military regime, particularly the 'first phase' (1968-74)—the Velasco military government.

The negative experiences of the older redemocratised countries supports the view that the political-economic constraints accepted by the newly elected regimes allow them few opportunities for consolidating a democratic consensus. Debt moratoria and democratic restructuring of the armed forces are necessary accompaniments to political change if democracy is going to be given a chance to succeed.

## AUTHORITARIAN TRENDS ELSEWHERE IN LATIN AMERICA

Apart from Peru and Bolivia, similar processes of erosion are underway in the Dominican Republic and Jamaica. In both countries loan conditions imposed by overseas bankers set in motion mass riots and protests that left 50 dead in the Dominican Republic and scores injured and arrested in Jamaica. Neither the Caribbean Basis Initiative nor free market policies have made a dent in the 30 per cent or more unemployment rates on the islands, nor have they prevented a sharp decline in living standards. In both the Dominican Republic and Jamaica, massive popular disillusionment has elevated the status of the armed forces and shifted the balance of support for the civilian governments away from the public and toward the military.

The Grenadian election organised under US sponsorship served the need for external legitimation on the part of the occupying forces. The military invasion and subsequent training of local gendarmerie augurs ill for any effort to revive popular social movements. In Central America proper, Reagan administration activism seems to work consistently toward the enhancement of military power, the erosion of democratic institutions, and a drift toward authoritarian rule. Costa Rica's debt and dependence on US aid and loans have been used as a lever to prod that country into polarising economic policies, militarisation, and political-diplomatic involvement as an instrument of a war policy against Nicaragua. Honduras has been effectively occupied by the United States and made a front line surrogate aggressor. In the process, economic, political and human rights conditions have deteriorated steadily over the past two years. Heightened economic dependency has also pushed Panama into a closer embrace with the Reagan administration, with predictable results: rule by a former vice-president of the World Bank, who serves as an army surrogate, with the army serving in its turn as a Reagan administration surrogate and helping to ensure that the Contadora peace process will always be aborted. El Salvador and Guatemala are the 'death squad democracies', deeply prized and aided by the Reagan team as far as Congress and the public will permit. The most democratic regime in Central America, Nicaragua, is of course the prime object of fear, loathing and destabilisation activity by the Reagan administration.

While the Reaganites have been vociferous critics of what they claim are Nicaragua's electoral deficiencies, the refusal of Chile's dictator to hold elections has been met with a tolerant understanding. Washington's attitude toward Pinochet is revealing evidence of the non-(or negative) relationship between the Reagan policies and the resurgence of democracy in Latin America. The Pinochet regime is a focal point of *resistance* to the resurgence, and the Reagan administration has never ended its unconditional support for this especially brutal version of authoritarianism. The Reaganites still *prefer* viable authoritarian regimes to genuinely democratic governments. In Chile, moreover, the social movements seeking Pincochet's overthrow favour basic changes in socio-economic structures and civilian-military relations. Unlike their counterparts in other countries, these social movements are calling for democracy without military vetoes and compromises with the IMF. This has placed Washington in a dilemma. For Washington to side with Pinochet risks isolation with a dictatorship rapidly losing even elite support. To pressure Pinochet to lift the state of siege and to openly negotiate with the centre-right risks weakening his regime and deepening the influence of the threatening democratic movements. Washington has solved the problem, as it has in the cases of South Africa, South Korea and numerous other friendly authoritarian regimes, by means of 'quiet diplomacy'; that is, gently urging nominal or modest reforms while supporting the authoritarian rulers in all essentials. A recent visit of Langhorne Motley to Chile reportedly left Pinochet "purring with satisfaction".[7] Motley expressed confidence that the government of Chile was in good hands, urged the opposition to accept Pinochet's timetable of an election for 1989 (with all 'Marxist parties' excluded), and objected to any street demonstrations and mass mobilisations as playing into Communist hands.

## CONCLUSION

It is clear that Washington's policy is operating on four tracks in Latin America. In Central America where there is a mobilised population pressing for democracy and structural change, Washington has opted for the 'terror-with-demonstration elections' formula, attempting to destroy the social movements and then promote (and publicise) elections among local loyalists that will ratify the *status quo*. The second track, used in South America, involves supporting elections where liberal politicians have gained hegemony over the mass movements and are willing to trade off socio-economic policies acceptable to the banks and armed forces for political democracy. The third track may be seen in operation in Chile. There the mass movements are powerful and mobilised, as in Central America, so that the core policy is one of continued support of authoritarian rule and state terror, with a subsidiary thrust of gently urging (but not insisting upon) gradual accommodation with centre-right civilian political forces. The fourth track, and the main thrust in Washington's Central American policy today, is to escalate the economic, political, and military assault on Nicaragua. By neutralising US liberals and their Latin American civilian counterparts with rhetoric on 'resurgent democracy', the Reagan administration hopes to obtain a free hand in securing a military victory against this dangerously vital example of social and economic (as well as political) democracy in Central America.

Washington's multi-track policy combines support for death squad democracy, constrained democracy, and dictatorship: there is still a substantial road ahead before we can speak of an authentic and consequential 'resurgent democracy'. And it will develop in spite of, not because of, the policies emanating from Washington.

### Notes

1 These dollar figures are expressed in 1970 prices. This data and those which follow are taken from 'Preliminary Overview of the Latin American Economy During 1984', *CEPAL*, January 1985.

2 Dagnino Pastore, an Argentine economist and former minister of finance, has claimed that "the asset counterpart of the increased liabilities [built up during the military years] have not added significantly to the capacity of the country to generate foreign exchange". According to Pastore, the three most important uses of the borrowings, by order of importance, were: capital flight, foreign tourism, and the purchase of non-traditional imports. Jose M Dagnino Pastore, 'An Anti-Inflationary Experiment, Argentina, 1979-81', in "Symposium on Liberalisation and Stabilisation: Recent Experience in the Southern Cone", Washington, DC: World Bank, May 20-21, 1982, mimeo, pp 14-15.

3 Looting was also common by the Argentinian military. *Latin America Regional Reports* noted ironically that "it is evidence of the success of Videla's administration that most of his former aides are now millionaires", 'Report on the Southern Cone', November 13, 1981.

4 'Chile's Bloated Defence Spending', *Latin America Regional Reports*, Southern Cone, October 12, 1984.

5 *Latin America Regional Reports*, Southern Cone, April 13, 1984.

6 See "Rearmament Drive Nearly Completed", *Ibid*, February 1, 1985. See also "Alfonsin Purges the Army", *Ibid*, March 8, 1985.

7 'Motley's Visit Delights Pinochet', *Latin America Weekly Report*, March 1, 1985.

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## Pfizer

PFIZER's Chairman and Managing Director, S V Pillai, told shareholders at their annual general meeting in Bombay that the company's sales during the first five months had recorded an increase of about 14 per cent over those in the corresponding period last year. Profits had been subject to pressure due to the recent increase in input costs. He observed that while there had been a number of relaxations in specific industries, the pharmaceutical industry was still waiting for its turn. In answer to queries in Parliament, the Union Minister for Chemicals and Fertilisers had stated that the amended Drug Policy is to be announced 'soon'. Pillai hoped that based on the representations made by industry associations and individual companies, a new Drug Policy, which is progressive and growth-oriented, would be announced without any more delay.

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## POLICY-FRAME FOR SEVENTH PLAN

## OVER TO THE POLICE IN ANDHRA

## NEED TO MODERNISE INDUSTRIAL PLANNING

## ADIVASIS, LAW AND SOCIAL JUSTICE

## IRRIGATION PERFORMANCE DURING DROUGHT

## COMMUNALISING OF PUNJAB, 1980-1985

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# Facade of Black Money

ALL government-sponsored enquiries and investigations into the problem of black money ultimately end up by making a contribution not so much to dealing with that particular problem but to buttressing the case for lowering taxes on the rich and doing away with controls and relations on private business and industry. In the process of doing precisely this yet once again, the report of the National Institute of Public Finance and Policy (NIPFP) on "Aspects of the Black Economy in India" has even chosen to ignore that the terms of reference set for the study, following the recommendation of the Estimates Committee of the Lok Sabha, had called for merely the preparation of an estimate of black money which, the Committee had felt, would enable the government to formulate more appropriate policies for dealing with the problem. In the event, NIPFP's report—judging by the summary published in the newspapers, since copies of the report are not available even three weeks after it was formally released by the Finance Minister—concerns itself only incidentally with assessing the dimensions of the black economy; its attention is firmly focused on unravelling the sources of generation of black income and wealth and, following from that, prescribing policy measures. Indeed so committed apparently are some of those responsible for the report to advocacy of these policies that, according to the published testimony of one member of the team which undertook the research on which the report is based, they have at places drawn conclusions not warranted by the findings of the research (for example, in regard to the connection between high rates of taxes or controls and black money generation) and at others made recommendations though the subjects of these recommendations had not been taken up for study at all (for example, illegal incomes generated through foreign trade in regard to which the report makes far-reaching recommendations in favour of devaluation of the rupee, relaxation of exchange controls and lowering of customs duties). None of this is really surprising, however, if it is remembered, as mentioned at the outset, what purpose the whole exercise was ultimately intended to serve.

If it is the reasons for the expansion of the black economy that the authors of the report were really concerned about, the most important by far of these was there staring them in the face all the while. To quote the summary of the report itself: " . . . deterrence against tax evasion is weak . . . the system of permanent account numbers has not been completely adopted and co-ordination of useful information collected from outside left much to be desired. Similarly the potential for detecting evasion through systematic survey had not been fully exploited and the provisions relating to acquisition of properties undervalued in transfer deeds had not achieved their purpose mainly due to the judicial interpretation . . . search and seizure operations have not been effective enough so far and corruption in tax administration especially in lower ranges was widespread. Few penalties were being imposed and even those levied were being struck down by courts applying the principle of *mens rea*. The number of prosecutions launched had been few till recently and convictions even fewer; the doctrine of *mens rea* once again was the culprit." What all this adds up to is that the cost of evading taxes has been and remains truly negligible. That being so, it should be obvious, tax evasion will continue to be a profitable proposition at almost any level of taxes, howsoever low. Clearly, then, the most important—indeed, considering the changes already made in taxation and in industrial and other controls and regulations, the only—measure that needs to be taken to check the proliferation of black money and wealth through tax evasion is to raise sharply the cost of such evasion by making tax enforcement effective and penalties and punishments sufficiently deterrent. That is not, of course, the view taken by the report on black money. It pleads for further "substantial" reductions in not only taxes on company profits and personal income and wealth but also in excise and customs duties as well as in the stamp duty on real estate transactions.

The only explanation possible is that black money is a facade; the real objectives are to secure unending reductions in taxes on the incomes and wealth of the rich as well as in the taxes and duties on goods and services of upper class consumption which will enlarge the markets for them and expand the profits to be made from investing in their production (or assembly or outright import, as the case may be). It is similarly not the, admittedly discredited, controls and regulations which are under attack, but the social objectives they were intended to secure: for example, keeping disparities of income, wealth and consumption within bounds; directing investment in the economy according to certain notions of social priorities, keeping in view the needs of the vast majority of the people; securing the essentials of life at affordable prices; and so on. It would be impolitic to say plainly that these objectives are to be jettisoned. So black money becomes a useful cover. As for anyone who seriously believes that corruption and black money can be dealt with by instituting *laissez faire*, let him take a glance at some of the free enterprise societies of South-East Asia or Latin America.

## *World Trade*

### Deepening Imbalances

**THE** balance of trade figures for May for the US, Japan and West Germany released at the end of June show deepening trade imbalances among these major industrial countries. This is bound to create further tension among them and is likely to strengthen the protectionist sentiment in the US.

The US trade deficit increased to $ 12.7 bn in May, $ 800 mn above the April figure. Following the announcement of the May trade deficit, the US Commerce Secretary said that the US must now expect a trade deficit of $ 140 to $ 150 bn for 1985 as a whole, compared to the record $ 123 bn last year.

The news has cast doubt whether the second quarter growth of the US economy will be as high as 3.1 per cent annual rate, as the flash estimate released a week earlier had suggested. The leading indicators released at the same time as the trade deficit showed only a feeble improvement for May and downward revisions for March and April. It is likely that the second quarter figure will be revised substantially downwards.

A major factor behind the surge in the May trade deficit of the US is a sharp decline in US agricultural exports by about $ 550 mn. The strength of the dollar, and the dumping of agricultural surpluses by the EEC, are hurting American agricultural exports. The US Administration sees the new round of multilateral trade negotiations which it is keenly pursuing as important for reducing protectionism in agriculture. Both EEC and Japan are highly protectionist in agriculture.

A factor that is causing considerable disquiet to the Americans is the expansion in trade deficit even though the pace of expansion in domestic demand has slowed down compared to early 1984. This suggests that the decline in US competitiveness is responsible to a greater degree for the worsening trade deficit than simple expansion in demand. The Bank for International Settlements, in its 55th Annual Report released in early June, estimated that about half of the deterioration in the US trade deficit over the past couple of years could be attributed to decline in US competitiveness.

The depreciation in the US dollar over the past 3-4 months should restore US competitiveness. However, there may be a considerable lag in improvement of the US trade balance. The improvement may also be limited in the absence of a vigorous economic expansion in the other industrial countries. The US which has benefited from the modest rise last year in Latin American imports—which suffered heavily earlier in the wake of these countries' debt servicing difficulties—might again find declining export orders, as the Latin American exports are losing momentum this year. The US Commerce Secretary's forecast of $ 140 to $ 150 bn trade deficit for the US for the year as a whole is considerably larger than the OECD forecast of $ 117½ bn released only a month earlier.

While the US trade deficit is expanding, the trade surpluses of Japan and West Germany continue to rise. Japan's trade surplus increased to $ 4.29 bn in May from $ 4.13 bn in April and $ 2.99 bn a year earlier. West Germany achieved a trade surplus of DM 7.5 bn in May compared to DM 5.5 bn in April and DM 4.8 bn in May 1984. These two countries, which enjoyed a combined trade surplus of $ 67 bn last year are set to have an even larger trade surplus this year. This is bound to increase pressure on them to reflate their economies. There had already been calls on the West German government to accelerate the package of tax cuts which the government was planning to implement in the next and the following year in two stages. There had been repeated calls on Japan to liberalise its trade regime.

An increase in these countries' imports, however, may not immediately get reflected in the US exports. While Japan's exports are very sensitive to growth in the US, the contrary is not equally true. A reduction in trade imbalances among these three countries would require an internationally co-ordinated expansion involving a wider number of countries

The expanding trade and current account deficit of the US implies that its demand for world savings will continue to rise. While the trade deficit would tend to undermine confidence in the strength of the dollar, the need for an inflow of savings would put pressure in the credit markets pushing up interest rates unless the surplus countries, Japan and West Germany, engineer even lower interest rates in their countries by pursuing a more accommodative monetary policy. But the fact remains that the US is caught in a peculiar situation: in the absence of vigorous economic expansion in the other industrial countries it needs a weaker dollar to improve its trade balance, but it cannot allow any marked depreciation in the value of the dollar if it has to continue attracting savings from abroad on the scale it needs.

## *Gujarat*

### Upper Castes on Offensive

IT is debatable whether the removal of Madhavsinh Solanki from the chief ministership of Gujarat would help in calming the anti-reservation agitation in the state.

The ouster of Solanki did become the principal demand of the agitating upper castes in the last couple of months. The leaders of the anti-reservation organisations of students and parents, opposition parties and the section of the local press controlled by the higher castes blamed Solanki for the continuing violence in the state. By doing so they were in a way attacking the dominant position of the backward castes in the state's politics, which Solanki epitomised as chief minister. The upper castes were probably emboldened to demand Solanki's removal by their agitational success in forcing his government to go on diluting the policy of reservation of seats for backward castes in educational institutions. Eventually on April 1, the Solanki government almost completely abandoned the new reservation policy against whose introduction on the eve of the March 1983 Assembly poll the upper caste students had originally agitated.

But the installation of Amarsinh Chaudhary as the new chief minister of the state on July 6 can hardly have appeased the upper castes. This is because Chaudhary is an adivasi and is also said to be a close associate of Solanki. The Congress(I) High Command was said to be hoping to bring peace to Gujarat by appointing the Assembly Speaker Natwarlal Shah, who belongs to the upper castes, as the new chief minister. Solanki is reported to have pursuaded the High Command to instead accept Chaudhary as his successor, on the ground that this would be in the interest of the future stability of Congress(I) rule in the state. The overwhelming majority of Congress(I) MLAs in the state are from the backward castes and scheduled castes and tribes. Solanki's strategy of uniting these numerically large sections against the upper castes, who dominated the state's politics till recently, partly enabled the Congress(I) to a spectacular win in this year's Assembly polls.

The apprehension of the upper castes, of being pushed out of the educational avenues of upward mobility due to the new reservation policy, on top of their being uprooted from offices of political power, appears to have generated the stamina to keep the agitation alive for the past five months or so. The agitation was not withdrawn, despite the new reservation policy being scrapped in April, probably because the upper castes, propelled by their successes, are keen on once and for all 'teaching' the backward and also the lower castes a good lesson. This attitude is reflected for instance in the six-week old strike of a majority of the state government employees demanding the scrapping of the system of promotions, which benefits the scheduled castes and tribes and other reserved categories.

However, the upper caste agitation has inherent weaknesses. Some amongst the upper caste students, who constitute the backbone of the anti-reservation force, would have lost a year because of the examination boycott call. Then the striking government employees must be facing growing financial strains. Probably it will be more these pressures than say the removal of Solanki that might lead the anti-reservationists to withdraw their stir. Possibly they might even come to an agreement with the government. But such agreements will at best be temporary. Electoral compulsions are likely to push the Congress(I) government into granting fresh concessions to the backward castes, which might again provoke the upper castes to take to the streets.

## *Scheduled Castes and Tribes*

### The Left's Lost Role

*A Correspondent writes:*

NOW that the CPI and the CPI(M) have arrived at some measure of agreement on "the modalities of functioning of the Central Co-ordination Committee of the two parties" and also decided "to contact other secular opposition parties with a view to developing a common movement against the economic and budgetary policies of the government", the cliche-ridden sniping by one party at the other should better be suspended. While really serious debates without the unnecessary pejoratives will have to grow, mere assertions of one party's bona fides by negating the same claim of the other will hardly convince anyone beyond the circle of the faithfuls, since neither has much to justify such claims, viewed against the background of the growing crises in the country, economic, political and social.

Moreover, the immediate joint aim of seeking to develop common movements against the economic and budgetary policies of the, presumably Union, government is undoubtedly rather limited in terms of the demands of the situation. Protection of democratic rights from attacks not only of the Union but also state governments as and when the occasion demands it is certainly not a secondary task. A case in point is provided by developments in Andhra Pradesh. Some academics including Manoranjan Mohanty of the Delhi University, were arrested and seriously beaten by the Andhra Pradesh policemen and later charged under the provisions of various criminal laws for the simple reason that they were going to Indravelli to commemorate the brutal massacre of the tribal poor there by the state police force four years ago. If the Andhra Police can harass and physically illtreat such distinguished citizens, then one can easily guess the treatment they actually mete out to the tribals and dalits, and their local organisers, particularly if they can be dubbed as naxalites, as they often are.

Without denying the wide divergences that legitimately exist between the naxalites on the one hand and the CPI and the CPI(M) on the other, the question remains if any communist party should fail to uphold the right to militant resistance against the oppressive power structure or condone the brutal suppression of such struggles by a government, even one that seeks to claim its legitimacy from its opposition to the Congress(I) regime at the Centre.

This issue has a relevance much beyond the Andhra Pradesh context, or the attitude towards the Naxalites. Unfortunately, today the CPI and the CPI(M) are both much isolated from the wide surge of mass struggles that have developed among the tribals and dalits in various parts of the country, even though the pre-split communist party was the pioneer of these movements. The Warlis in Maharashtra, Girijans in Andhra Pradesh, Tripuris in Tripura besides the dalits in Andhra Pradesh, Kerala, and so on were first politically awakened by the communists. Ajoy Ghosh had devoted much labour to preparing a study of the tribal question in Chotanagpur even when he was convalescing at Ranchi after a bout of TB. The study was published in *The Marxist Miscellany* in the mid-forties.

This divergence between the communist parties and the newly arising mass movements of the marginalised segments of population is neither unique to India nor is it due simply to communist sectarianism as is often alleged by the new militants. Their roots lie deeper as may be seen from the comments in a study of the dalit movement (Burakumin) in Japan. It is well-known that there are in Japan about three million people who are outcastes and are maltreated as in India. The publication says:

> The National Liberation League (of the Burakumin) criticised and took issue with the Communists' class struggle position as one which overlooked the special problem of the Buraku. They pointed out the differences in the historical-social foundations between the goals of the Buraku Liberation League and the Communist Party. They reiterated their focus for the realisation of human rights through the elimination of social discrimination . . .
>
> Their [Communists'] ideology is . . . exposing the oppressive capitalist forces of society.

All this further underlines the need for the communists to adopt positions of principled solidarity towards the legitimate militancy of the tribals and dalits for the protection and extension of democratic rights and thus build bridges between themselves and the newly rising segments of the poor.

## *US Multinationals*

### Still Spreading Out

**THE net investment position of the United States is believed to have turned negative sometime early in 1985 in the sense that US assets overseas fell short of foreign investments in the US. This is confirmed by figures just released by the US Commerce Department.**

While US assets overseas (including not only direct investments but also bank loans and investments in other financial instruments) grew by $ 20.67 bn to $ 914.69 bn during 1984, that was overshadowed by a much higher rise amounting to $ 98.84 bn in foreign assets in the US which totalled $ 886.45 bn at the end of 1984.

Thus at the beginning of 1985 the net investment position of the US amounted to $ 28.24 bn, as against $ 106.22 bn at the beginning of 1984. With the US trade deficit predicted to scale new heights—the deficit for 1984 was itself a record, amounting as it did to $ 123.3 bn—there can be no doubt whatsoever that the net investment position of the US had become negative by March 1985.

The interesting part, however, of this change in the net investment position of the US is that in spite of the overall position becoming negative, in regard to direct foreign investments the US position is still quite strong. As against foreign direct investments in the US of $ 159.57 bn at the end of 1984, direct US investments overseas amounted to $ 233.41 bn. So the net US direct investment position was as high as $ 73.7 bn.

No less significant is it to note in this context that direct US investments abroad recorded a higher increase (3 per cent) in 1984 than in 1983 (2 per cent), though it

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lagged considerably behind the rate of increase (10 per cent) in foreign direct investments in the US. There is every possibility that with the current slowdown in the US economy and the availability of foreign funds through foreign deposits in US banks or through foreign purchases of US Treasury securities and corporate bonds—Japan has emerged as the major purchaser of US Treasury securities in recent years—the pace of US direct investments might well pick up while that of foreign direct investments in the US might slow down. So whatever the net US investment position in the coming years, it does not seem likely that the hold of US multinationals round the globe will be loosened in any measure. In fact, it might well become stronger.

## BUSINESS

# Uncertainty over Kharif Oilseeds Crop

THE vegetable oils market scene has undergone a noticeable change since about the middle of the last week of June. The market which had been displaying an easy tendency for several months has turned distinctly firm. Not only has the declining trend been halted but prices have risen by Rs 500 to Rs 1,300 a tonne in a matter of days, the rise being particularly marked in edible oils, especially groundnut oil. Only castor oil has remained subdued, reflecting extremely comfortable domestic supply—castorseed production is estimated at a record 5.5 lakh tonnes—and not-so-promising export outlook following the steep fall in castor oil prices in world markets. Castor prices have hardened over the past few days in response to export inquiries for it.

The sharp upswing in prices since the last week of June cannot be dismissed as a technical correction of the preceding steep fall from the preceding season's high levels or as a normal seasonal phenomenon—July marks the beginning of the lean season. The dramatic change in market sentiment reflects the trade's anxiety about the kharif crop because of the prolonged dry spell. After a rather early and promising start the south-west monsoon which continue to hold the key to kharif crops has been playing truant. It is not only oilseeds/oils prices which have risen quite sharply but the prices of pulses, foodgrains and cotton have also firmed up appreciably.

It is July 10 and barring a few isolated pockets here and there all the important kharif oilseeds producing tracts have received scanty rains. The rainfall map shows serious deficiency in nearly half of the meteorological divisions. Inquiries with knowledgeable sources indicate that nearly four-fifths of the total area under groundnut has still to be sown due to lack of rains and that even where sowing operations have been carried out, rains are urgently needed for the satisfactory germination of the seed. Perhaps the worst affected area is Saurashtra which normally accounts for nearly one-third of the country's total groundnut production.

If delayed sowings only meant delay in the marketing of the crop it would not matter much. But late sowing often affects crop yields which are already quite low. Indeed, crucial days lie ahead. If the weather gods do not oblige for another week, oilseeds production is likely to suffer an irreparable loss. Even the most thoughtful injection of modern inputs cannot be of much help if rainfall is inadequate or untimely.

In view of the prolonged dry spell in Saurashtra the VMA Oilseeds Research and Development Institute (VORDI) has urged growers through publicity campaign to switch over to the short duration crop which matures in 90 days. The growers in Saurashtra are known to prefer long duration varieties of groundnut because of their higher yields. The switch-over to short duration varieties could raise the problem of adequate supply of seed of desired quality.

On current reckoning the outlook for the groundnut crop which accounts for nearly 45 per cent of the total indigenous edible oil supply has become very uncertain. This is a matter of serious concern. If the south-west monsoon does not behave well, oilseeds production in 1985-86—the first year of the Seventh Plan—is certain to suffer a setback. There is little chance of the likely shortfall in groundnut production being made good through increased output of oilseeds in the rabi season. Prospects of any significant increase in the 1984-85 record mustard/rapeseed crop of 35/36 lakh tonnes cannot be rated high.

Poor south-west monsoon and the consequent setback in oilseeds production—should current fears in this regard materialise—should serve as strong reminders about the imperative need to bring more irrigated area under oilseeds which is essential for stepping up production. Increased application of costly inputs demands assured supply of water. With only 14 per cent of the total area under oilseeds enjoying irrigation facilities it would be wishful to look forward to any major and sustained increase in production unless, of course, there is a breakthrough in dry farming of which there are few indications so far. New Delhi cannot pretend it lacks resources for oilseeds development when massive sums are being spent on edible oil imports to bridge the huge gap between indigenous supply and demand.

To put the recent upsurge in vegetable oil prices in proper perspective it needs to be noted that the current prices (July 10) are substantially lower than the prices which prevailed a year ago. On the basis of spot quotations in Bombay on July 10 and a year ago, groundnut oil is down by about 16 per cent, cottonseed oil by 25.8 per cent, sesame oil by 18.4 per cent, kardi oil by 13 per cent, linseed oil by 19.3 per cent, mahuva oil by 25.6 per cent, rice bran oil by 21.4 per cent and castor oil by 35.5 per cent. Vegetable oil prices last season had been marked up to unduly high levels, record edible oil imports notwithstanding. Vegetable oil prices are certain to be moved up substantially if the monsoon fails. Quite a good deal would, however, depend on the government's policy in regard to allocation of edible oils under the public distribution system which needs to be strengthened and streamlined to mitigate the suffering of the common folk.

## *Unit Trust*

### Strictly for Tax-Payers

STATISTICAL data relating to Unit Trust of India's operations during the year ended June 1985 make really impressive reading. Aggregate sales of units under all the schemes are up over the year by 127.2 per cent from Rs 330.16 crore to Rs 750.01 crore with the number of unitholders registering an increase of 13.3 per cent from 1.5 million to 1.7 million. Gross income has risen by 77 per cent from Rs 142.54 crore to Rs 252.41 crore, investible resources by 73.6 per cent from Rs 1,261.33 crore to Rs 2,190 crore, reserves by 90.5 per cent from Rs 160.33 crore to Rs 305.42 crore, sanctions under direct financial assistance by 206.15 per cent from Rs 191.53 crore to Rs 586.37 crore and disbursements by 80.7 per cent from Rs 166.50 crore to Rs 300.87 crore. Consequent on the increase in distributable income, dividends for the ongoing schemes, payable on the increased capital base, have been further stepped up for the sixth year in a row—from 14 per cent to 14.25 per cent under the unit scheme, 1964 and from 11.5 per cent to 12 per cent under the unit-linked insurance plan, 1971.

The UTI chief, M J Pherwani, has mentioned several factors which have contributed to the Trust's impressive performance during 1984-85. These include profound change in the saving and investment habits of the people, strengthening and streamlining of the marketing infrastructure through expansion of the agency force, improvements in systems and procedures to tone up the efficiency of service to unit-holders and imaginative publicity programmes and adoption of appropriate strategies for judicious investment of funds. UTI is said to have reached "a new plateau of public acceptance and gained recognition as an important member of the financial community" and it claims to be playing "a very active and positive role in the capital market".

Having acquired command over sizeable investible resources UTI has no doubt become an important member of the financial community but its claim in regard to having reached a new plateau of public acceptance is open to question. It is extremely unlikely that UTI could have performed the way it has if it did not enjoy the various tax concessions it does. It enjoys a monopoly position in this respect. There is no getting away from the harsh fact that it is the wealth-tax payers and income-tax assessees in higher brackets who are the major beneficiaries of investment in units. Non-tax payers have little to gain from investment in units, either by way of annual return or capital appreciation. Even on the basis of the concessional prices of Rs 12.60 in July 1984, the dividend of Rs 14.25 per cent gives a yield of only 11.3 per cent. The total capital appreciation in units over a period of 21 years works out to no more than 49 per cent—the maximum repurchase price so far being Rs 13.90. An investor putting his money in bank deposit or non-convertible debentures or in equity shares of a reasonably well managed company would have fared very much better. Tax considerations apart, only those investors go in for units who are obsessed with the idea of security and are totally unaware of more profitable opportunities of investment elsewhere.

UTI was set up to mobilise the savings of the community, particularly from the small and medium groups. But its major patrons are the rich guys, persons with piles of black money, and the companies. An inquiry into units held by companies and purchases of units with cash where the amount happens to be fairly large as also the names of people receiving dividends in large amounts (UTI dividends are paid without deduction of tax) could prove to be quite revealing.

It is interesting to note that nearly 27 per cent of the gross sales amounting to Rs 750 crore are accounted for by capital gains unit scheme (Rs 203 crore). Since this scheme is designed for claiming exemption from capital gains tax, no publicity is needed to induce people to avail of this facility. If one were also to exclude sales effected at the concessional price during July—it could well be around 40 per cent of the total sales of units under the unit scheme, 1964—the additional savings mobilised during the rest of the year would work out to be rather small.

No less questionable is the UTI's claim in regard to its "very active and positive role in the capital market". It hardly does any underwriting of equity capital and purchases of equity shares of established companies from the market cannot be described as lending support to the capital market. By underwriting debentures or by subscribing to them UTI cannot claim to be making any positive contribution to the capital market. Subscriptions to debentures of reputed companies as also underwriting such debentures amount to aiding and abetting the pre-emption of financial resources by big companies. It is bad enough to permit big companies of repute to raise funds from the market by offering the maximum permissible rate of interest on debentures and much worse to allow them to retain 50 per cent of the subscriptions in excess of the notified amount.

## *Housing Finance*

### More Is Not Enough

THE Planning Commission has reportedly cleared the proposal to set up a separate bank exclusively for financing private housing, and has provided Rs 50 crore for the purpose. The Reserve Bank of India and other financial institutions are expected to provide another Rs 50 crore so that the proposed bank could start with an initial capital of Rs 100 crore.

Looking at the colossal housing problem facing the country and the meagre resources available to tackle it, the proposal should be welcomed. A study group set up by the Planning Commission has estimated the total stock of housing in 1985 at 124.9 million units—95.2 million rural and 29.7 million urban. The housing shortage at the beginning of the Seventh Plan has been estimated at 24.2 million units. The study group has also estimated that between 1985 and the year 2000, an additional housing stock of 90.8 million units would be needed to meet the requirements of increasing population, obsolescence in existing stock and the destruction of a part of the existing stocks due to natural calamities. The group has estimated the total housing stock required in 2000 at 229 million units. Thus the net addition to the existing housing stock required during the 15-year period 1985 to 2000 works out to 105 million units. While the investment needed for the period 1985 to 2000 to meet the housing needs is estimated at Rs 1,13,650 crore, in the Seventh Plan period alone (1985-90) it is estimated at Rs 33,800 crore. Three-fourths of this will have to come from the private sector.

The proportion of the public sector outlay allocated to housing has been getting progressively smaller in successive five-year plans. It declined from 34 per cent of total outlay in the First Plan to a meagre 7.5 per cent in the Seventh Plan. The housing shortage has become much more acute now than it was in the sixties. Moreover, it is the economically weaker sections of the population which has been affected most by the widening gap between supply and demand for houses, notwithstanding the supposed shift of emphasis in public sector housing in favour of these sections. Because of the population growth in urban areas, rising

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land prices, unrelenting escalation in construction costs, house prices have skyrocketted. As observed by the task force on shelter for the urban poor and slum improvement, rising construction costs have pushed even the cheapest houses beyond the means of the economically weaker sections.

While a number of the factors mentioned above have slowed down the pace of growth of private housing, the problem of finance has been the greatest deterrent. A survey carried out by the National Institute of Public Finance and Policy revealed that 70 to 80 per cent of individual house owners have had to depend on their personal savings to build houses.

Since housing is a state subject, the Central government through its budgetary allocation can provide but a small proportion of the total investment required. Of the two housing finance corporations, the Housing and Urban Development Corporation (HUDCO) in the public sector and the Housing Development Finance Corporation (HDFC) in the private sector, only the HDFC provides loan assistance to individual house-buyers. The Life Insurance Corporation (LIC) and the appex co-operative banks also make available some funds for housing. However, all these existing institutions are not in a position to meet the ever growing requirements of housing finance.

In the context of the much larger resources needed to cater to housing needs in the Seventh Plan and beyond, the proposed bank to deal exclusively with housing finance is a welcome step. Since the Planning Commission has already cleared the proposal, the government should now follow it up by working out a proper framework for the proposed bank and give it adequate autonomy to raise resources to enable it to effectively play the role assigned to it. It also appears desirable to relax the curbs on commercial banks' lending to the housing sector. Sometime back the Union Labour Minister had indicated that the government may use provident fund collections for promoting housing projects in a big way. This proposal also needs consideration.

## LETTER TO EDITOR

# Ahmedabad Violence

THIS is in response to the letter by Nimesh Sheth and others (June 15) on my report on the violence in Gujarat.

Two major points are raised by the authors. The first relates to the reporting of the second phase of rioting that occurred in Ahmedabad between April 15 and 26 and the second to the analysis of the events and to the following issues: the nature of the anti-reservation agitation, the role of the State, the role of the police, and the role of what the authors call 'spontaneous realignment of forces taking shape during the agitation'.

It seems that the authors have made their comments without taking into account my earlier report (April 20) which not only analysed the caste alignments that led to the anti-reservation agitation but also discussed the first phase of the communal violence that took place in Ahmedabad. That was no 'armchair reporting'. What was reported was based on investigations made by a team of which I was a member. My April 20 report analyses the social forces that were and are at work in Gujarat. The second report can, therefore, be understood only in that context. It is a different matter if the authors of the letter do not agree with my report; but that does not necessarily make it misleading or formulistic.

With regard to the issues of interpretation raised by the authors, I have to state the following:

(1) Unlike the authors, I do not believe that the role of the State in the present agitation has been that of an 'equaliser'. I do not, therefore, hold a brief for the State or any of its organs—for example, the police. By increasing reservations to the backward castes, the State government, I have maintained, was making a populist gesture. What the Solanki government was attempting to do was to use the politics of caste and reservation to mobilise votes for itself. This strategy became an all-India policy for the Congress(I) when Indira Gandhi came to power. An election strategy that mobilises the poor for votes does not make the government that so comes to power a pro-poor government. I have argued that the Solanki government has always shown its upper class, and therefore upper caste, bias. When the upper castes started being mobilised through the anti-reservation agitation, the Congress(I)'s response was the product of the contradictions that it had to face between its electoral strategy and the economic interests it represented.

(2) All available independent investigations attest that the police had indeed entered houses, damaged household belongings and beaten up residents in Khadia. This behaviour can only be termed as a 'police excess'. While it is true that such excesses have been inflicted on the poor, on women and on minorities, the fact that it was also inflicted on the upper castes does not make it less of a police excess. Mentioning it as a police excess should not make a commentator a supporter of the anti-reservation agitation, as the authors imply in their letter. In fact, it is my argument that by mobilising the police which is divided on caste and political lines, the Solanki government created a situation whereby the police *vs* people conflict became possible. This made possible the continuation and the spread of the agitation and ultimately brought about a collapse of confidence in the government. Thus playing into the hands of the anti-reservationists.

(3) My report states clearly my position on the role the newspapers have played in Gujarat. On page 682, I write that "the agitation was blown out of proportion by the Gujarati newspapers which betrayed their upper caste biases". I do not therefore understand why the authors believe that I am "pouring out my heart for the newspapers". However, I do not take the position that the burning of newspaper offices by the police or other government attempts to curb press freedom are in any way justified. Any analysis of the Gujarat violence has to simultaneously criticise both the police attack on newspaper offices and the anti-reservation bias of the press.

(4) I am surprised at the authors' use of the sexist phrase 'women of easy virtue'. May I remind the authors that the present patriarchal society uses such phrases whenever atrocities on women are defended? The use of such a phrase by the authors shows a cavalier attitude towards facts.

(5) With regard to the last point, about 'spontaneous realignment of forces', I am sure readers of *EPW* would have appreciated it if the authors had given some evidence in support of this generalisation. The evidence we have collected indicates that if the Muslim shopkeepers protested against the 'bandh' by keeping their shops open they did not do so because they were supporting reservation or had feelings of solidarity with the backward and scheduled castes. As numerous interviews conducted by us indicate, they did so because the reservation issue did not concern them. While there is evidence that in some areas the Muslims tried to protect the scheduled castes and *vice versa*, in other areas the minority community and the deprived castes have been antagonists. The attack on and later burning of a backward caste Dabgar family is one such example. There are many others. I would certainly question any generalisation about alignment of forces when there is evidence of how at least one trade union organisation dealing with working women is finding that the workers are divided on communal and caste lines. If the unity among these groups had 'hardened', as the authors state, such organisations would not be facing the problems that they are facing today.

In the context of the present agitation in Gujarat it is easy to fall into the trap of an analysis that sees only two groups: reservationists and anti-reservationists, the latter comprising the upper castes and the former the deprived castes and the minorities. Reality is more subtle and does not order the alignments as one would wish to order them.

SUJATA PATEL

Ahmedabad

# An Editors' Guild Initiative

### Romesh Thapar

AT various retreats, here, there and everywhere, scribblers among political activists are busy drafting strategies for the new situation in order to gain relevance. The trouble with these 'documents' is that they are intended to sound impressive and sincere, but no one really bothers about implementing the sentiments embodied in them. Well, I think the time has come to make political parties realise that we are not the sheep they think we are.

In this connection, the Editors' Guild several months ago took a very solid step to concentrate political attention on two issues of considerable concern to it. First, it called on political parties to commit very specifically to the freedom of the press. And, second, it urged the political parties to make the autonomy of the electronic media a major concern, linking it to the whole question of democratic participation.

It was only during the Emergency that the public in India developed any kind of commitment to a free press or an autonomous electronic media. But the commitment was tentative, somewhat superficial and easily to be confused and blunted. This became fairly clear with the casualness of the Janata government to the question of radio and TV autonomy, and in the continued misuse of these potentially powerful establishments under the Congress(I) regimes. As for the restoration of press freedom, the politicians of various parties—Congress(I), AIADMK, National Conference and Telugu Desam—were not reluctant to move so-called press bills to curb this freedom. And now many threats exist on the statute books.

Professionally, first priority has to be given to the freedom of the press. It is central to the health of a democratic state. But we know that politicians of all colours resent sustained criticism and exposure, always seeking subtle and not-so-subtle ways of curbing the independent journalist and writer. Invariably, all manner of convenient descriptive adjectives are used to introduce the systems of caution and censorship—as if these curbs are necessary in the interests of civilised and truly democratic life.

There is little point in going over the entire episode of the Bihar Press Bill, modelled on the Tamil Nadu enactment, imitated by Orissa and played with in Kashmir and, now, Andhra Pradesh. Only the utmost vigilance, combined with disciplining action by the press, was able to curb a surreptitious encroachment of press freedom. The campaign led by the Editors' Guild and other organisations of journalists, climaxed by co-ordinated black-outs in Bihar of offending politicians and parties and a symbolic continental strike, contained many lessons. But the picture today is worse than it was in several subtle ways. The protest does not build.

Clearly, the whole developing structure of what is called 'Informatics' can only become 'responsible' in an atmosphere of freedom, with a public playing an increasing interventionary role in making clear that it disapproves of those who misuse the infrastructure. Both aspects need time to develop, but they will for ever be under threat from those who enjoy power and are corrupted by it. The Editors' Guild sought to establish the kind of guarantees that cannot be easily subverted.

In the area of radio and TV, the political and bureaucratic apparatus has employed a clever stratagem to retain control over these rapidly expanding networks. Commissions were appointed to investigate the state of the electronic media—as if we are unaware of it! These commissions indulged in the usual touring and interrogations. The massive reports which followed invariably urged autonomy, but in so complex a form that committees of bureaucrats were established to 'consider' the proposals—a phrase that implies burial! And the last commission, headed by an academic, has verbally propounded a 'revolutionary' change in programming and staffing without really tackling the central question of creativity—namely, autonomy.

All political formations are guilty of this hide-and-seek on the autonomy of the electronic media. It has, therefore, become necessary to urge that no more commissions are required, that all parties should commit to establish autonomous Boards for radio and TV and leave them free to work out the mechanics of their autonomy. This is the practice in civilised, democratic societies—and we claim to be one!

Naturally, the Editors' Guild should press forward with its campaign and achieve a working rapport with other professional organisations. This unity of purpose is most necessary, for the next step will involve the working out of sanctions against those parties which refuse to commit to these freedoms and autonomies. Before it is successful, the campaign could involve black-outs of erring parties and a refusal to participate in the programming of the controlled electronic media.

These have become critical issues for two basic reasons. First, the democratic commitments of the freedom struggle have become vague and woolly. And, second, there has been a massive expansion of government influence in the media (for example, 180 more TV transmitters!). Scientists and technologists are always enthusiastic about the installation of hardware, but they seldom turn their attention to the programming. We had better watch out, for this lapse could spell a growing fascisation. It certainly expresses itself during elections, in the interest of those who rule.

At every level, the Editors' Guild will have to sensitivise the conscience of those who guide the thought processes of millions of Indians who are critical to decision-making. It will also have to become more active in mobilising opinion against those who would misuse this freedom—the purveyors of vulgar values, particularly in our films, the exploiters of violence which can wreck our complex societies, and the bandits who are distributing hard and brutal pornography throughout the sub-continent, along national highways and rural roads as part of the so-called video revolution. The campaigning, alas, is in fits and starts.

The misuse of freedom can shatter the moral balance of societies, but we have to explain patiently that a denial of freedom has no moral objective whatsoever. It is a politician's ploy for undisputed power. Indeed, so many of the problems which are rocking the stability of this sub-continent could have been blunted if brutally frank discussions had taken place on the electronic media. We avoid these exchanges, narrow our perspectives and understandings, and in the process feed dangerous distortions and polarisations.

The power of the electronic media is now a major factor in conditioning attitudes. It can no longer be dismissed as a vehicle for middle class titillation. The sooner our political parties understand this new orientation in communications, the better for our democratic health.

*July 5.*

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## Money Opportunities

MONEY OPPORTUNITIES, a new weekly publication catering to the investing public, was recently launched in Bombay by Ross Murarka Finance (RMF). It will feature authentic and well researched news on corporate performance, apart from dispensing share tips and other industry analyses to help investors select potential 'Blue Chip' scrips for high return and profitable investments. According to Ross Deas, Managing Director of RMF, each issue would contain timely, comprehensive and in-depth coverage of companies recommended for investment alongwith reasons for investments, suggested purchase price, future profits and share price projections apart from timely advice on when and at what price to sell shares which are no longer profitable. Each copy is priced at Re one.

| Index Numbers of Wholesale Prices (1970-71 = 100) | Weights | Latest Week (22-6-85) | Variation (Per Cent) Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85++ | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| All Commodities | 1000 | 357.4 | 1.6 | 5.9 | 3.5 | 7.0 | 9.5 | 2.6 | 9.3 |
| Primary Articles | 417 | 335.3 | 1.9 | 2.4 | 4.1 | 4.8 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 319.9 | 3.6 | 6.1 | 7.6 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 299.6 | −2.6 | −6.4 | 3.6 | 2.3 | 15.1 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 562.5 | 0.8 | 9.1 | 1.4 | 2.6 | 7.6 | 7.5 | 20.7 |
| Manufactured Products | 499 | 341.1 | 1.5 | 8.1 | 3.5 | 6.0 | 8.7 | 0.6 | 5.2 |

| Cost of Living Index | Base | Latest Month | Variation (Per Cent) Over Last Month | Over Last Year | Over March 1985 | In 84-85 | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| For Industrial Workers | 1960 = 100 | $594^4$ | 1.4 | 6.3 | 1.4 | 6.4 | 12.6 | 7.8 | 12.5 |
| For Urban Non-Manual Employees | 1960 = 100 | $546^4$ | 1.1 | 7.1 | 1.1 | 8.1 | 10.3 | 8.0 | 11.9 |
| For Agricultural Labourers | July 60 to June 61 = 100 | $518^4$ | 0.2 | 1.6 | 0.2 | 0.2 | 11.4 | 5.2 | 12.4 |

| Money and Banking | Unit | Latest Week (21-6-85) | Variation Rs Crore (Per Cent in Brackets) Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85++ | In 83-84++ | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| Money Supply ($M_3$) | Rs Crore | 1,05,408 | 1,577<br>(1.5) | 15,100<br>(16.7) | 3,932<br>(3.9) | 15,443<br>(18.0) | 13,031<br>(17.9) | 10,115<br>(16.1) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 53,929 | 1,915 | 9,161 | 4,947 | 8,460 | 5,757 | 4,748 | 4,965 |
| Bank Credit to Commercial Sector | Rs Crore | 70,977 | 384 | 9,871 | 1,500 | 9,447 | 8,830 | 8,247 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 2,766 | −537 | 1,306 | −233 | 1,419 | −104 | −977 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 74,270 | 1,332<br>(1.8) | 11,358<br>(18.1) | 3,084<br>(4.3) | 10,590<br>(17.5) | 8,550<br>(16.4) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets** | Rs Crore | 6,686 | −537 | 1,129 | −275 | 1,463<br>(26.6) | 943<br>(20.7) | 911<br>(27.2) | −1,468<br>(−30.4) |

| Index Numbers of Industrial Production (1970 = 100) | Weights | Latest Month | Average of Months* 1985 | 1984 | Variation (Per Cent) In 1985++ | In 1984++ | In 1983 | In 1982 | In 1981 |
|---|---|---|---|---|---|---|---|---|---|
| General Index | 100.00 | $216.9^3$ | 208.3 | 200.3 | 4.0 | 6.6 | 4.5 | 4.5 | 9.3 |
| Basic Industries | 32.28 | $248.5^2$ | 257.8 | 243.2 | 6.0 | 11.7 | 5.5 | 8.0 | 14.5 |
| Capital Goods Industries | 15.25 | $228.3^2$ | 222.9 | 227.0 | −1.8 | 9.2 | 4.3 | −0.9 | 8.1 |
| Intermediate Goods Industries | 20.95 | $162.1^2$ | 167.1 | 156.5 | 6.8 | 1.7 | 7.9 | 1.9 | 3.7 |
| Consumer Goods Industries | 31.52 | $162.1^2$ | 168.3 | 169.0 | −0.4 | 1.3 | 0.4 | 5.8 | 8.2 |
| Durable Goods | 3.41 | $210.2^2$ | 209.7 | 181.4 | 15.6 | 13.0 | 0.1 | 3.6 | −0.1 |
| Non-Durable Goods | 28.11 | $156.3^2$ | 163.3 | 167.5 | −2.5 | 0.5 | 0.5 | 6.5 | 9.3 |

| Foreign Trade | Unit | Latest Month (March 85) | Cumulative for* 1984-85+ | 1983-84+ | 1984-85 | 1983-84 | 1982-83 | 1981-82 | 1980-81 |
|---|---|---|---|---|---|---|---|---|---|
| Exports | Rs Crore | 951 | 11,297 | 9,872 | 11,297<br>(14.4) | 9,872<br>(10.8) | 8,908<br>(14.2) | 7,803<br>(16.3) | 6,711<br>( 3.9) |
| Imports | Rs Crore | 1,414 | 16,485 | 15,763 | 16,485<br>(4.6) | 15,763<br>( 9.8) | 14,356<br>(5.0) | 13,671<br>( 9.2) | 12,524<br>(40.6) |
| Balances of Trade | Rs Crore | −463 | −5,188 | −5,891 | −5,188 | −5,891 | −5,448 | −5,868 | −5,813 |

| Employment Exchange Statistics | Unit | Latest Month (March 85) | Cumulative for* 1985 | 1984 | 1984 | 1983 | 1982 | 1981 | 1980 |
|---|---|---|---|---|---|---|---|---|---|
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,744 | 23,744 | 22,603 | 23,696<br>(7.9) | 21,953<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) |
| Number of Registrations | Thousand | 454 | 1,362 | 1,681 | 6,439<br>(−1.8) | 6,555<br>(11.8) | 5,862<br>(−6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) |
| Number of Vacancies Notified | Thousand | 49 | 150 | 162 | 734<br>(−11.4) | 828<br>(1.0) | 820<br>(−8.4) | 895<br>(6.6) | 840<br>(−4.1) |
| Number of Placements | Thousand | 29 | 86 | 101 | 406<br>(−16.5) | 486<br>(2.5) | 474<br>(−6.1) | 505<br>(5.2) | 480<br>(2.6) |

* For current year upto latest month for which data are available and for corresponding period of last year.

** Excluding gold and SDRs.

+ Variation in current year upto latest month for which data are available over corresponding period of last year.

++ Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript[1] indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

# Deaths in Police Custody

### A G Noorani

THE Law Commission's Working Paper on "injuries in police custody" deserves careful consideration. The disease is an old one but it has recently acquired an aggravated form. Rapes and murders in police custody do receive notice in the papers but public insensitivity has grown with the aggravation.

The Working Paper was triggered off by the observations of the Supreme Court on January 22, 1985, in the State of Uttar Pradesh *versus* Ram Sagar Yadav and others. Ram Sagar Yadav was the Station House Officer of the Hussainganj police station in Fatehpur district. Three others were constables. On the morning of August 29, 1969—note, 1969—two of these constables went to Haibatpur and arrested Brijlal and brought him to the police station at about 10 a m. At about 9 p m, that is just eleven hours later, he was dead due to the injuries inflicted on him in police custody.

The prosecution alleged that the accused policemen wished to extract a bribe from Brijlal, in connection with a complaint filed against the deceased for cattle tresspass, on the promise of a hush-up. He paid up Rs 100 but refused to pay another Rs 200 to one of the constables. Instead, he filed a complaint on August 7, 1969 against that constable before the SP. The SP sent it to the SHO, Ram Sagar Yadav, for inquiry and report. The SHO was incensed by Brijlal's audacity in making such a complaint. So he sent two other constables to bring Brijlal to the police station to teach him a proper lesson. The Sessions Judge convicted the SHO and the constable, alleged to have taken the bribe, under Section 304, Part 2 of the IPC and sentenced them to rigorous imprisonment for seven years. The SHO was convicted also under Section 220 of the IPC for keeping a person in confinement corruptly and sentenced him to RI for five years. The two constables who had arrested the deceased were committed under Section 304, Part 2 and sentenced to three years' RI.

On appeal a single Judge of the Allahabad High Court set aside the convictions. The Supreme Court allowed the State of UP's appeal and affirmed the convictions and sentences. The Supreme Court criticised the High Court's judgment and its reasoning.

The prosecution evidence was overwhelming. Already by noon when Brijlal was produced before R C Nigam, the Additional District Magistrate, he had been so badly beaten that he could barely speak. Nigam made a note of this on the police remand application, signed it himself and obtained the deceased's thumb impression. The statement was clear—"the darogah of Hussainganj and the constables had beaten him very badly". It was further supported by the evidence of a police constable who took Brijlal to the Magistrate.

The court complimented the Magistrate for making the note in contrast to its pointed criticism of the High Court. Two other important witnesses supported the prosecution case—the jailor and the jail doctor, both independent persons. Brijlal made a dying declaration to the doctor about the police beating.

Death due to beating in police custody was thus proved. The question was *who* were the policemen responsible. The SHO, Ram Sagar Yadav, was specifically mentioned by Brijlal. The identity of the constable who had taken the bribe and the ones who had arrested him was also established.

The Supreme Court expressed regret that the Sessions Judge convicted the respondents under S 304, for culpable homicide not amounting to murder, and not under S 302 for murder itself. One must, in turn, express regret that the Supreme Court thought it fit not to "pursue that matter any further since the state did not file an appeal against the judgment of the Sessions Judge" on that ground and the prosecution had not lead evidence through the medical officer "in order to bring out the true nature of the injuries suffered by Brijlal". Pray, was all this necessary once the entire record was before the court?

The Supreme Court recommended that the law be amended "appropriately so that policemen who commit atrocities on persons who are in their custody are not allowed to escape by reason of paucity or absence of evidence". Policemen are bound by ties of brotherhood and do not depose against one another. "The law as to the burden of proof in such cases may be re-examined . . ."

The Law Commission's Working Paper comments: "The best course would be to give power to the court to draw a presumption where bodily injuries (fatal or otherwise) are caused to a person while he is in the custody of the police. The court may be given a discretion to presume that the injuries were caused by the police officer having custody of the person during the relevant period. The vesting of such a power in the court would be justified because, as regards a person in police custody, it is unlikely that any one else would have the opportunity of inflicting injuries. The presumption should, of course, be discretionary and rebuttable so that extraordinary situations can be taken care of. The formula 'may presume' would be appropriate. At the same time, it may be desirable to furnish to the court some guidelines in administering such a provision, which will be a qualification to the general rule of burden of proof."

The Working Paper suggests insertion of a new provision—Section 114B—in the Evidence Act, on the following lines:

> (1) In a prosecution [of a police officer] for an offence constituted by an act alleged to have caused bodily injury to a person, if there is evidence that the injury was caused during a period when that person was in the custody of the police, the court may presume that the injury was caused by the police officer having custody of that person during that period.
>
> (2) The court, in deciding whether or not it should draw a presumption under subsection (1), shall have regard to all the relevant circumstances, including in particular, (a) the period of custody, (b) any statement made by the victim as to how the injuries were received, being a statement admissible in evidence, (c) the evidence of any medical practitioner who might have examined the victim, and (d) evidence of any magistrate who might have recorded the victim's statement or attempted to record it.

There is, however, one *fatal* flaw in this scheme for bringing delinquent policemen to book. Their protectors are not only fellow-policemen but very often politicians in power. The provision in the Criminal Procedure Code for the state government's prior sanction to the prosecution of public servants is a blot on the statute book. In this case the Government of UP acted honourably. But read the report in the *Indian Express* of July 10 about the obstruction which even the CBI faces from the Rajasthan government in the Deeg case. These provisions must go.

## Tata Fertilisers

TATA FERTILISERS has contradicted rumours that the company's shares are being offered for private placement and that in some unofficial and unauthorised deals, are even attracting a premium. With a view to protecting interests of genuine investors, the management has categorically stated that all these rumours are totally unfounded. Tata Fertilisers is at present a 100 per cent subsidiary of Tata Chemicals and will be spun off as a separate public limited company at an appropriate time in future after all the necessary approvals have been obtained.

# Beyond Textiles

### Hansavivek

*RELIANCE TEXTILE INDUSTRIES* continues to forge ahead on the path of diversification of its activities. It has already secured government clearances for the polyester staple fibre (PSF), purified terephthalic acid (PTA), mono ethylene glycol (MEG) and linear alkyl benzene (LAB) projects. With the available expertise in terms of manpower, the potential of the company has been greatly improved to surpass its own track record in speedily implementing various projects involving an outlay of Rs 674 crore. The company has already negotiated foreign exchange requirements equivalent to Rs 252 crore. It has also reinforced its financial strength by a scheme of extinguishment of debentures of series I, II, III and IV. Of the total outstanding debt of Rs 73.50 crore in the form of these debentures, a sum of Rs 71.63 crore has been extinguished and equity shares in the ratio of 1.4 for every Rs 100 outstanding have been issued in terms of permission received from the Controller of Capital Issues. In order to facilitate the process, the company embarked on an innovative scheme by opening 50 centres all over the country for the purpose of receiving extinguishment letters as well as for the delivery of share/debenture certificates and for rendering prompt and personalised services. The shareholders and debenture-holders greatly lauded the company's efforts for alleviating their difficulties. The company issued new 'E' series non-convertible debentures of Rs 150 each of the aggregate face value of Rs 80 crore which was fully subscribed. The company has announced issue of further non-convertible secured debentures of Rs 100 each of the aggregate face value of Rs 100 crore to finance, *inter alia*, projects relating to polyester yarn/fibre. The formal take-over of the assets of the Chemicals and Plastics division of Union Carbide India at Chembur in Bombay is expected to be completed in the coming weeks. The company proposes to modernise this unit with the latest technology to attain optimum results in terms of turnover and profitability.

During 1984, the company has performed exceedingly well with increases in sales, profits as well as margins. It has earned a gross profit of Rs 95.27 crore against Rs 69.90 crore in the previous year following a turnover of Rs 604.27 crore against Rs 502.83 crore. Net profit has expanded from Rs 38.52 crore to Rs 61.10 crore, even though depreciation has taken away more. As before, there is no tax liability. Equity dividend has been stepped up by 5 points to 40 per cent on the increased capital and is still covered 3.90 times by earnings as against 4.01 times previously. As at the year end, reserves stood at Rs 194.41 crore against a share capital of Rs 51.98 crore. The company has applied to the Controller of Capital Issues for enhancing the rate of dividend on the preference shares from 13.5 per cent to 15 per cent per annum with effect from May 16, 1985 and would pay the difference in dividend amounting to over Rs 5 lakh on receipt of the official permission. The company completed during the year the modernisation and replacement programmes relating to preparatory, weaving and processing sections. The new looms installed, *viz*, water jet and projectile belong to the latest technology which will enable the company to produce improved quality fabrics. At Patalganga an additional spinning line has been commisssioned for production of finer denier yarn. The current year's working should reflect the bene-

**The Week's Companies** *(Rs Lakh)*

| | | Reliance Textile | | Bayer (India) | | Baroda Rayon | | Ranbaxy Labs | |
|---|---|---|---|---|---|---|---|---|---|
| | | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 |
| Paid-up Capital | | 5198 | 4195 | 811 | 811 | 1444 | 1444 | 267 | 267 |
| Reserves | | 19441 | 8793 | 1180 | 983 | 1913 | 1910 | 737 | 533 |
| Borrowings | | 24406 | 25852 | 1365 | 1011 | 3476 | 3212 | 2125 | 1822 |
| *of which* Term borrowings | | 16148 | 14476 | 23 | 30 | 1390 | 948 | 730 | 459 |
| Gross fixed assets | | 52009 | 39488 | 2648 | 2300 | 6880 | 6626 | 1506 | 1403 |
| Net fixed assets | | 41544 | 32146 | 965 | 961 | 3942 | 3769 | 1315 | 1197 |
| Investments | | 17 | 12 | 14 | 25 | 41 | 36 | 60 | 10 |
| Current liabilities | | 17141 | 14838 | 1129 | 1150 | 1882 | 1555 | 1312 | 1132 |
| Current assets | | 24625 | 21519 | 3506 | 2968 | 4727 | 4309 | 3066 | 2546 |
| Stocks | | 12781 | 11350 | 1795 | 1540 | 2403 | 2397 | 1570 | 1079 |
| Book debts | | 9171 | 7707 | 1273 | 1109 | 968 | 994 | 759 | 483 |
| Net sales | | 60427 | 50283 | 7696 | 6898 | 8227 | 7017 | 4858 | 3503 |
| Other income | | 711 | 468 | 187 | 129 | 144 | 81 | 125 | 139 |
| Raw material costs | | 16194 | 15140 | 4483 | 3634 | 3436 | 2859 | 2577 | 1835 |
| Wages | | 1783 | 1543 | 769 | 700 | 1069 | 961 | 441 | 355 |
| Interest | | 2262 | 2152 | 256 | 247 | 483 | 378 | 287 | 161 |
| Gross profit (+)/loss (−) | | 9527 | 6990 | 940 | 758 | 832 | 890 | 385 | 272 |
| Depreciation provision | | 3417 | 3138 | 217 | 203 | 428 | 400 | 72 | 47 |
| Tax provision | | — | — | 380 | 350 | 65 | 47 | 45 | 27 |
| Net profit (+)/loss (−) | | 6110 | 3852 | 343 | 205 | 339 | 443 | 266 | 198 |
| Investment allowance reserve | | 2915 | 2775 | 57 | 14 | 30 | 161 | 40 | 70 |
| Transfer to reserves | | 1573 | 58 | 140 | 45 | 107 | 80 | 152 | 96 |
| Dividend | | | | | | | | | |
| Amount | P | 78 | 78 | — | — | 24 | 24 | 2 | 2 |
| | E | 1544 | 941 | 146 | 146 | 182 | 182 | 49 | 30 |
| Rate (per cent) | P | 11 & 13.50 | 11 & 13.50 | — | — | 9.50 & 11 | 950 & 11 | 9.50 & 11 | 9.50 & 11 |
| | E | 40 | 35 | 18 | 18 | 15 | 15 | 20 | 18 |
| Cover (times) | | 3.90 | 4.01 | 2.35 | 1.40 | 1.75 | 2.32 | 5.40 | 6.53 |
| *Ratios* (per cent) | | | | | | | | | |
| Gross profit/sales | | 15,76 | 13.90 | 12.21 | 10.99 | 10.11 | 12.68 | 7.92 | 7.76 |
| Net profit/capital employed | | 24.79 | 29.66 | 17.23 | 11.43 | 10.09 | 13.20 | 26.49 | 24.75 |
| Inventories/sales | | 21.15 | 22.57 | 23.32 | 22.32 | 29.29 | 34.16 | 32.32 | 30.80 |
| Wages/sales | | 2.95 | 3.07 | 9.99 | 10.15 | 13.00 | 13.69 | 9.07 | 10.13 |

fits of modernisation and replacement scheme carried out at Ahmedabad and Patalganga. In view of the widely diversified activities of the company, its name is proposed to be changed to 'Reliance Industries'.

*BAYER (INDIA)*'s management has changed hands. B M Ghia, Jaykrishna Harivallabhdas, D B Ghia, S N Desai, F A Mehta and Rudolf Kopf resigned from the board. R P Goenka, M R Chhabria and D C Shroff were appointed as new directors on the company's board. B M Ghia also resigned as Chairman of the company. The reconstituted board elected Goenka as the new Chairman. The board has also appointed Wilfried Keller as non-retiring Technical Director in whole-time employment of the company from September 1, 1984. Harold Lange, Managing Director, has submitted his resignation from the board and from his office of Managing Directorship to take up a new assignment with the collaborator firm, Bayer of West Germany. The board has decided, after discussions with the collaborator, to relieve Lange with effect from July 31, 1985 and appoint in his place Werner Bahl as Managing Director from August 1, 1985.

During 1984, the company earned a higher gross profit of Rs 9.40 crore against Rs 7.58 crore in the previous year following increase in turnover from Rs 68.98 crore to Rs 76.96 crore. These figures show an enhancement of profit margins. After necessary provisions, the net profit amounted to Rs 3.43 crore (Rs 2.05 crore) and the unchanged 18 per cent distribution was covered 2.35 times against 1.40 times previously. These results have been obtained despite cost escalation, particularly in raw materials (+ 24 per cent), utilities (+ 17 per cent) and in personnel expenses (+ 10 per cent). These escalations could only be partly recovered from the market by increased selling prices. Better utilisation of capacities, overhead cost control and improved product-mix, however, contributed towards the increase of pre-tax earnings, and a higher investment in production plants helped to reduce tax liability. The pharmaceutical division registered a modest growth of five per cent in sales because of the government's continued restrictive policy for the pharmaceutical industry combined with inordinate delays in price revision and matters of licensing. The directors observe that the much awaited new Drug Policy did not see the light of the day. The company had applied for recognition of installed capacity in 1980 and for re-endorsement of higher capacities under the productivity year scheme of 1982 as per government notifications. Till the year end the authorities had still not re-endorsed the industrial licences. Likewise, delays in price approvals held up the launching of the new antifungal drug Canestan.

The rubber chemicals division showed an increase of 12 per cent in sales. The rubber industry faced difficulties with power cuts and communal problems curbing production in the North, while over capacities and the sluggish conditions affected the tyre industry throughout the country. Increased rubber chemicals imports also affected the division's performance. A price adjustment in the last quarter of the year as well as improved product-mix and rigid cost control helped to maintain profitability at the previous year's level. The pesticides division recorded a 14 per cent sales increase over 1983. The company improved its strong market position in agricultural pesticides. Products of household use showed an increase of 10 per cent, whereas public health sales were marginally down on account of lower purchases by the government. While the company continued to comply with the government's directive of supplying methyl parathion technical to a large number of non-associated formulators, endorsement of the established capacity in the industrial licence as per the policy announced in April 1982 was still not obtained by the year end. Strong competition amongst already established suppliers was intensified by the addition of several new producers. This made it quite difficult to pass on the entire cost escalation in time. Better plant utilisation and growth in higher added value products improved the division's profitability. The company received a letter of intent for the manufacture of 200 tonnes of methabenzthiazuron, but the management says that due to non-availability of intermediates in the domestic market the project needs to be reconsidered. Commenting on the future prospects, the new Chairman has welcomed the Union Budget and stated that it has set the stage for increased industrial and agricultural production. He feels that in this atmosphere a professionally managed company such as Bayer (India) supported by the enormous technical know-how base of the West German firm, should continue to grow.

*BARODA RAYON CORPORATION* is further diversifying and expanding its activities. The company has secured a letter of intent to set up a newsprint plant with an annual capacity of 50,000 tonnes in Ratnagiri district of Maharashtra. It has also received permission from the government to manufacture oleum 24 per cent upto 10,800 tonnes per annum within the overall licensed capacity of 21,600 tonnes per annum of sulphuric acid. Meanwhile, the plant for purification of mono ethylene glycol recovery is under construction and is likely to be commissioned by the end of the current year. The company has got a licence to raise the nylon tyre-cord capacity from 2,000 tonnes to 4,000 tonnes per annum, including the tyre fabric capacity to 3,400 tonnes per annum, and the company has taken effective steps to implement it. Arrangements for the requirement of foreign exchange loans for the import of plant and machinery and rupee term loans for setting up this high capacity have already been finalised with the financial institutions. The company hopes to start production of polyester POY (Partially Oriented Yarn) during the current year under the scheme of modernisation and that would complete the final phase of modernisation of the nylon and polyester division. The company has received a letter of intent to step up the nylon filament yarn capacity from 2,436 tonnes to 6,000 tonnes per annum. The capital goods clearance has been already obtained for importing the necessary equipments. The government has also approved the terms of foreign collaboration. Further steps are being taken to obtain foreign exchange loan from financial institutions. The company's application for increasing the licensed capacity for the manufacture of polyester filament yarn is being processed by the government. The company has turned in poor working results for 1984 with a decline in gross profit from Rs 8.90 crore to Rs 8.32 crore despite increase in turnover from Rs 70.17 crore to Rs 82.27 crore, reflecting dimunition of margins. With the provisions for depreciation and taxation requiring more, net profit has dropped from Rs 4.43 crore to Rs 3.39 crore. The unchanged dividend of 15 per cent is covered 1.75 times by earnings against 2.32 times previously. Profit margins were eroded due to steep rise in the cost of inputs, mainly on account of the high exchange rate of the US dollar required for imported materials and, consequently, higher import duty, etc. The burden of excise duty on yarn continued to remain on a high level. Besides, the liberal import policy of yarn had a depressing effect on the demand in the market. The trend of sluggish demand for rayon yarn, which had set in a couple of years ago, continued till September 1984. Thereafter, the company saw a revival in demand. The directors feel that if the present market conditions continue, the rayon division may start contributing to the profits. The nylon tyre-cord division achieved a 33 per cent higher production in the year and production in the nylon division was also higher during the last quarter of 1984. The liability arising out of the Superme Court judgment in respect of Section 80 J of Income-Tax Act alongwith other tax liabilities in respect of previous years amounting to about Rs 130 lakh have been met out of general reserve.

*RANBAXY LABORATORIES* continues to expand its activities. It has decided to set up another antiobiotic manufacturing facility in the centrally backward area of Punjab close to the existing plant. This plant is expected to be in production by the end of 1986. The addition of a fully automatic injectables unit to the Dewas formulations plant should go on stream towards the end of this year. Meanwhile, the company has received approvals for the manufacture of bulk pentazocine and bulk ibuprofen. It has made applications for the import of technology and capital goods for pentazocine. The foreign collaboration agreement for surgical dressings and bandages has been approved by the government. The company has also received a letter of intent for the manufacture of Plaster of Paris bandages based on imported technology and equipment. The company has produced good working results for 1984 even though the continued rigid price control system affected its profit margins. Sales amounted to Rs 48.58 crore against Rs 35.03 crore and gross profit was up from Rs 2.72 crore to Rs 3.85 crore. Although provisions for both depreciation and taxation took away more, net profit was Rs 2.66 crore against Rs 1.98 crore of the previous year. Dividend has been stepped up by two points to 20 per cent and is covered 5.40 times by earnings against 6.53 times previously. The directors point out an instance of "glaring injustice and unfair play" in the matter of pricing. In spite of a substantial increase in the price of bulk rifampicin from May 1984, the government has so far not granted any increase in the prices of rifampicin formulations, which has resulted in making those products highly unremunerative. While reducing the price of rifampicin formulations in December 1983, the industry was assured that the rifampicin formulation prices would be reviewed every quarter and increased if the situation so warranted. The company's new activity of animal health care products is gradually picking up. The company's efforts to increase exports achieved significant success and exports, including those to Nepal, rose to Rs 4.45 crore as against Rs 3.27 crore in 1983. The company made a beginning with the export of its bulk drugs to the developed countries in the western world and this activity is showing an encouraging trend. For its good export performance, Ranbaxy has again won an Award from the Basic Chemicals, Pharmaceuticals and Cosmetics Export Promotion Council for 1983-84. The company continues to lay emphasis on R and D. It has now decided to set up a fully equipped modern R and D Centre.

*GOODYEAR INDIA* produced during 1984 India's largest earthmover tyres. Over 8 feet tall, this massive high-tech tyre is for fitting on earthmoving machines capable of loading 85 tonnes, now being produced in the country mostly for use in coal and copper mines. Each tyre weights 1,078 kgs and has a load carrying capacity of 21,800 kgs. The tyre has a star attraction at the International Mining Machinery and Engineering Trade Fair at New Delhi. The company has recently exported these tyres to Ljubija Iron Ore Mines in Yugoslavia. The company was able to produce 7.81 lakh automotive tyres and 7.07 lakh tubes during 1974 in spite of the worst-ever power problems in Haryana, as against 6.23 lakh tyres and 4.85 lakh tubes in the previous year. Sales turnover also expanded from Rs 60.26 crore to Rs 85.83 crore, but the company had to fight a losing battle on the profits front as reflected in a trading loss of Rs 131 lakh against a gross profit of Rs 140 lakh previously. After depreciation, there was a net loss of Rs 249 lakh, forcing the directors to skip dividend which was paid at 14 per cent last year. The company was able to step up FOB value of export sales from Rs 80 lakh to Rs 316 lakh. The directors state that the company lost the equivalent of 60 days production due to power problems. Higher output per day when power was available made the increase in output possible in these circumstances. Notwithstanding the surplus production by the industry resulting in unhealthy competition and uneconomic selling prices, the company's entire production was sold. Closing inventories in fact were less than the previous year. Because of cost escalation and lower selling prices, the year's operations ended in a loss. The unusually severe power problems aggravated the cost escalation through wages for idle time, disruption in production schedules, higher waste and use of outside facilities for rubber mixing. The inflationary trend in the prices of various raw materials such as as natural rubber, SBR, rayon tyre-cord fabric, chemicals and higher fuel prices, coupled with their increased transportation cost adversely affected profitability. The company's land, buildings, railway siding and plant and machinery have been revalued based on the report of approved valuers. The net surplus arising out of the revaluation amounting to Rs 28.16 crore has been credited to Revaluation Reserve Account.

Commenting on the current year's prospects, the directors say that major investments in fixed assets made during the past two years have started yielding the expected results. Power, which had been a serious problem last year, has ceased to be so now that three diesel generators with a total capacity of approximately 8 MW have been installed and commissioned. These generators will ensure round-the-clock production at Ballabgarh and as the plant is operated seven days a week, the company has programmed production for 325 days excluding holidays and maintenance time. This will mean plant utilisation for 72 more days compared to 1984 or almost a 30 per cent higher production plus the cost benefits of uninterrupted operation. Output during the first three months point favourably in this direction. The earthmover tyre expansion project is now on stream. Moreover, several cost reduction measures initiated earlier are now in effect and the results so far are encouraging.

*ESSAR SHIPPING*, a dividend paying company engaged in shipping and offshore services is coming out with a linked issue of 50 lakh equity shares of Rs 10 each and 3 lakh 13.5 per cent secured non-convertible debentures of Rs 100 each, both at par. The applicants will have to simultaneously apply for equity share and debentures in the proportion of 50 equity shares and 3 debentures or multiples thereof. The object of the equity issue is to list its shares on the stock exchanges and of the debenture issue to augment the long term resources for working capital requirements of the company. The issue is managed by the Merchant Banking Division of SBI and J M Financial. The company has a fleet of tankers and product carriers on charter with the Indian oil industry, which are used mainly for transportation of crude oil and petroleum products from production centres around the world to the Indian refineries and for the country's coastal distribution outlets. The company's bulk carrier is on international cross-trade and the coasters are used for transportation of cargo along and around the Indian coast. The company also has a fleet of specialised offshore supply vessels (OSVs), which provide support services to the offshore activities of Oil and Natural Gas Commisssion (ONGC). It is the only Indian company in the private sector which owns a Diving Support Vessel, a highly specialised vessel utilised to inspect the underwater platforms and pipelines of the ONGC and its repairs. According to Shashi Kant Ruia, managing director, over 95 per cent of the company's turnover is from fixed time charters, which ensures regular and assured return over a long period of time and protects the company from the vagaries associated with the shipping industry. As at the end of December last, the company's paid-up capital was Rs 20.17 crore and the reserves stood at Rs 26.52 crore. Its gross assets were Rs 233.68 crore. The company earned a gross profit of Rs 14.71 crore on hire and voyage income of Rs 27.90 crore, and after depreciation made a net profit of Rs 4.71 crore. The company repeated a dividend of 20 per cent. It is one of the few shipping companies, to have consistently paid dividends for the last few years. The company is poised for further growth and looks to the future with confidence. The company is a part of the ESSAR Group engaged in diversified activities in various fields including marine and specialised civil construction, offshore construction, ship owning operations and trading activities and has tie-ups and successfully completed projects with well-known foreign collaborators, such as Brown and Root International of USA, F Selmer of Norway, Sentab of Sweden and has now tied-up with the world renowed ITT for onshore drilling in India. The trading activities involve marketing of various marine and dredging equipment, both within India and abroad. The shipping activities of the Group were carried on in the name of Eassar Bulk Carriers (EBC) since 1975. In 1983, EBC merged wth Karnataka Shipping Corporation and the name of the amalgamated company was changed to Essar Shipping.

## NEW DELHI

# Policy-Frame for Seventh Plan

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WHILE the planners in Yojana Bhavan are plodding along, putting in extra hours of work to prepare the final draft of the Seventh Plan, major economic policy innovations and initiatives are being taken by the government under the banner of liberalisation and modernisation which mock at all assumptions and priorities of the Plan. Mention must be made in this context of the new textile policy which has been at last announced and the adjustments which have been made in licensing policy for the pharmaceutical industry in advance of the promised new drug policy. There is also the report of black economy by the National Institute of Public Finance and Policy which has been released by the Union Finance Minister for the seemingly laudable objective of encouraging a public debate on it. However, it was clear from the comments of the Finance Minister at the time of releasing the report that the findings of the report and the measures proposed in it for whitewashing the black economy are very much in accord with the philosophy of liberalisation of the economy which has gained ascendancy in the government. The Minister made a point of emphasising that the government had already taken advance action in the light of the recommendations of the report for dealing with the problem of black money and the parallel economy, such as relexation of economic controls and lowering of tax rates. The Union Budget for 1985-86 and the export-import policy for the current year are replete with measures on these lines.

The report on black economy is a frank panegyric on the virtues of the free market. It makes a strong plea for curbing the "strident increases" in public expenditure which together with economic controls and high rates of taxation are condemned as the main source of generation of black money. The Finance Minister was, of course, in no position to fall in line completely with the suggestion for drastic scaling down of public expenditure in view of the decision against the cutting of the Seventh Plan public outlay of Rs 180,000 crore. But he did not hesitate to endorse the suggestion that schemes should be launched as had been done in the past for voluntary disclosure of black money by offering immunities and incentives to those willing to disclose their black money hoards. Those with black money are to be encouraged to make investments in legitimate and open economic activity without any questions being asked about the source of funds. This is a prominent recommendation of the report.

The exact form of the schemes for whitewashing black money will take time to formulate. But the Petroleum and Chemicals Ministry has found it necessary to take quick action, in advance of formulating a new drug policy, for widening opportunities for operation of FERA companies in the pharmaceutical industry. These companies have been complaining of stagnation for long and claiming their right to be treated as Indian companies after they have agreed, by and large, to dilute their foreign equity to 40 per cent. These demands have now been conceded in principle and the FERA companies now hope to do very good business in a large number of drugs on which licensing and price restrictions have been relaxed. This gesture has been made in the hope of attracting foreign firms to invest in the industry. A great deal of reliance is placed on such foreign investment for generating expansionary impulses in the economy, especially in the industrial sector.

So far as the much awaited new textile policy is concerned, its principal thrust is to revive and modernise the mill sector by improving its competitive edge against the powerlooms which have proliferated in recent years to the disadvantage especially of composite mills. But its long-term implications, the loud protestations about special safeguards for handlooms notwithstanding, can only be the enlargement of the market share of the mill and the consequent squeezing out of the vulnerable segments in the textile sector, especially the handlooms. Also in the offing, quite explicitly, is rationalisation and retrenchment of labour in all segments of the textile industry—mills, powerlooms and handlooms—as a necessary part of the modernisation which is proposed under the new policy. The emphasis has also been shifted dramatically from cotton to synthetics and blends in the name of durable cloth at cheaper prices. The leadership role in the textile sector has been decisively passed on to the mills manufacturing synthetics and blends with help of labour-saving machinery, the more sophisticated and the more labour-saving the better. Such machinery will be allowed to be liberally imported.

Combine these policy initiatives with similar earlier ones, especially in respect of electronics, computers and automobiles, inspired by the modernisation fetish and the new faith in the efficiency of private enterprise (and the corresponding fatalistic belief in the innate inefficiency of the public sector). What emerges is the essential policy-frame, for the industrial sector especially, on which the Seventh Plan will have to rest. This situation is presenting many dilemmas for the planners.

It may be mentioned in this context that the team of planners which has been assembled in Yojana Bhavan cannot be said to be homogeneous and of one mind. There is a strong current in the Planning Commission of unbounded commitment to and naive enthusiasm for the liberalisation philosophy. It has not yet become predominant and commitment to development planning with social priorities retains its foothold in Yojana Bhavan. This became evident when moves to cut the size of the public sector part of the Plan from Rs 180,000 crore to Rs 160,000 crore were not allowed to succeed. Significantly, in this context, the role of the state governments in respect of resource mobilisation effort and Plan size was very positive. In the process, the share of the states in the total public sector Plan outlay improved from less than 39 per cent earlier proposed to about 43 per cent which partially, but only partially, corrected the gross imbalances and distortions in the Plan.

When, however, the sectoral allocations proposed for the Rs 180,000 crore Plan in the public sector are taken into account, the position cannot be regarded as so comforting and positive. It is in terms of the sectoral allocations that the liberalisation thrust of the economic policy-frame fashioned by the political authority becomes explicit. Two features in this context are prominent. First, industry and minerals in the public sector have been given a raw deal. Second, allocations for rural development which are relevant to poverty alleviation have suffered badly. The up shot can only be a slowing down of investment in basic industries which come within the ambit of the public sector and the blunting of the equity thrust of the Plan. This corresponds neatly to the government's economic philosophy and policy which postulate, on the one hand, passing the leadership role in industrial development to private enterprise and, on the other, reliance on the trickle-down process for the gains of development eventually reach the vulnerable strata of society.

The pattern and quality of industrial growth in the Seventh Plan should have novel features under the industrial policy-frame which the political authority has handed down to the planners. In the total outlay of Rs 180,000 crore in the public sector, the allocation under the head Industry and Minerals is only Rs 24,000 crore. This will simply mean a freezing of development of industry and minerals in the public sector.

It is readily admitted by the planners that the allocation which has been made for industry and minerals will not permit any new start on industrial projects in the public sector. The allocation will be barely enough to complete such of the on-going projects as will be given priority—for instance, three fertiliser projects and the gas pipeline. For the rest, it is likely that even on-going projects requiring large investment, such as the Vizag steel plant, will linger on and spill over to the Eighth Plan period. Even in respect of oil refining, provision is made only for expansion of existing refineries and no new refinery is to be taken up. The launching of new industrial projects is thus proposed to fall within the ambit of private enterprise, Indian and foreign, during the Seventh Plan period.

The stringency of resources for public sector investment generally and the claim of other priority sectors, among them energy and irrigation, on available resources is not, however, the only and certainly not the most important reason advanced for reducing the share of industry and minerals in the total Plan outlay in the public sector. It is also argued that it is necessary to give higher priority to what is called consolidation rather than expansion of industrial enterprise in the public sector. Hence stress during the Seventh Plan period is proposed to be on speedy completion of on-going projects rather than on new starts. This may, on the face of it, appear to be a plausible line of reasoning. But it has implications which should not be ignored. An interruption in the launching of new projects in the public sector will mean that they will never be launched. Meanwhile, reliance will be placed either on private investment, domestic and foreign, or liberal imports for meeting whatever pressing requirements of industrial products arise in the economy.

In any case, it is further argued, investment already made in the public sector industrial undertakings has turned out to be inefficient insofar as it is not giving adequate profits. An ingenious theory of a wider amplitude has been advanced on this basis. This was articulated some time ago with considerable aplomb by a senior official in the Finance Ministry who is believed to enjoy considerable influence in the shaping of economic policy.

According to this theory, investment must be efficient and cost-effective. This is an unexceptionable principle. But advocates of the theory stretch it to demand that domestic resources should not be invested in production of goods and services which can be produced more efficiently elsewhere and can be imported. The senior official in the Finance Ministry who propounded this theory at an international seminar of economic journalists went so far as even to suggest that it was wasteful to give aid to some African countries for investment in production of foodgrains. These resources, he said, might well be used more profitably by American farmers to produce more efficiently foodgrains for the starving Africans—and presumably also Asians and all the developing countries.

If this theory is rigorously applied to India, a case can be and is indeed being made out for not investing in areas such as heavy engineering and machine-making industries, steel, non-ferrous minerals and even oil refining in which public sector enterprise has played a pioneering role during the last three decades of planned development. It can be argued and is indeed being argued that, unlike transport and communication systems and power which cannot be imported, it is more efficient for India to import steel and metals, petroleum products and machines and capital goods of all kinds. It can, therefore, be demanded and is in fact being demanded that further investment in the public sector in these areas should be slowed down, if not halted altogether, in order to derive the advantages of the so-called efficiency of foreign enterprise in these areas. One is reminded in this context of the steel *versus* foodgrain's controversy when the Second Five-Year Plan was formulated.

It should not be easy to sell this line of reasoning in India which has made significant progress in industrialisation largely through a vigorous strategy of import-substitution, above all in the public sector, in the field of engineering, ferrous and non-ferrous metals and oil production and refining. But the din that has been raised by vested interests in recent years about what is alleged to be inefficient import-substitution, especially in the public sector, appears to have resulted in weakening the will of the political authority to maintain the advance on the road to self-reliant, self-sustaining industrial growth with investment in the public sector playing a commanding role in the process. The Seventh Plan, it appears, is designed to bring about a marked and decisive deflection from that path.

This indeed is the message of the relatively small outlay in the public sector on industry and minerals in the Seventh Plan. This is only emphasised by the policy adjustments on a wide front for opening the doors for private enterprise, Indian and foreign, to enter areas hitherto reserved for the public sector under the Industrial Policy Resolution of 1956 which was adopted by the government when a planned effort for rapid industrialisation was launched. A series of measures have been taken and fiscal concessions and other incentives have been given in rapid succession to enable private enterprise to take over the leadership role in the industrial development process.

The position is going to aggravate further as the associated theory in the name of improving the competitive quality of Indian industry as a whole—in the private as well as public sector—for opening Indian market to competitive imports is equally rigorously applied. The first steps in this direction have been taken by the sharp cut in customs duty and lowering of fiscal and other barriers—more markedly for imports of technology and capital goods. The cut in customs duties on import of capital goods is indeed quite remarkable. Combined with turnkey construction and management of new projects in the hands of foreign consultancy and engineering firms, the flood-gates will be opened for large-scale entry of foreign supplies backed by generous credit to overwhelm indigeneous production, especially of capital goods. As a planner apprehends, under the new policy dispensation, sickness will rapidly spread and deepen in the capital goods industry in the public sector and destroy the sinews of self-reliant industrialisation. If HEC and MAMC suffered in the past because of slow down of the steel and coal expansion programmes and reliance on turnkey arrangements in these sectors, the same fate will now befall BHEL and the machine tool industry in the public sector.

A significant issue to be also faced in the context of the shifts in policy on industrial development is the ability and willingness of private enterprise, Indian or foreign, to invest in basic industries and establish capacities for self-reliant and self-sustaining growth and modernisation. By its very nature, private enterprise is guided by profit-maximisation and is not concerned with any national or social priorities of a long-range nature. Indian private enterprise in particular is in no position, for historical as well socio-economic reasons, to muster either the will or the resources for taking up large, long-gestating industrial projects, let alone play a leadership role on a sustained basis in the industrial development process. Its role can only be to take advantage of whatever infrastructural facilities, including capacities for manufacture of capital and intermediate goods which have been built up in the public sector, to cater effective demand in the domestic market (as well as in the global market through subsidised exports) largely by entering into collaboration arrangements with foreign capital, especially the multinational corporations, as the junior partner. The result will not be industrialisation on a firm economic foundation and a broad social base. Important in this context is the shift in priorities in industrial investment towards private transport and entertainment electronics.

With the proposed slow down of public investment for the development of basic and intermediate industries in the Seventh Plan, it will logically follow at the present stage of India's socio-economic development that those who advocate dependence on supposedly more efficient producers of capital and intermediate goods elsewhere will have a decisive say in the further evolution and refinement of economic policies. The Seventh Plan essentially marks the rejection of the Mahalanobis model on which the industrial development effort launched by the Second Five-Year Plan was based. Neo-colonial approaches and solutions of socio-economic problems which have emerged in the framing of the Seventh Plan are bound in due course to gain absolute ascendancy within the political establishment.

The sectoral allocations proposed in the Seventh Plan appear to fully confirm these ominous trends. But the result of this will not be, as is fondly hoped, a return to the peasant paradise such as Charan Singh hopes for when he tilts against investment in industry, but ruthless neo-colonial exploitation of the Indian economy and people. Only a thin upper stratum of the population will share a small part of the loot in this dispensation in the name of modernisation and rushing towards the 21st century.

## ANDHRA PRADESH

# Over to the Police

## New Spate of 'Encounter' Killings

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THE sky is hot, the wind is hot, and the brown barren earth is baked hot; only the *babul* with its black bark and jade green crown stands out against the white heat of May. The dust road meanders through the deserted villages of Vemulawada whose mud walls implore you to 'Vote for Y Kasipati, CPI-ML candidate, on the Spade symbol'. But the houses and streets are so palpably empty that you would be justified in thinking that the ghosts have written the graffiti, if you did not know that the elections were over in March and this was May.

No, not all the people have been driven away by the police. Some have, but the others have a more natural reason for being away. This is summer, and summer is the season for travel. For the landed and the propertied it is the time between the second crop and the next season, and so the time for visiting gods and kinsfolk; it is the season of marriages too, by the almanac of an agrarian society. For the poor and the labouring, it is the time to go out in search of work, for they have saved nothing from the kharif and rabi seasons and if they don't find work elsewhere then they will starve. Some of them have moved to neighbouring villages to deepen the wells of the landed classes for the summer crop; some have gone farther to the sites of projects and canals; some, the younger, and more enthusiastic among them, have gone all the way to Bombay to work on the powerlooms of Bhiwandi or in the mills of the city, for there is a steady emigration from Karimnagar to the city of Shiv Sena. The more reckless among them will travel by the 'semi-luxury' bus run daily between Jagtial and Bombay by the State Road Transport Corporation; and the more prudent of the lot you will find queuing up at Kazipet railway junction buying tickets by the Minar Express to Kalyan or Dadar. You will recognise them easily for they travel in unkempt droves and buy their tickets with soiled wads of notes. Of these youthful emigres, the more outrageously ambitious have a further design. They have begged and borrowed a few thousand rupees and they hope that from Bombay they will bribe and buy their way to the Promised Land of Indigent Indians, referred to with varying degrees of inaccuracy as the Arab countries, the Gulf countries, the Oil countries, or just 'Muscat-Dubai' as in Karimnagar. They hope to go there and stay for a couple of years and earn not only their keep but enough extra to buy those three acres of land that will make all the difference between a hand-to-mouth existence and passable comfort. In many cases, the brokers—most of them local landlords—will swindle them of all their money before they leave the shores of Bombay; even if they manage to reach the magic land of Oil, in most cases they will come back with just enough money to settle the high-interest debt contracted for the purpose, the only extra being some outlandish memento like a vacuum-cleaner which the bemused mother or wife back home will preserve as a precious *Object d'Art* . And the few who do manage to come back with substantial surpluses will discover that the landlords—who are the only ones with land to sell—have inflated the price of land, and the effort has not been worth the candle.

Tadu Rajaiah and Vuppala Lakshmirajam were two such 'ambitious' youth, of Venkatraopet in Vemulawada taluka. Rajaiah was the son of a peasant with two and a half acres of land and Lakshmirajam's was a landless family that cultivated one and a half acres on lease. The two of them had borrowed money in bits and pieces of a hundred or two from each of a large number of creditors, and had by this means accumulated quite handsome amounts. Lakshmirajam had collected Rs 12,000 and Rajaiah Rs 25,000. That poor peasants could raise such amounts is an indication of how profitable the business of lending money to Muscat-Dubai ventures is. But it is one thing to get money and quite another to get a job and a passport. For this, they had been hanging around their brokers in Bombay for the last three years and had perhaps spent much of their money.

At the beginning of this summer they got letters from home asking them to come back and help in harvesting the crop. Rajaiah came back on the March 10, and Lakshmirajam on the April 6. They were both killed by the police on the night of April 10, along with three others.

The police describe the killing as an 'encounter'. According to Shareif, CI of Police of Vemulawada (and please listen) on the night of April 10 he came to know of the presence of an armed squad of extremists camping at the boundary of Venkatraopet and Kondapur. He went there with a party of policemen including SI of police Francis of Vemulawada and SI of police Veeraswamy of Gambhirraopet. As they approached, the extremists got up and threw bombs at them. The policemen identified themselves and asked them to please stop throwing bombs. They, however, continued to throw bombs. The policemen again repeated their courteous admonitions. This time the brazen lot threw grenades at them and fired with rifles. Unable to tolerate this impudence any further the policemen took position and fired at the extremists. They went on firing till they felt sure that the threat to their lives was overcome and then stopped firing and went over to the spot where the extremists had assaulted them from; and lo and behold! All the five naxalites were stone dead. Such marksmanship at 2 am of a moonless night must excite the admiration of the worst critics of the Indian police.

What really happened was much less heroic. That night Rajaiah and Lakshmirajam went to the fields to guard their half harvested crop. In the fields they met three activists, Raghupathi, Sathaiah and Gangaiah. The five of them—and an unidentified sixth person—sat and talked till late in the night. Perhaps they talked of the way the police had ravaged these villages during the last two elections to prevent people from voting for the CPI-ML candidate; perhaps they talked of Sathamma of Samudralingapuram who was raped on the night of January 13 by the policemen of Mustabad and Gambhirraopet police stations; or perhaps—as is most likely—they talked of the swindling brokers who are making piles of money from the Gulf emigration business.

They slept at an open spot on the ridge-like elevation separating Venkatraopet from Kondapur. They were awakened by policemen prodding them on the chest with rifle-butts. The policemen tied their hands behind their backs. They then held a brief consultation and decided to finish them off. They fired at them with sten guns. Lakshmirajam and the unknown sixth person managed to break out and run away. Lakshmirajam was chased and gunned down by the police but the sixth person escaped in a severely wounded condition. It was when he met some reporters of *Indian Express, Andhra Prabha* and *Udayam* and revealed the facts to them that the truth came out. It was published widely in the Press, and caused widespread revulsion in the public. But predictably, not only did the police feel no sense of shame, they even had the gumption to summon the editors of these newspapers to present themselves before the CI of Sirsilla (the officer who issued the summons) and give information about the escaped 'extremist'. The remarkable aspect of the entire episode is that the Chief Minister did not even make face-saving noises—as one would normally expect him to do—at any point of this scandalous affair. Instead he has maintained a stubborn silence and his Home Minister dismissed it casually as a 'routine affair' unworthy of the fuss the Press was making.

### THE BEGINNING

This sensational killing was only the most widely publicised of the 'encounters' committed at the behest of N T Rama Rao's government this year. It was neither the first nor the last. The first took place on January 21 at Pochampalli (under Pembatla gram panchayat) in Jagtial taluka of Karimnagar district. The victim was 35 year old Khairi Gangaram, a person described by the police as a 'terror'. However, there is no record that he was a terror to anybody other than the notorious Velama landlords of Jagtial. Nobody (excepting the police) as yet knows exactly how Gangaram was killed. The police version (as usual) is that he died in a shoot-out, and notwithstanding his reputation as a 'terror', no damage of consequence was done to the police officer who 'encountered' him. The closest one can get to the truth is that he was talking to some people in a house in the village that day at about 11 am, when news came that the police had come to the village scenting his presence. The persons he was talking to left in a hurry, and he bolted himself inside the house. The police officer came to the house and asked him to open the door and come out. He refused, saying that he feared he would be killed. The Inspector is then believed to have climbed on to the roof, pulled off a couple of tiles, and shot down Gangaram. Whether Gangaram returned fire at the roof, and if so with what material effect, is not known. Those who believe that a police officer would be incapable of such feats may be told that the police of Karimnagar have long-standing expertise in the matter. Over the last couple of years, they must have pulled down the roofs—to the last tile and the last bit of thatching—of at least 200 houses.

The second killing took place on March 28. The locale this time was a tribal (Koya) hamlet of 40 huts by name Veerabhadraram in Bhadrachalam taluka of Khammam district. Bhadrachalam is a temple town located on the northern banks of the Godavari. Northwards from the town the road goes into a wide expanse of deforested plains populated by forcibly peasantised Koyas and caste-Hindu landholders who have made a lucrative business of growing tobacco. The law, of course, says that the non-tribal landholders should not be there, but they are there nevertheless. Indeed, Bhadrachalam, a very holy place for the Telugu people, should actually not be in existence if the law reflected reality. Every inch of the town (including the temple and the God) is owned by non-tribals, though they may have no papers to show for it. As with the ancient Dharmasutras so with the modern law of this country, the dictates reflect more the hopes of the law-makers than any substantial reality; and they are meant to be chanted, not practised.

Arsepalli Venkateswara Rao alias Chandranna was the activist who was killed in this 'encounter'. He appears to have been quite popular with the tribals and the youth of this area. Indeed, after his killing it was the CPI youth (who normally have little love for the naxalites) who insisted on covering his body with a red flag—but the police would not allow it. Anyway, he was not well for some days before his killing. On March 28 he reached Veerabhadraram at about noon, and went to the house of a Koya by name Matta Lakshmaiah. This 'house', properly described, consists of one big hut and one small hut, neither of them possessing even mud walls. Chandranna lay himself down in the smaller of the two huts. He had an appointment there with an excise contractor. The police—acting upon information provided by the contractor—came into the village. They apparently divided into two or more groups and fanned out in search of Chandranna. One group came to Lakshmaiah's house. Seeing them, Chandranna got up and ran. Lakshmaiah's wife Chinnakka says that he had a bag with him but did not take out any weapon from it. The police chased him and fired at him from behind but missed; but about 200 yards from the house another group of policemen coming from the front fired directly at him and killed him instantly. He had one bullet wound in the chest and one in the forehead. Unlike in some other cases, the police did not even claim that any policeman was even injured in this 'encounter'. They merely called in a doctor from Bhadrachalam to do the post-mortem at the spot of killing (the post-mortem is always done at the spot of killing, and never in a properly equipped hospital), then they themselves cremated the dead body (which is again their routine practice), and finally set up an armed police camp in the hamlet to seal it off from the outside world.

### MAY DAY

The third was the Venkatraopet killing that we described in the beginning. One would have thought that the shame of it would have stayed the hands of any civilised government; but no. The fourth one took place within twenty days, on the first of May, this time in Nizamabad district. The village is Baswapur, Domakonda taluka, located on the Seventh National Highway, 20 kms short of the taluk town of Kamareddy as one goes from Hyderabad. The village is to the right of the Highway and the spot of killing in the fields to the left, beyond the metre-gauge railway line that joins Hyderabad to Nizamabad and onwards to Parbhani and Manmad in Maharashtra. Four activists were sitting under a mango tree, and the fifth, a young lad by name Babu of Muthyampet village, had gone to a nearby well to fetch water. Babu had joined the activists only *one* day before, and was by no means a 'wanted extremist' as claimed by the police. The police (an anti-naxalite squad) came to the spot. The time must have been around 2 o'clock in the afternoon. The police are said to have received information either from the toddy contractor of the village or the Sarpanch (who is also the Tendu contractor); these persons had, at any rate, adequate reason for informing the police, since the struggle in the village had been for the reduction of the price of toddy from one rupee per bottle to 50 paise; and increase in the wages paid for picking Tendu leaf from 11 paise to 20 paise per bundle of 100 leaves. In any case, the police did come, and a shepherd boy who saw them first called out to the activists to save themselves. Babu lifted his head, saw the police, and ran towards the mango tree. The police fired, hit him in the back, and he fell down near the mango tree. The other activists ran away, but the police chased them and fired at them. One activist, Rajanarsu, fell down. The others turned back, fired at the police, injured a constable in the shoulder, and saved themselves by running away. This, incidentally, is the only 'encounter' where a policeman was at least injured.

What happened subsequently is quite macabre. It is not known whether Rajanarsu died immediately, but Babu certainly did *not*. He was injured in the back but was alive and fully conscious. The police tied his hands behind the back with his own clothes, and called out to two peasants in nearby fields, who were watching the drama. One of them was Siddaramulu, who was getting the motor of his irrigation well repaired, a hundred metres away; and the other was Pundarikam, who was closer by and had a detailed view of the entire affair. Upon order from the police, Siddaramulu brought water and gave it to Babu, who drank it and started answering the policemen's questions. The policemen then asked Siddaramulu to go and see whether the other injured person, Rajanarsu, was alive or dead. He refused, and was told to make himself scarce. Pundarikam was kept with the police until the inquest, the post-mortem and the cremation were over by the next evening. Only he, when he decides to open up (he refuses to talk to anyone at present) knows how Babu died: Did he slowly bleed to death, or did the police kill him deliberately after interrogating him?

On the night of May 6 there took place,

again in Karimnagar district, an 'encounter' comparable in its brazenness with the Venkatraopet killing. The village was Bommireddypalli, in Sultanabad taluk, about 40 kms towards the Godavari river from Karimnagar town. The victims were Siddaiah, a naxalite activist, and Panuganti Rajalingu, a 30-year old peasant with three acres of land. Rajalingu was neither a naxalite, nor even an active associate of the naxalites. The event that entangled him in the state's widespread net is typical of the medieval way in which Karimnagar has modernised itself during the last decade.

It is not often realised that in feudal societies, theiving—as much as whoring—is an important activity organised by the landlord class. The feudals of Telengana, as late as the 1940s, were famous for organising gangs of theives to go around looting villages. It served, as far as one can see on the face of it, two purposes; one, to augment the landlords' loot; and two, to keep their private thugs in money and out of mischief when their services were not needed by the master. It is obviously a remnant of the time when feudatories maintained armies which fought for the king when he needed, and otherwise kept themselves in money by looting the people. With the beginning of the modernisation of Karimnagar, the landlords have started organising a modern version of this activity. They encourage gangs and private theives to steal the vital parts of agricultural machinery—irrigation motors, tractors, diesel, etc—and sell the loot in shady spare parts shops in Karimnagar or Jagtial town. One major activity of the peasant movement of Karimnagar has been to prevent and expose this organised theiving. Thus it happened that when somebody stole the belt of Rajalingu's irrigation motor, he reported the matter, not to the police but to 'the Party', as they say; 'the Party' apparently managed to discover that it had been stolen by somebody from a village by name Pathipaka Narsingapuram; they recovered the belt and Siddaiah went to Bommireddypalli on June 6 to return it to Rajalingu. The latter, out of sheer gratitude, asked Siddaiah to have food with him and sleep in his house. They had food, but it was not clear whether Siddaiah slept in Rajalingu's house or went out and slept somewhere else in the village. According to Chandramma, Rajalingu's wife, who has however been properly terrorised by the police, Siddaiah went out to sleep somewhere else, while she slept in front of the house and her husband by the side of the house. At night the police, led by SI Khaja Mohiuddin of Dharmaram police station, came to the village. They stepped over the sleeping Chandramma and arrested her husband and took him away. 'They will keep him till they find Siddaiah' she says she told herself, for every peasant in Karimnagar who has ever given food to a naxalite activist knows that he may be picked up any day and kept hostage (and tortured, of course) until the activist is found. But she did not reckon with the possibility that he may be killed. Either with or without the aid of Rajalingu the police located Siddaiah within a short time. Chandramma pretends that she was fast asleep and therefore ('since a sleeping person is like a dead person', she repeats woodenly) did not know what happened, but at the same time bursts out to say that the police tied both men to a tamarind tree and killed them. And she even points to the tree, which is just about 50 yards behind her house. The next morning, at 8 a m, the police came and told Chandramma that her husband had died; after the inquest was over, and the post-mortem was done at the spot of the killing, the police handed over Rajalingu's body to Chandramma (a very rare gesture, apparently prompted by some sedimentary residue of human feeling) and themselves cremated Siddaiah's body near the tamarind tree which was witness to the killing.

Exactly a week later, and this time in Adilabad, there was the next 'encounter'. The day was May 13 and the village Lodvelli in Sirpur taluka. The papers of May 15 carried confused reports of an armed confrontation between the police and naxalites in which one police officer said two and another said three extremists were killed. The SP of the district clarified a couple of days later that it was only two.

There was cause enough for the confusion. Late in the evening of 13th a large number of activists entered the village. They went to a hut near a dried up rivulet outside the village. Near the hut there is a *kallam*, the collection spot for Tendu leaf, where the people bring the Tendu leaf and the contractor's man (the *kalledar*) collects it. Since the Tendu season was as yet not over, there were some villagers at the *kallam*. Of the activists, three sat inside the hut, and the rest stood outside, talking to the people. The time must have been about 9 p m. A police party came and shone their torchlight; the activists outside the hut asked them to put it off, upon which the police identified themselves and asked the activists to put up their hands. Those who were standing outside the hut then ran away. The police first shot blindly with sten guns into the hut, injuring two of the three sitting inside—Puli Madhunaiah and Ankoli Ramesh. They then fruitlessly chased those who had run away, and came back. To be on the 'safe side' they again fired into the hut. The third person inside the hut suddenly emerged and ran out. The police fired at him as he ran, and were not very sure whether they hit him or not. That was the reason why they were not sure whether they had killed two or three.

## APPOINTMENTS

**INSTITUTE OF ECONOMIC GROWTH**

University Enclave,
Delhi - 110 007.

Applications are invited for Fellowships in Economics for pursuing PhD Degree of the University of Delhi. The Fellowships are in the areas: (a) Agricultural Economics (b) Investment Planning and Project Evaluation and (c) Money, trade, income and employment. The award is subject to the candidate's securing admission to PhD of the University of Delhi.

**Qualifications:** Consistently good academic record with a First or High Second Class MA Degree in Economics with Statistics and/or Econometrics as special subjects. Candidates with M Phil and/or Research experience will be preferred.

The fellowships are initially for a period of one year. These fellowships are tenable for a maximum of four years subject to satisfactory progress. The present rate of fellowship is Rs 600 per month for the first two years and Rs 700 per month for the next two years with a fixed contingency grant of Rs 3,000 per annum. These rates are likely to be enhanced.

Applications with full details (date of birth, qualifications with class and percentage of marks at the graduate and post graduate levels, papers offered, University and research experience, if any among others) indicating the area of their choice in order of preference accompanied **by a typed research proposal in any one of the areas** not exceeding 10 pages should reach the Director on or before 31st July, 1985. The envelope should be marked "Application for PhD Fellowship"

**Director**

There is a tail-piece to the story. Releasing their story to the press, the police said that in addition to the impressive haul of dangerous-looking weapons which they always claim to find with dead naxalites (though the naxalites appear to be singularly incapable of using the arms they have accumulated), this time they also found Rs 75,000 in cash. It was learnt later that the activists actually had Rs 2.5 lakh of their Party funds with them. The police, apparently, decided to disclose only Rs 75,000 and keep the rest. This, once again, is not an exceptional gain, for the police—especially in Karimnagar—have made handsome profits out of this business of 'suppressing extremists'. Excise contractors make regular monthly payments to them, and landlords as and when need arises. Another method of making money is to get hold of dozens of poor peasants, put them in lock-up, and demand money for their release. Most of the police inspectors of Karimnagar have made lakhs of rupees in this manner.

## RASH OF 'ENCOUNTERS'

In the last week of May there was a sudden rash of encounters. One on the 26th, one on the night of 27th, and one on 28th. The first was at Chinanakkalapet under Dharmapuri police station limits in Jagtial taluka. The victim was G Narayana. The only details known are that Narayana and another activist were conducting an arbitration in the village at about 1 p m of that day. A police party came, and the people as well as the activists ran away. The police chased them; the other activist ran away but Narayana got killed.

More details have become public regarding the next killing, at Narsapur in Warangal district. Indeed, the police would perhaps wish that so many were not known, for the event has led to a lot of unsavoury publicity for them. The police story is that on the evening of May 27 they came to know that a group of 'underground extremists' were having a meeting at the outskirts of Narsapur. A police party led by the SI of Mulug is said to have gone there and had the usual 'exchange of fire' with the extremists, as a consequence of which two of the latter, Pingli Bhupati Reddy and Kavatam Saraiah, died. The true story is quite different. Firstly, Saraiah was by no means an 'underground extremist' as claimed by the police—he was regularly attending court in the few cases in which he was accused. On the morning of May 27 he came to Warangal town, to the house of his advocate P Prabhakara Reddy. The advocate handed him the keys to his house, and went with his wife to Hyderabad by a mid-day train. Saraiah was alone at the advocate's house till 10 p m in the night. At that time Bhupati Reddy came there. He told two or three persons he met on the way that he was going to his advocate's house, and his younger brother Raghupati Reddy accompanied him upto the house. He and Saraiah cooked food for themselves, but before they could eat, the police came (at about 10.30 pm) and arrested them. They were taken in a jeep 54 kms to Narsapur, then taken one km further from the village to a spot that could look like a jungle in a smudged photograph, and gunned down. The only reason for the choice of Narsapur appears to be that it is the closest place from Mulug police station (the station that made the catch) which looks somewhat like a forest. The police, for some reason of psychology or propaganda, always choose a spot that can be described as a forest when they decide to kill a naxalite after arresting him. Perhaps it gives them a feeling of having been heroic.

The next day they brought a doctor from Mulug to perform the post-mortem on the spot, and after putting the bodies on the funeral pyre, allowed the father of Bhupati Reddy and the wife of Saraiah to have a look at the faces of the dead men before cremating them. Typically, they paid a measly amount to the cremators and the bodies lay there half-burnt for long afterwards.

May 28 saw an 'encounter' at Jagtial that contains the essence of all that is lawless about these killings. The newspapers carried two stories, both supposedly released by the police. According to one version, there was a 'suspicious person' in a house on the outskirts of Jagtial town. The police went there and asked him to come out; whereupon he dashed out and got onto a motor cycle and rode away. But even as he rode he turned back and fired upon the police (in the manner of some Puranic heroes who could shoot arrows backwards), and the police, to save their lives, fired at him and killed him. In the second version there is no motor cycle but he merely ran and fired back. The police identified the victim as Pavan Kumar, and even claimed that they found upon him a service revolver allegedly stolen from an Inspector by the naxalites last year at a village by name Gattubuthkur. A couple of days later it transpired that there was some confusion regarding his identity, and exactly a week later the District Magistrate and Collector of Karimnagar announced that there would be a magisterial enquiry into the death at Jagtial of an 'unknown naxalite'. It does not seem to have struck anybody as quaint that the victim should be identified as a naxalite even before he could be identified by name. (But stranger things have happened in this state that has lent the term 'encounter' to the lexicon of state terrorism; in year 1981 there was the death in an 'encounter' in Nalgonda district of a person described as "an unknown naxalite belonging to the Re-Organisaing Committee of CPI-ML, which is surely a more uncanny performance.)

What really happened that day at Jagtial was this: the victim's name was Govinda Reddy, and he belonged to Nizamabad. Indeed, he was originally of Chitradurga district in Karnataka and after working and resigning from the Indian Air Force, and later working as a hotel manager at Nizamabad and resigning from that post too, he joined the naxalites. The police would find it terribly embarrassing to connect him with the revolver-snatching incident at Gattubuthkur. He was staying at a house at one end of Jagtial town that morning, and had sent a boy to fetch him cigarettes. The police got suspicious of the boy buying cigarettes and went with him to the house, where they found Govinda Reddy. They caught him, took him out on to the Dharmapuri road, and killed him. It was after killing him that they tried to give him a name, and perhaps by some facial resemblance decided that he must be Pavan Kumar. The Gattubuthkur revolver was added on to lend a touch of 'investigation', which has later turned out to be embarrassing.

## CONCLUSION

Somebody is bound to ask why all this is happening. The shortest answer is that N T Rama Rao wants it to happen. It is no accident at all that barring the first of these killings all the rest took place after his resounding victory in the recent Assembly elections. The victory, against the odds set by Bhaskara Rao's defection and the split in his party, has given him the kind of confidence he needs to indulge in such killings. Indeed, not only the killing of naxalite activists and their sympathisers, but much worse is apparently in store. The papers of June 11 carried a news item that the state government would use the Central government's Terrorist and Disruptive Activities (Prevention) Act, and further (with due regard for democratisation of Centre-State relations) would enact its own Terrorist Act to be used alongside the Central Act. Terrorism is to be defined, as in the Central Act, as an act of violence perpetrated with the intention of terrorising the public or threatening or overawing the state or any public servant, but with the novel definition of 'public servant' to include anybody who aids the police, that is to say the professional informers and stock witnesses whom the police employ the world over in the execution of their duties. In addition, the Act would designate certain organisations as 'front organisations of naxalites' (this provision is apparently aimed at civil liberties organisations); and it would give the police the power to declare (as and when occasion arises) certain areas in the state as 'prohibited zones' where the designated organisations would not be allowed to enter. The movitation for this peculiar provision is obvious: the police will kill somebody in an 'encounter' and then declare that the area is a prohibited zone for civil liberties organisations, so that nobody can know what really happened in the 'encounter'.

On the same day that this news item appeared in the papers, a civil liberties delegation led by George Fernandes, General Secretary of Janata Party, met NTR and asked him about the report. He put on the best histrionic performance of his career, and denied all knowledge of the Bill. But a few days later he told pressmen that he intended to introduce it. One has to wait till the monsoon session of the Assembly to know whether and what shape the Bill will take.

## MAHARASHTRA

# Adivasis, Law and Social Justice

**Sharad Kulkarni**

THE Maharashtra Restoration of Lands to Scheduled Tribes Act is a unique piece of legislation as an attempt to extend social justice through the resotration of legally alienated lands to Adivasis in the state. The Act, like every attempt at social justice, was challenged in the courts. Some social scientists described it as an attempt to weaken the foundations of democracy. The Bill took a long time to receive the President's assent. At last, a three-member bench of the Supreme Court has, in an unique judgment, rejected all the objections raised against it. The ball is now in the court of the Government of Maharashtra and it is to be seen if it has the political will to implement it against the vested interests of the non-Adivasi landlords who are the main supporters of the ruling party. The entire episode highlights the obstacles to any attempt at social justice and needs to be described in detail right from the beginning.

The process of taking over the lands held by Adivasis through force and fraud began with the stabilisation of British rule in Maharashtra. The process was accelerated by the development of transport, establishment of individual rights over agricultural lands, commercialisation of agriculture and the spread of the English judicial system. After Independence, it was further accelerated by the rise in land values, increase in population and other factors.[1]

### ANTI-ALIENATION MOVEMENTS

Most of the Adivasis in Maharashtra, as everywhere in the country, are small farmers and agricultural labourers. The large-scale alienation of lands, mostly through force and fraud, created resentment and unrest which in turn generated anti-alienation movements led by Ambarsing Suratwanti and others in Dhule district and Kaluram Dodhade and others in Thane district.[2] Questions were also raised in the legislature.

The Government of Maharashtra appointed a committee on March 16, 1971 to examine the difficulties experienced by Scheduled Tribes landholders/cultivators in respect of their lands in the working of certain provisions of the land revenue laws, tenancy laws, Consolidation of Holdings Act, etc, and to make recommendations to the government as to how best their interest could be safeguarded. (Government Resolution, No REV 1070/62448/C dated March 16, 1971.) H G Vartak, the then Minister for Revenue, was appointed chairman of the Committee. The Committee did full justice to its task, and submitted its report to the government on April 7, 1972. It is clear from the report that the Committee reviewed the effects of several laws relating to agricultural lands on Adivasi landholders.

The Committee found that the protection given under the existing legal provisions to Adivasi landholders was not adequate. There were numerous cases of transfer of Adivasi occupancies in clear violation of laws. There were also numerous cases of transfers effected by taking advantage of loopholes in the existing laws. For example, in some cases the lands were first allowed to be leased out to non-Adivasis by the Collector or Sub-Divisional Officer on the ground that the tribal landholders were sick and unable to cultivate the lands. Medical certificates were also produced. After obtaining the lease, the non-Adivasi tenants applied to the tenancy court for getting the price of the land fixed as they became deemed purchasers under the tenancy law. Thus very clever misuse was made by the non-Adivasi rich to get hold of lands held by Adivasis. The Committee found 28 cases of these types n Nandurbar tehsil of Dhule district alone.

Under the then (that is before the amendment of 1974) existing provisions of sub-section 2 of the Section 36 of the Maharashtra Land Revenue Code (41 of 1966), occupancies held by the Adivasis were not transferable except with the previous sanction of the Collector. The Committee found that such permission to transfer occupancies was "given by the Collectors rather freely".

The Committee made two recommendations. The first was to make a law to provide for strict prohibition of transfer of lands held by Adivasis to non-Adivasis and also to provide for the restoration of lands alienated in violation of the existing legal provisions. The second was to enact a special law for the restoration of lands transferred under several provisions of law.

The government took two years to implement the recommendations of the Committee. The government issued an Ordinance called the Maharashtra Land Revenue Code and Tenancy Laws (Amendment) Ordinance, 1974, on July 6, 1974 to prohibit the transfer of lands held by Adivasis to non-Adivasis and restore lands transferred in contravention of legal provisions (Maharashtra Ordinance 13 of 1974).

The Ordinance was duly presented to the legislature and became an Act (Act 35/1974). The Act made several provisions to restrict the transfer of lands held by Adivasis. It also laid down that transfers in contravention of these provisions would be invalid. The Act also made important provisions to restore lands transferred to non-Adivasis in contravention of laws in force to the original Adivasi landholders. On the whole, the Act has been implemented properly.[3]

### THE ACT

To implement the second recommendation of the Committee to make a law to restore the lands alienated under the laws in force, the Government of Maharashtra introduced a bill in the Assembly on August 23, 1974 under the title "bill to provide for the restoration of certain lands to persons belonging to the Scheduled Tribes" (Assembly Bill 81 of 1974). It was mentioned in the preamble to the Bill that the government, after considering the recommendations of the Committee, felt that "steps should be taken *forthwith* for restoring certain lands to persons belonging to Scheduled Tribes" (emphasis added). The Bill was passed by the Assembly on August 30, 1974. It was introduced and passed in the Legislative Council on September 3, 1974.[4]

The radical nature of the Bill was emphasised by the Revenue Minister H G Vartak who moved the Bill in the Council. In his speech he pointed out that the Bill was a major part of the attempt of the state government to promote social justice. It sought to restore at a small price legally alienated Adivasis' lands. The government would do its best to restore lands to the Adivasis. If necessary, special officers would be appointed to implement it. The Minister regretted that newspapers had not given enough publicity to it. The government would try to give the provisions of the Bill wide publicity.[5]

However, it appears that the anxiety of the Government of Maharashtra to take steps forthwith for restoring certain lands belonging to the Adivasis did not receive a prompt response from the Government of India. The bill received the assent of the President after a number of months on April 28, 1975 and that too after the issue had been raised in newspapers.[6]

A notification was issued and the Act came into force on November 1, 1975 (Act 14, 1975). Later on the Act was included in the 9th schedule of the Constitution of India to ensure that it was not challenged for violating the right to property. (Constitution of India (40th Amendment) Act, 1976.)

This, however, did not save it from being challenged under other articles of the Constitution. Stay orders against the implementation of the Act were issued by the High Court and the Supreme Court.

One can understand the resentment of the non-Adivasi landholders who were likely to lose their occupancies because of the Act. It is, however, surprising to find two social scientists from the Tata Institute of Social Sciences calling the Act an attempt to weaken the foundation of democracy. A National Seminar on Land Alienation and Land Restoration in Tribal Areas was organised by the Tata Institute of Social Sciences at Bombay in June 1976. It was attended by officers of the rank of Collector and above. The papers submitted to this seminar have been published under the editorship of S N Dubey and Ratna Murdia of the Institute.[7] A critical review of the papers has also been published.[8]

One of the papers in the book dealing with the problem of land alienation in Maharashtra is based on analysis of data specially collected for the purpose by Dubey and Murdia, the organisers of the seminar and the editors of the book. The quality of the paper has beeen discussed in the author's review of this book and these comments need not be repeated here.[9] What needs discussion is the attitude of social scientists towards the Restoration Act and their comments on it. Dubey and Murdia write that "the existing land enactments protecting the interests of the tribals in the state raise an *issue of unfair and inequitable treatment to non-tribal transferees*" (p 52, emphasis added). They have raised two objections to the Ordinance issued on July 6, 1974. The first is that " the Ordinance provides for the restoration of the *illegally* transferred lands to the tribals *without compensation* for any expenditure incurred by the non-tribal transferees on the development of such lands" (p 52, emphasis added). Dubey and Murdia have apparently not taken a note of the words *illegally transferred*. No one can claim compensation for the improvements on land *illegally* occupied. On the contrary compensation should be provided to the original landholders for the period of illegal occupancy of these lands. The contention that "if these lands are taken away from them *without payment for these and other improvements, this would be unfair and inequitable*" cannot be called fair (p 53, emphasis added).

The authors also lament that "the Ordinance does not provide for the repayment of any portion of the loan against which the land was mortaged or sold to the non-tribal as a part of the restoration deal". The authors fail to understand that the restoration under the Ordinance is limited only to illegally transferred lands. No law can take note of any invalid loan and provide for its repayment.

They also state that the socio-economic condition of a sizeable number of non-tribal transferees, most often, is hardly above the survival level. Recovery of land from them would leave them economically weak and drive them below the poverty level (p 53). This argument also cannot be accepted. The survey conducted by the authors indicates that over 50 per cent of the Adivasi transferors had less than Rs 500 as annual income and all (except four persons who did not answer the question) had an annual income below Rs 5,000. So far as non-tribal transferees are concerned about 28 per cent had an annual income of Rs 5,000 and above. It is also significant to note that nearly 16 per cent of the transferees refused to disclose their incomes. In these circumstances it is difficult to maintain that the non-tribal transferees, compared to the tribal transferors, were economically weak. Dubey and Murdia rightly state that "the main rationale behind the policy of not paying compensation to non-tribals is that they usurped the land mischievously and contrary to the provisions of the law" and yet strangely plead that the human aspect of the situation should not be overlooked.

Dubey and Murdia in their review of papers submitted to the seminar maintain that "the rationale behind the retroactive application of legislative provisions relating to the restoration of tribal lands rests on the arguments that the transferees have broken the law and should suffer the consequences there of and that since transferees are well-to-do, restoration will not hurt them." They reject both these assumptions and condemn the punitive nature of the retroactive application of the law. According to them "laws enacted retroactively may breed contempt for and a sense of disillusionment with the social and political systems among the people, *and may well erode the foundations on which our well intentioned political leaders are vigorously trying to build the edifice of a new social and economic order*". Coming from social scientists the argument, to say the least, is strange and untenable. One wishes that they had realised that an edifice of a new social and economic order cannot be built without attacking the bastions of illegitimately accumulated wealth and power. Those who exploited the Adivasis may feel highly discriminated against and Dubey and Murdia appear to be on their side. They appear to be innocent of the principles and practice of social justice. Their views are in sharp contrast to the views expressed in the judgment upholding the validity of Act described in the latter part of this paper.

### MAIN PROVISIONS

The major provision of the Act is that where due to transfer (a) the land by a tribal transferor is held by a non-tribal transferee, or (b) the land acquired in exchange by a tribal transferor is less in value than the value of the land given in exchange, and the land so transferred is in possession of the non-tribal transferee, and has not been put to any non-agricultural use on or before July 6, 1974, then, notwithstanding anything contained in any other law for the time being in force, or any judgment, decree or order of any Court, Tribunal or authority, the Collector, either *suo moto* at any time, or on the application of a Tribal transferor made within three years from the commencement of the Act shall, after making such inquiry as he thinks fit, direct that (1) the lands of the Tribal transferor and non-tribal transferee so exchanged shall be restored to each other. Land transfers include transer of lands belonging to a tribal made in favour of a non-tribal during the period commencing on April 1, 1957 and ending on July 6, 1974 either by way of sale, gift, exchange, mortgage or lease or any other disposition made *inter-vivos* or under decree or order of a court or sold in auction for the recovery of land revenue or similar arrears or under the Maharashtra Co-operative Societies Act, 1960.

It has been clarified that the terms tribal transferor and non-tribal transferee include their successor-in-interest. Provision has been made to assess the value of improvements made on the land by the non-tribal transferee and for the payment of such value to him by the tribal transferor. It has also been made clear that the tribal transferor shall be entitled to restoration of land only if he undertakes to cultivate the land personally and to pay for the improvements made thereon as recommended by the Collector. The procedure for calculating the value of improvements is also laid down. In the case of sale of lands, in addition to the value of improvements, if any, the tribal transferor must pay to the non-tribal transferee an amount equal to 48 times the assessment of the land or the amount of consideration paid by the non-tribal transferee for acquisition of the land whichever is less. The amounts are to be paid in lump sum or in such annual instalments not exceeding twelve (with simple interest at 4.5 per cent per annum) as the Collector may direct.

It has already been pointed out that in a number of cases non-Adivasis purchased or took on lease the lands held by Adivasis and became rightful owners under the Bombay Tenancy And Agricultural Lands Act amended in 1956. The tenants acquired the right to purchase the land on April 1, 1957. The transactions were legal. Special provisions have been made for the restoration of lands purchased, or deemed to have been purchased or acquired under the provisions of this amendment. The Collector has been empowered to restore the lands transferred under tenancy laws from April 1, 1957 and before July 6, 1974 under certain conditions. However, the lands put to non-agricultural use on or before July 6, 1974 shall not be restored. The tribal transferor shall have to pay the amount of purchase price paid by the non-tribal transferee.

In a number of cases, Adivasis are put under pressure not to accept the lands to be restored to them. A special provision is, therefore, made to vest the ownership of such lands in government, subject to the payment of purchase price and the value of improvements. The lands so vested shall be granted to any other tribal residing in the village in which the land is situated or within five kilometers thereof and who is willing to accept the land in accordance with the provisions of the Code and the Rules and to undertake to cultivate it personally.

An appeal against any decision or order passed by the Collector under this Act can be made to the Maharashtra Revenue

2 [illegible]

Tribunal. No pleader shall be entitled to appear on behalf of any party in any proceeding under this Act before the Collector or the Commissioner or the Maharashtra Revenue Tribunal. However, where a party is a minor or lunatic or any other person under disability his guardian or authorised agent may appear in such proceedings. The jurisdiction of the civil courts is barred for cases under this Act.

In short, the Act makes provisions for the restoration of lands held by the non-tribal transferees to tribal transferors. The provisions are quite wide and the transfers covered thereunder include transactions of sale, gift, exchange, mortgage, lease or oral dispositions as well as transfers made under decrees of courts and under the provisions of tenancy laws made between April 1, 1957 and July 6, 1974.

No wonder that the non-tribal transferees were shocked by the provisions of this Act. They did everything to thwart the implementation of the Act. Stay orders were obtained from the Bombay High Court and later on the Supreme Court. The government was forced to issue instructions not to implement the provisions of the Act. The Government of Maharashtra, in April 1977, issued a circular asking for the halting of action under the Act. However, it must be pointed out that the Act was placed in the 9th Schedule of the Constitution to make it immune under Article 31-B from any challenge on the ground that it is inconsistent with any of the rights confirmed by Article 14, Article 19 or Article 31 of the Constitution.

### SUPREME COURT JUDGMENT

Finally, a three-member bench of the Supreme Court upheld the validity of the Act on December 4, 1984.[10] The judgment is unique in many respects and reflects the present attitude of the Supreme Court towards social justice. It is necessary to describe the main objections raised against the provisions of the Act and the decision of the Supreme Court thereon at some length.

It was contended that the provisions of the Act which provide for the annulment of transfers of lands by tribals to non-tribals during the specified period and for restoration of possession to them are beyond the legislative competence of the state under entry 18 in List II of the 7th Schedule. List II of the 7th Schedule gives the subjects within the legislative jurisdiction of the state and entry 18 covers land and rights in or over land, etc. It was contended that the state has no power under the entry to unsettle titles vested validly in the non-tribal transferees. The Supreme Court rejected the contention stating that the transfers of lands between tribals and non-tribals were based on unequal bargains. The Act does not involve any deprivation of the property in the sense that there is unsettling of title without consideration. There are provisions for the repayment of the purchase price and payment of the cost of improvements. The Act, in its true nature and character, is a law relating to transfer and alienation of agricultural lands by members of Scheduled Tribes to persons not belonging to Scheduled Tribes and falls within entry 18 of List II.

The learned judges also pointed out that the Act was placed in the 9th Schedule of the Constitution and could not be challenged on the ground that it violated any of the fundamental rights conferred by Article 14, Article 19 or Article 31 of the Constitution.

It was contended that the adoption of the date April 1, 1957 from which the period of annulment of transfers started was arbitrary. The Supreme Court rejected this contention and remarked that April 1, 1957 had not been selected arbitrarily as it was the day declared as tillers' day on which the tenants were deemed to have purchased the lands.

It was also contended that the Act was applicable only to the members of the Scheduled Tribes and this was discrimination against the members of the Scheduled Castes who also constitutes a part of the weaker sections of society. This was a breach of the principle of equality before law or equal protection of the laws to all as laid down in Article 14. The Supreme Court rejected this argument on two grounds: first, the appellants were not members of the Scheduled Castes and could not plead their cause; secondly, tribals constitute a distinct class who need special protection of the state.

It was also argued that preferential treatment was given to non-tribal transferees who had diverted the lands purchased to non-agricultural purposes and this violated equal protection of the laws. The Supreme Court rejected this on the ground that the state was correct in excluding non-agricultural lands that did not come under entry 18 in List II.

It was also argued that Section 9-A of the Act which lays down that no pleader shall be entitled to appear on behalf of any party in any proceedings under the Act before the Collector, Commissioner or the Maharashtra Revenue Tribunal amounted to an unreasonable restriction on the right to acquire, hold and dispose of property guaranteed under Article 19(1)(f) as there is denial of opportunity to the non-tribal transferees to be represented by a lawyer of their choice in the proceedings under the Act. The Supreme Court pointed out that the Act was placed in the 9th Schedule of the Constitution and could not be challenged for the violation of rights under Article 19 (1)(f).

The contention that this section in the Act violated the right to practice any profession or carry on any occupation, trade or business guaranteed under Article 19(1)(g) was also rejected by the Court. The Court refused to accept the contention that the advocate enrolled under the Advocates Act, 1961 has an absolute right to practice before all courts and tribunals. The right is subject to the provisions of law. The Constitution does not give a litigant a fundamental right to be represented by a lawyer in any court. The object of the section is to avoid delay in proceedings, which is quite justifiable.

Thus, the Supreme Court rejected all the technical-legal objections against the provisions of the Act. However, the important part of the judgment is the views expressed by the learned judges on redistributive social justice.

The learned judges pinpointed the peculiarity of the Act as follows: "Although there is a legislation undertaken by different states placing restrictions on transfer of lands by members of Scheduled Castes and Tribes in pursuance of the declared policy of the state of safeguarding, protecting and improving the conditions of weaker sections of the society by providing that any such transfer except in terms of the provisions of the different acts shall be null and void, the State of Maharashtra has *gone a step further for annulment of such transfers* by the members of Scheduled Tribes *and for restoration of lands to them* by enacting the Maharashtra Restoration of lands to Scheduled Tribes Act" (para 4, emphasis added). The learned judges also took note of the reasons for enacting such legislation that were laid down in the Report of the Committee appointed to study the working of the laws relating to the land held by Adivasis.

The Bench also observed that "under the scheme of the constitution, the Scheduled Tribes as a class require special protection against exploitation. The very existence of Scheduled Tribes as a distinctive class and the preservation of their culture and way of life based as it is upon agriculture which is inextricably linked with ownership of land, requires preventing an invasion upon their lands . . . One has only to look at the artlessness, the total lack of guile, the ignorance and the innocence, the helplessness, the economic and the educational backwardness of the tribals pitted against the artful, usurious, greedy land-grabber and exploiter invading the tribal area from outside to realise the urgency of the need for special protection for the tribals if they are to survive and to enjoy the benefits of belonging to the 'Sovereign, Socialist, Secular, Democratic Republic' which was vowed to secure to its citizens 'justice, social, economic and political', assuring the dignity of the individual."

The Bench has clarified the concept of distributive justice in very clear terms. "The concept of distributive justice in the sphere of law-making connotes, *inter alia*, the removal of economic inequalities and rectifying the injustice resulting from dealings or transactions between unequals in society. Law should be used as an instrument of distributive justice to achieve fair division of wealth among the members of society based upon the principle: 'from each according to his capacity to each according to his needs'. Distributive justice comprehends more than achieving lessening of inequalities by differential taxation, giving debt relief or distribution of property owned by one to many who have none by imposing ceiling on holdings, both agricultural and urban or by direct regulation of contractual transactions by forbidding certain transactions and, perhaps, by requiring others. *It also means that those who have been deprived of their properties by unconscionable bargains should be restored their property. All such laws may take the firm of forced redistribution of wealth as a means of achieving a fair division of material resources among the members of society or there may be legislative control on unfair agreements*" (para 16, emphasis added).

It is very gratifying to note the just, pragmatic and progressive views adopted by the learned judges in sharp contrast with the views of some social scientists mentioned earlier. The judgment will be a landmark in the history of socially progressive legislation in the country.

### IMPLEMENTATION, THE TEST

It is now the duty of the Government of Maharashtra to implement the provisions of the Act by appointing special officers to inquire into cases of alienation and to take steps for the restoration of lands to Adivasis. The Act laid down a limit of three years from the commencement of the Act for the tribal transferors to apply for restoration. Due to various stay orders and the circular of the government mentioned above, the majority of the transferors have not applied for restoration. The government would, therefore, do well to extend the time-limit to give opportunity to put in fresh applications.

The Act lays down that the government can *suo moto* at any time inquire into the cases of land alienation and take measures of restoration. It has already been pointed out that the government had assured on the floor of the legislature that it would appoint Special Officers and do its best to implement the provisions of the Act. Now that the Act has been cleared by the Supreme Court, the government can keep up its words, provided it has the political will to do so. It is to be seen whether the government has this political will or allows implications of the Act to go by default. Activists are already moving to urge the government to take steps to implement the provisions of the Act. It is to be seen whether the members of Legislature in general and members belonging to the Scheduled Tribes in particular take up the issue or not. This is an acid test of the political will of the government, the alertness of the members of the Legislature and the effectiveness of the social activists working among Adivasis in Maharashtra.

### Notes

1 The process of alienation of Adivasis' lands in Maharashtra have been described in S D Kulkarni, 'Over a Century of Tyranny', *EPW*, March 9, 1974; 'Alienation of Adivasis Lands', *EPW*, August 31, 1974 and 'Alienation and Restoration of Adivasis Lands in Maharashtra' in K S Singh (ed) "Economies of the Tribes and Their Transformation", New Delhi, Concept Publising House, 1982.

2 These movements have been described in several works like (a) S D Kulkarni, 'The Bhil Movement in the Dhulia District' in K S Singh (ed) "Tribal Movements in India", Vol II, New Delhi, Manohar, 1983, pp 261-71.
(b) 'Tribal Movement in Maharashtra', *Tribal Research Bulletin*, September 1982.
(c) Ashok Upadhyaya and Sulabha Brahme, "Critical Analysis of the Social Formation and Peasant Resistance in Maharashtra", Vol II (memeo).
(d) Maria Mies, 'The Shahada Movement: A Peasant Movement in Maharashtra', *Journal of Peasant Studies*, Vol 3, No 4, pp 472-82.

3 For details of the provision of this Act, see S D Kulkarni, 'Alienation and Restoration of Adivasi Lands in Maharashtra', op cit.

4 For details see S D Kulkarni 'Justice Delayed—or Denied?', *EPW*, January 25, 1975.

5 Official Proceedings of Maharashtra Legislative Council, Vol 41, No 17, September 3, 1974, pp 726-730 (Marathi).

6 (a) S D Kulkarni, 'Justice Delayed—or Denied?', op cit.
(b) S D Kulkarni, *'Adivasinchya Hastantarit Jaminee Parat Karnyas Vilamba Ka?' Maharashtra Times*, February 4, 1975 (Marathi).

7 S N Dubey and Ratna Murdia (ed) "Land Alienation and Restoration in Tribal Communities in India", Himalaya Publishing House, Bombay, 1977.

8 Sharad Kulkarni, 'Land Problems of the Adivasis', *New Quest*, July-August 1978, pp 286-290.

9 Ibid.

10 *AIR*, March 1985, Vol 72, S C, pp 389-404.

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**GUJARAT**

# Violence with a Difference

**Sudarshan Iyengar**

**Sujata Patel**

THE people of Ahmedabad are frightened and the city which was known for its peace and quiet has today become a city of violence. Shops are being burnt, property is being destroyed and human beings are exposed to gruesome attacks. Since the first phase of violence from March 18 to 20 the city has witnessed organised and planned attacks, retaliations and counter-attacks. In the process, latent communal and caste feelings have crystallised. Today deep schisms exist in the city between Hindus and Muslims, Patels and Kshatriyas and Savarnas and scheduled castes. These schisms have developed in the last four months directly as a result of the manner in which the government has reacted to the nascent anti-reservation agitation. The opposition parties were not far behind and they took the lead in exacerbating the situation and encouraing the forces that were ranged against the government. Even the army which has been in the city continuously since mid-April now finds it difficult to control the situation. The violence has spread to Baroda, Surat, Nadiad, Anand, Viramgam, Kadi, Kalol and Mehsana.

As reported in these columns earlier (April 20 and 27) the anti-reservation agitation grew in an atmosphere which was strongly anti-scheduled caste, an atmosphere that had been built up during the 1981 anti-reservation agitation. The issue this time was reservation of seats for the backward castes and the agitation was directed against the backward castes. The agitation and the violence would not have manifested itself in such an ugly form had the ruling group within the Congress(I) not used anti-social elements against the agitation. The use of criminal elements (given that the key leaders among them belonged to one community) led to communal tension in the city, ultimately rendering homeless more than 30,000 poor persons living in slums. The use of force by the police led to increase in anti-government feeling and ultimately the collapse of confidence in the authority of the state. An anarchic situation came to prevail.

There have been four phases of violence: March 18 to 24, April 15 to 26, May 7 to 15 and June 7 to 11.

The second phase of violence, as we noted in our earlier report, had been the outcome of the confrontationist postures of the government and the anti-reservationists. The government used a section of the police force which was close to the ruling group in the Congress(I) and which belonged to the backward castes to harass people supporting the agitation. The opposition took full advantage of this. It made it into a civil liberties issue and approached the judiciary. The regional media, which had all along shown strong pro-agitation sympathies, set out to expose the police atrocities in great detail. The newspapers have consistently shown an upper caste and pro-majority community bias. The atrocities committed against minorities and scheduled castes have not received attention and coverage. The petitions filed by the anti-reservationists restricted the movements of two police officers belonging to the backward castes. The latent caste feelings within the police surfaced and this demoralised the police force.

When a police constable was attacked and killed on April 22 near Chabhila Hanuman in Khadia, where a committee set up by the Gujarat High Court to inquire into police atrocities was carrying out investigations, the faction-ridden police force went on a flash strike, laying down arms. Curiously, the strike was encouraged by both the supporters of the anti-reservation agitation as well as by the pro-backward caste faction within the police. The latter was angered by what it considered 'biased' reporting of the activities of the police while the former encouraged the strike in order to give a jolt to the government. Police personnel in uniform and in mufti gathered from all parts of the city and the atmosphere on the afternoon of April 22 was charged with tension. The enraged policemen indulged in arson and looting and mercilessly beat up people. Anti-social elements took full advantage of this breakdown in law and order and indulged in looting and destruction of private and public property. The orgy of violence reached its height with the systematic attack on the Gujarati daily, *Gujarat Samachar*. Exploiting the situation, certain groups attacked Muslims and scheduled castes living in different parts of the city. In Ambedkar Nagar 200 huts of scheduled castes were razed to the ground and the inhabitants were severely beaten up with the help of the police. In Bapunagar, again with the aid of the police and anti-social elements, upper caste people of neighbouring housing societies attacked Muslims. Between the evening of April 22 and the next morning, at least 500 houses in the slums of Indiragarib Nagar and Sanjaynagar were looted and set on fire, displacing three to five thousand people. Unofficial sources put the death toll in police firing and group clashes at 50. In Narayanpura some houses of well-to-do upper caste people were attacked by scheduled caste groups.

By the beginning of the second phase of violence, the Bharatiya Janata Party seemed to be in command. Its power base, Khadia, became the centre of activity. The party was able to mobilise women to thwart attempts by the police to carry out searches, etc. The military, though within reach, was called only after some sections of the city police became relatively inactive from April 18 after the High Court set up a committee to look into allegations of police atrocities. Even when the military was summoned, it was not allowed to take full command. It was asked to aid the local police in restoring law and order. The 'striking' policemen and anti-social elements fully used the opportunity to settle scores.

In the second phase of violence, according to official figures, more than 200 shops and 700 houses were looted and burnt and about 45 people were killed. Stabbings continued unchecked, jeopardising the safety of pedestrians and people moving on two-wheelers. After a few days, while the trouble in Ahmedabad ebbed, cities and towns of north and south Gujarat were gripped by violence. Kutch and Saurashtra were, however, relatively peaceful.

The third phase of violence began in Ahmedabad when sub-inspector Rana was riddled with bullets in Bhanderi Pole in the Kalupur area of the walled city. Before that Gandhinagar, the state capital, had been the scene of conflict between the striking employees and the state government. The employees had gone on strike in support of their demand for publication and implementation of the recommendations of the Sadhwani Commission which was set up to streamline the roaster and promotion system for government employees. The strike paralysed the government administration in two to three days. Some opposition party leaders started a fast unto death for the removal of the Solanki ministry. By now there were also manifest communal tensions in Ahmedabad, specially in the Muslim pockets of Dariapur, Kalupur, Bapunagar and Saraspur.

With the killing of sub-inspector Rana in the Kalupur area, where communal feelings were running high, the agitationists who had till then been condemning police atrocities suddenly started applauding the role of the police in protecting Hindu lives and property. This further fanned communal feelings in the city and led to a series of violent events in Kalupur, Dariapur and the labour areas of Saraspur, Bapunagar and parts of Narayanpura. The attacks were directed against Muslims and their houses and shops. In Narayanpura Muslim autorickshaw drivers were individually identified and beaten up and one of them burnt to death in his rickshaw. In Saraspur some 200 Muslim huts were razed to the ground and in Bapunagar upper caste Hindus destroyed what had remained unburnt in April.

The government showed its concern over the happenings in the city in a typical manner. It armed itself with repressive measures, started combing operations and made a few arrests. It promulgated the Gujarat Prevention of Anti-Social Activities Ordinance which gave the government extraordinary powers to detain any alleged offender for a year without legal procedures. The declaration of the ordinance was preceded by a shake up of the police administration. The combing operations and arrests were, however, merely a facade to legitimise promulgation of the anti-democratic ordinance. A police officer admitted in an interview that those responsible for the violence were not to be arrested.

Chaos and anarchy ruled in Ahmedabad. The agitation leaders were not willing to discuss matters with the government, nor did the striking government employees show any signs of withdrawing their strike. On the other hand, the government refused to give up its strategy of mobilising one group of people against another. The army was not given total command and had to play second-fiddle to the police which had actively encouraged communal attacks. The government and some elements in the police clearly did not want to hand over full power to the army. The agitationists and the government did meet for talks in the middle of May but the talks failed. A second round of talks on May 31 also failed. After the failure of the second round, the agitationists got a boost from the city's trading community which declared a five-day 'bandh' in protest against the violence. The agitationists gave a call for a Gujarat 'bandh' on June 7.

Tension mounted in Ahmedabad and violence erupted once again in the Dariapur-Kalupur areas. This area had been the scene of conflict two-and-a-half months back. Clashes took place on June 7. It was organised violence. The attackers were armed to the teeth. Houses in Dabgarwad were attacked once again and a family of eight Dabgars was burnt to death. (Dabgars are Hindus whose traditional occupation is making drums and umbrellas.) Some people stopped the fire brigade from extinguishing the fire. When the army arrived, one miscreant tried to knife a jawan and was shot dead. The army resorted to firing and unofficial reports say that at least 42 bodies of persons killed in firing, arson and stabbings were brought to the Vadilal Sarabhai Municipal Hospital on a single day, June 8.

The government's announcement conceding three of the demands of the agitationists did not pacify the agitationists. It is now very clear that the agitationists wanted the ouster of Chief Minister Madhavsinh Solanki. A faction of the Congress(I), led by Jeenabhai Darji, started showing open signs of rebellion and in this it has been joined by some voluntary groups. Another faction of the Congress(I), it is believed with the support of Solanki himself, has been encouraging the Kshatriyas to organise themselves and take a more aggressive stance.

The violence in Gujarat has been different from that in other states such as Assam and Punjab. There is no mass movement in Gujarat like the one in Assam nor is there organised terrorism as in Punjab. While some caste clashes have taken place in Mehsana and Kheda districts, the caste war has not spread all over Gujarat. The violence has been organised by two opposing political groups: the Solanki-led Congress(I) and the opposition-led anti-reservationists. Both have used communal violence to score political points against the other. The violence has thus emerged out of political tensions and that is why the violence, despite the fact that it has lasted so long, remains localised and restricted and has not turned into a full-scale caste or communal carnage.

*June 27.*

# US-Japan Trade Relations

### David L Schulze

THE American merchandise trade deficit with Japan grew from US $ 9.9 billion in 1980 to US $ 19.4 billion in 1983. It nearly doubled in 1984, reached US $ 37 billion. The size of the deficit as well as its rapid growth, has created a situation that threatens good relations between the US and Japan. Both countries feel wronged by the other. The US blames the deficit on Japanese barriers to its domestic markets. The Japanese blame the deficit on American mismanagement of its economy—huge budget deficits and high domestic interest rates result in a grossly overvalued American dollar. The overvalued dollar makes American imports relatively inexpensive, while American exports find themselves priced out of many overseas markets. Many Japanese feel that they are being made the scapegoat for American domestic economic policy failures.

The root causes of the current situation go back to World War II. By the end of the war, the Japanese industrial structure—plant, equipment, transportation network, etc—had been essentially wiped out. Within thirty-five years of the end of the war, Japan became the world's second largest economy. An essential ingredient in this amazing reconstruction was the strong protectionism fostered by the Ministry of International Trade and Industry. A series of tariff and non-tariff barriers kept more competitive American and other foreign goods out. Similar policies restricted foreign investment in Japan. The man in the street was indoctrinated with the view that selling to foreigners and buying Japanese produced goods was a civic responsibility.

Japan has been under pressure from its trading partners since the early 1970s to open its markets to foreign goods. Over this period, her tariff and non-tariff barriers to trade have been lowered. The Japanese claim the process of opening their economy is essentially finished; Americans, Europeans, and many members of ASEAN claim that substantial barriers still remain. Where does the truth lie?

In the first place, the American argument that the sizeable trade deficit is, itself, evidence that Japan's markets are closed to US goods must be rejected. There are several reasons for this conclusion. First, Japanese purchases of American goods are substantial—over US $ 22 billion in 1983 which exceeded US exports to West Germany, France and Italy combined. Japan is the second largest importer of American goods (after Canada). Second, this argument ignores the effects of the overvalued US dollar on American imports and exports. Third, at the same time the Japanese economy was becoming more open, the trade deficit grew dramatically. Additionally, the trade deficit with Japan has declined as a proportion of the total US trade deficit. The $ 15.8 billion deficit in 1981 was 60 per cent of America's total trade deficit, while the $ 37 billion deficit last year was only about one-third of the total deficit. Fourth, it ignores completely the price and quality advantages that many Japanese products have over their American counterparts. Lastly, Japanese firms, on the whole, have tried harder to design and market their products to suit American tastes and culture than have American firms attempting to sell in Japan.

Japanese claims that the process of dismantling her protectionist barriers is completed must also be rejected. Japanese protectionism has been a cause, although perhaps not the major causes, of the US trade deficit. There is ample evidence to support this point of view. First, a comparison of the patterns of Japanese trade with other industrialised countries is quite revealing. From 1960 to 1980 the ratio of imports of manufactured goods to Gross National Product for the US, France, West Germany, and the UK increased dramatically, at least doubling for most of the countries. The Japanese ratio (2 per cent) was the lowest and remained constant over the entire 20 years. This certainly suggests an effective policy of restricting imports of manufactured goods. Second, although Japanese tariffs, on the average, are lower than those in the US and Western Europe, there are important tariff barriers in specific markets, for example, wood and paper products, agricultural machinery, alcholic beverages and wine. Third, there are many non-tariff barriers to trade including quotas on beef, citrus and cigarettes; complicated customs procedures; a refusal to accept foreign safety certification of products; etc. Finally, other countries perceive similar problems in their trade with Japan. For example, Taiwan temporarily barred the importation of 1,500 Japanese products in 1982 in retaliation for what it claimed were Japanese barriers to imports from Taiwan.

The Japanese government has recently implemented a series of recommendations made by its Advisory Committee for External Economic Issues. They are designed to improve access to domestic markets by encouraging imports, liberalise the domestic financial and capital markets, promote mutual investment and other objectives. As announced by the Ministerial Conference for Economic Measures on April 9, 1985, these measures include advanced implementation of the tariff reductions negotiated in the Tokyo Round Agreements, acceptance of foreign clinical test data for medical equipment, improving import conditions by providing import finance by the Export-Import Bank of Japan, lowering the Export-Import Bank of Japan's interest rate on loans to finance the importation of manufactured goods, import financing to purchase foreign communications satellites, licensing foreign banks to conduct a wider range of banking activities, as well as the widely publicised efforts to encourage Japanese to buy more imported goods.

There are several features of the domestic Japanese economy that, while not protectionist in the ordinary sense of the word, give Japanese firms a competitive edge. Japan has the highest domestic savings rate of any industrialised country. This provides a huge pool of funds for investment purposes since borrowing to finance consumption purchases is discouraged. As a result, domestic interest rates are low, certainly much lower than in the US. At the same time, Japanese firms rely much more on borrowed funds for expansion than do US firms. Consequently, Japanese firms can finance their growth with much lower profit margins. This gives them the ability to charge lower prices than their American competitors, even if their production costs are the same. The yen is undervalued. This is not the result of direct government exchange rate policy. It is caused by low domestic interest rates (or high US interest rates), as well as Japanese restrictions on capital inflows. An undervalued yen boosts Japanese exports.

Americans believe that fair trade is a precondition for free trade. Many think that Japanese trade barriers are a major cause of the US trade deficit. While this view is substantially incorrect, it does contain an element of truth. Pressure for retaliation against Japan is growing. The US Senate recently voted 92-0 in favour of a resolution calling on President Reagan to 'obtain the elimination' of Japanese practices that are viewed as unfair.

There has always been a strong isolationist element in the US. If the growth of the American economy slows further and unemployment remains high, there is a very real chance that Congress will vote retaliatory measures against Japan. The longer nothing is done to cure the basic disease—the huge budget deficits in the US—the more likely are attempts to treat the symptoms. Such treatment will only make the patient worse, in this case by precipitating a trade war with Japan.

The consequences of such ill-advised, short-sighted action would be disastrous, for not only the Japanese and American people, but the whole system of world trade.

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# The Rents of Misdelivery

## A Case for Modernisation of Industrial Planning

R K Hazari

**Industrial Growth in India: Stagnation since the Mid-Sixties** by Isher Judge Ahluwalia; Oxford University Press, Delhi, 1985; pp xxii + 235, Rs 120.

STUDIES in agricultural economics in India have been abundant as well as productive. That is not the only or major reason for the success of the green revolution but it has helped. Industrial economics has been sadly neglected: those who know the facts do not or cannot conceptualise and write; those who can study, generally, do not care to feel the knots in the rope. Agriculture, it is true, is subject to the ravages of nature but, cultivation of opium and release of canal water excepted, each link in its chain of activity does not require sustained government intervention. Industry is more autonomous of nature but less immune against the interests and whims of a broad spectrum of the human species, ranging from owners, managers, traders and workmen to regulators and tax gatherers, some of them benevolent microbes, others fractious pests. One of the great virtues of capitalism, "the greatest revolution in the history of mankind", was to sweep away the feudal and mercantilist restrictions on the mobility of persons and goods and to substitute expanding horizons in place of narrow minds and markets and official policies. That the expanding horizons would benefit some, more than others, was inevitable, so came wars, deeper internal conflicts (or "contradictions")—and regulations, especially in those societies which preferred vegetarian solutions for conflicts.

In the great melting point that India, whether fragmented or united, has always been, the synthesis of Fabian, Leninist and Gandhian ideas from the nineteen twenties till the seventies has identified modernisation with regulation, positive and negative, in varying proportions. The tale of industry, which along with social reform and education is the principal engine of modernisation, is full of regulation, on the whole, positive till the mid-sixties, generally negative since then, with textiles bearing the full brunt of negativism right through. In the fifties, the flowering of the vision of Jawaharlal Nehru through the 'yes and more' attitude of T T Krishnamachari and Manubhai Shah moved the public sector towards the commanding heights of the economy and encouraged the private sector in industry to pick up the opportunities that came its way. Then came the foreign exchange crisis with its backlash of import substitution regardless of cost and, simultaneously, a sense of unease with the distribution of benefits of growth. Soon thereafter, the conflict with China and later with Pakistan eroded the availability of domestic and foreign resources for further growth of public investment. The plan holiday which commenced during the regime of Lal Bahadur Shastri was partly deliberate: Lal Bahadur did not really care for planning, the tired bureaucracy desired consolidation, ambitious businessmen wanted respite from a fast growing public sector with what they understood as its tax and political implications, the rest of the elite wished to deviate from Nehru's daydreams or to concentrate on agriculture when the country's vulnerability in respect of food supply became prominent.

### RITUALISED PLANNING

When plan rituals were resumed after three annual plans, the vision was missing and the focus was on populist stepping up of the nominal size of the outlay from year to year and plan to plan. There came to be a vicious circle of poor management of and inadequate investment in infrastructure (mainly railways and power) and heavy industry: low returns followed and chased unstable inefficient political and industrial managements. Regulation became a tedious means of saying 'no or less' or worse, piling of new controls on top of old, reminiscent in many ways of mercantilist internal economic policies. The commanding heights came to be perceived more as sources of erosion than irrigation. Small alone was beautiful in the perception of small minds. Petroleum became more glamorous than hydel power. The intellectual armoury of planning stood depleted: nothing comparable with the elegant, syncretic Mahalanobis plan-frame was essayed after the mid-fifties, notwithstanding massive expansion of the economist population and the widely perceived misconceptions and inadequacies of the historic Mahalanobis exercise. No effort was made in particular to harmonise physical planning with changing relative prices, improving productivity and sophisticated financial planning. Shortages of food, domestic savings and foreign exchange were the favourite quick explanations for sluggish growth; when these constraints loosened or disappeared—and the euphoria in nationalised commercial banking died away—there were no excuses left. The level and extent of poverty aroused justifiable concern with the growth rate and the systems of public management but, apart from ritualistic obeisance to populist gestures, which directly expanded consumption rather than investment and enlarged the bureaucracy more than they contributed towards productivity, there was little attention to the mechanisms of growth leverage.

Almost equally pathetic has been the state of the intellectual delivery system, which has failed to conceive and market new or revised strategies for converting available resources into goods and services consistent with economic efficiency and social justice, on the ground. Much effort has gone into either tautological pedagoguery or, when confronted with policy alternatives, taking refuge in complaints against "faulty implementation of correct policies" and, in effect, opposing any change and modernisation of the policy-frame as if what the founding fathers had laid down was perfect and sacred for all time to come. Even competent professional analysis of available data on infrastructure and industry has been somewhat rare—unless it has been secreted away from public gaze in monastic academe.

There is always hope, nevertheless, especially since the population (of intellectuals too) is growing younger. Isher Judge Ahluwalia's work reinforces that hope. It is by far the best analysis that I have come across of secondary data on industrial economics in India. In fact, it is so good (and so consistent with my own views) that I have been stimulated out of hibernation to write on the subject after almost two decades. The work extensively documents the trends between 1956-57 and 1979-80 in industrial growth and productivity at a detailed level of disaggregation. It provides definitive evidence of a slow-down in the growth of heavy industries since the mid-sixties.[1] The phenomenon of stagnation in industrial growth is associated with evidence of very poor performance in the growth of over-all productivity in the industrial sector, and of increasing capital-output ratios across the board. A thorough examination of the available empirical evidence enables the author to identify four principal factors responsible for this stagnation: the slow-down in public investment after the mid-sixties with its particular impact on infrastructural investment; poor management of the infrastructure sectors; slow growth of agricultural incomes and its effect in limiting the demand for industrial goods; and finally, the industrial policy framework and its effect in creating a high cost industrial structure within the economy. One explanation of the cause of industrial stagnation, namely, that income distribution has worsened over time, is found to have no empirical basis. Another, namely, that shortage of wage-goods has constrained industrial growth, is also invalid. She also analyses the role of import substitution in industrial growth. Her principal conclusion is that the industrial policy framework has stifled industrial growth. What and how, one should go beyond that—how to untie the knots or get a fresh rope—she does not essay.

Let me first attempt a brief summary of Ahluwalia's presentation and then try to see where and how to go from there.

Industry has not stagnated or fallen back. It is the potential generated which has not been fully exploited. We could have done better and are capable of doing better. The industrial base has been substantially widened. Entrepreneurship has been fostered and made more broad-based. Technological capabilities and skills have greatly improved. There have been major successes on the institutional plane such as the development of the public sector to occupy the commanding heights which can provide direction and leadership within a mixed economy framework. The establishment of heavy industries combined with policies favouring import substitution have made a massive contribution towards widening of the industrial base. In the first three Five Year Plans, the target rates of growth for industrial output were 7, 10½ and 10¾ per cent per annum; the achievement was 6, 7¼ and 8 per cent, respectively. After a brave attempt at 12 per cent during the Fourth Plan, the subsequent targets were lowered to 8 per cent but the actual achievement between 1968-69 and 1982-83 was 4.8 per cent, indicating that while capacities were set up in a wide spectrum, the potential offered was not fully exploited.

### 'PRIME IMMOVER' HYPOTHESES

The author examines a number of 'prime immover' hypotheses which have been put forth to explain the slow-down since the mid-sixties. These are:

(a) the drag emanating from the agricultural sector;
(b) a worsening of the distribution of incomes over time and the lack of a broad-based demand from industrial products;
(c) the slow-down of import substitution;
(d) the slow-down in public investment; and
(e) an economic environment which does not permit competition.

The disaggregated data analysed pertain to value added and value of output, both adjusted for price changes. During the five years ended 1965-66, the share of capital goods and basic goods industries in total value added in industry increased from 11 per cent and 27 per cent, respectively, to 15 per cent and 31 per cent, respectively. By contrast, the subsequent decade and a half betrayed a remarkable degree of stability in the structure of the industrial sector. The deceleration of growth in heavy industries was across the board: metal products suffered the largest slow-down, their growth in value added declining from 12 per cent per annum in the first period to 2.5 per cent in the second period. In basic metals and non-metallic minerals, the growth rates slowed down to one-third of their values in the first period. The growth rate in non-electrical machinery was halved. Slow-down was absent only in textiles and food manufacturing but they did not take-off either in the first period.[2]

The National Accounts and ASI data indicate that deceleration was concentrated in heavy industries, but the industrial production data reveal deceleration across the board. The inter-industrial growth pattern varies significantly between the two sets of data. In both sets of data between 1969-70 and 1979-80, chemicals, machinery and beverages appear unequivocally as the relatively fast growing industries and food, tobacco, wood and cork as relatively slow-growing, but the divergence is very marked in certain major industries. In textiles, the production index shows an increase of about 0.5 per cent while ASI records an increase in real value added of over three per cent per annum and in real value of output of almost 4.5 per cent. In transport equipment, the divergence is much greater: the growth rate of industrial production was about zero while real value added and real value of output grew at 5.1 per cent and 6.2 per cent, respectively. The divergence is enormous in footwear: the production index increased at nearly one per cent while real value added and real value of output increased at 12.4 per cent and 13.4 per cent, respectively. The divergences are sharp in leather and fur also.

### 'THE AGRICULTURAL DRAG'

The principal linkage between agriculture and industry is through (i) supply of wage goods, i e, food; (ii) supply of raw materials; and (iii) generation of final demand for industrial goods. A wage goods constraint on industrial growth may arise from slow growth of production/marketed surplus of foodgrains or the net availability of foodgrains. Alternatively, the terms of trade may move in favour of wage goods over time which, in the absence of productivity increases, would squeeze profits and stifle industrial growth. Based on studies conducted by Srinivasan, Alagh and Sharma, and Sawant, the author concludes that food production growth has not slowed down over the two decades ending roughly in 1980. Similarly, in respect of marketed surplus, as a proportion of agricultural production, going by Thamarajakshi, Mody and Kahlon and Tyagi, the trend has been upward. Granted some biases in the data, there was no trend increase or decrease in the per capita net availability of foodgrains. The evidence on terms of trade is less clear-cut because of conflicting views and indices used: going by Kahlon and Tyagi, there has been a declining trend since the mid-sixties in the terms of trade of agriculture *vis-a-vis* non-agriculture.

If the wage-goods constraints were a binding factor, then it should have affected industrial growth across the board, with the largest effect on the most labour-intensive industries. In fact, the slow-down was concentrated in capital goods and basic goods. The author therefore asserts that the wage goods constraint cannot be held responsible either for the slow-down in the growth of heavy industries after the mid-sixties or for the slow growth of light industries throughout. The slow-down in the growth of commercial crops output was not accompanied by a slow-down in the growth of agro-based industries after the mid-sixties, though the evidence is not conclusive on this score. The demand side stimulus to industrial growth from agriculture was low due to the small growth in per capita agricultural income but the growth of industry fell short even of this potential.

### EFFECT OF INCOME DISTRIBUTION

The income distribution hypothesis has two variants. One put forth by Mitra and Nayyar argues that the low level of the demand for mass consumption goods restricts the demand for them and, therefore, the demand for intermediate and capital goods. Pushed to the extreme, this would imply that sustainable industrial growth is possible only in an egalitarian society. Also, this variant would not explain the low rate of growth even in the 'luxury' goods sector, unless it takes into account the policy factor. The second variant, identified with Bagchi and Chakravarty, stresses either too little saving or too much saving as the causal factor of poor industrial growth. Events have disproved the former: the growth rate of industry in the 50s and 60s was higher when the national saving rate was closer to 10 per cent, than in the late 70s and 80s when the saving rate has been above 20 per cent. The latter argument, based upon worsening income distribution, is not supported by the trends as brought out in NCAER and NSS surveys analysed by Montek Ahluwalia, Dutta and Vaidyanathan.

Available information, the author asserts, on the distribution of incomes suggests no evidence of increasing inequalities over time. Data also do not support the claim that rural poverty has increased or, that rural net savings ratios have gone up steeply as a result of the green revolution and official food procurement. The pattern of growth of consumer goods industries does not provide an empirical basis either: the growth of output of consumer non-durables was unchanged at 5.7 per cent per annum in the period before as well as after the mid-sixties, while that of consumer durables slowed down only slightly but insignificantly such that the growth was about 12 per cent per annum. If worsening distribution of incomes were a factor influencing growth adversely after the mid-sixties, the effect would have been seen on the growth of consumer goods industries. In fact, the deceleration in growth was concentrated in heavy industries while consumer goods grew at more or less the same rate, i e, 4.5 per cent per annum before and after the mid-sixties.[3]

### INFRA-STRUCTURE INVESTMENT

The importance of public investment cannot be gauged by the mere fact that it constitutes 40 to 50 per cent of total investment. The direction of public investment into critical areas such as infrastructure and agriculture, which together account for about 45 per cent of public investment, is of even greater significance (a fact which perceptive businessmen realised sharply after the declared plan holiday). The effect of an expansion in public investment on industrial growth can be traced through generation of supplies of critical inputs and infrastructure facilities for the overall industrial sector and creation of demands for heavy industries. An analysis of the trends in public investment reveals a significant slow-down in growth after the mid-sixties which is true, to a smaller extent, of total investment too, and it was concentrated in railways and power. The deceleration was very marked in public real fixed capital formation, from 10 per cent per annum during 1956-57 and 1966-67 to 5.8 per cent per annum during 1967-68 and 1979-80. Private real fixed capital formation growth also declined between the two periods from 8.2 per cent per annum to 2.8 per cent per annum. Infrastructure investment which had grown at an annual rate of almost 17 per cent in the first half of the sixties experienced a marked deceleration to a bare two per cent per annum in the following decade (though, in a strange inversion of traditional plan policies, public investment in trade, hotels and restaurants went up rather sharply).

The phenomenon of under-investment in the railways was combined with a gross neglect of the maintenance of the existing railway capital stock. The slow-down in growth of real investment in electricity was less marked, but hydel generation and transmission and distribution received much less than their optimal share. A commonly accepted role of thumb in power planning is that investment in transmission and distribution should be about 66 to 100 per cent of that in generation. In fact, this ratio increased from a low of 38 per cent during the Third Plan to 51 per cent during the Fourth Plan but declined again to 42 per cent in the Fifth Plan. Planning and implementation of transmission and distribution projects is a major area of weakness with the state electricity boards. The under-investment in the infrastructure sectors was associated with evidence of growing inefficiency in these sectors. These inefficiencies covered the entire spectrum, from project formulation to project implementation and finally to operational stages. The railway transport coefficients of major bulk commodities have been declining steeply. The regions most affected by power shortages were the eastern and north-eastern, thereby reinforcing the constraints of coalfields and electrified railways.

Since the overall rates of capital formation and saving in the economy have risen to respectable levels, the failure to generate a comparably high rate of growth of income has to be blamed on poor management. Lack of optimal balance between the capacities created was also to blame, but here the author's analysis is weak and patchy, for understandable technical reasons.

### IMPORT SUBSTITUTION

The slow-down in import substitution since the mid-sixties comes out very clearly in the two digit industry classification. In manufacturing the slow-down covered industries accounting for almost 80 per cent of the total value added, the most significant exception being electrical and non-electrical machinery. In fact, some fast growing developing economies have also gone through an initial phase of import substitution and subsequent slow-down without a deterioration in industrial growth performance but accompanied by rapid growth of exports. Perhaps, the deeper the process of import substitution is carried, the more the economy finds itself with industries in which it is less and less likely to have comparative advantage! Export pessimism, unfortunately, has been a crucial ingredient in the Indian development strategy. It is worth noting from Ahluwalia's analysis that heavy industry has suffered mainly from slow-down in public investment and mismanagement, not from decline in import substitution.

### NEGATIVE PRODUCTIVITY GROWTH

Perhaps the most useful original contribution in Ahluwalia's work is the trends in total factor productivity growth. While I am not competent to assess the methodology adopted, her conclusions are startling enough to retain their validity even if the methodological biases were to be corrected with more sophisticated know-how. In any event, they are in line with the impressionistic observation of anybody connected with industry. Deriving total factor productivity growth as the difference between the growth of value added and the weighted sum of the growth of labour and capital, she finds that, for the manufacturing sector as a whole, *the estimate of total factor productivity growth yielded by the different measures ranged from minus 0.2 per cent per annum to minus 1.3 per cent per annum between 1959-60 and 1979-80.* In industries accounting for 50 per cent of the value added in manufacturing, the decline in factor productivity was more than one per cent per annum. The efficiency in factor use in the intermediate goods industries declined at the rate of about 1.5 per cent per annum over the twenty year period; this decline must have had a magnified effect on other industries through the inter-industry linkages.

It has been known for some time that value added has been declining as a proportion of value of output, thanks to rising materials costs (please remember that most of Indian industry is materials-intensive rather than labour-intensive); Ahluwalia has demonstrated that this lay view is consistent with tested objective reality.

While there is no clear-cut evidence of deterioration since the mid-sixties (indeed machinery industries recorded some improvement), analysis of the trends in capital-output ratios, which is the conventional measure of efficiency of capital use, brings out that the increase in the ratio was *not* due to the greater significance of more capital intensive industries. Between 1959-60 and 1965-66, such industries accounted for only 21 per cent of the increase in capital-output ratios, and between 1966-67 and 1979-80 the contribution of their changing share was actually negative. The growth in labour productivity in manufacturing between 1959-60 and 1979-80 of 2.5 per cent per annum was more than wholly accounted for by the process of capital deepening of 3.1 per cent per annum. The author concludes that industrial stagnation in India reflects the cumulative impact of the growing inefficiencies in factor use over time.

### GANG OF FOUR

Summing up, the author identifies four factors which contributed to industrial stagnation. These were: (a) slow growth of agricultural incomes and their effect in limiting the demand for industrial goods, (b) the slow-down in public investment after the mid-sixties with its particular impact on infrastructural investment, (c) poor management of the infrastructure sectors, and (d) the industrial policy framework, including both domestic industrial policies and trade policies, and their effect in creating a high cost industrial structure.

She opines that boosting public investment in specific sectors may have secured higher utilisation of capacities in the short run, but this may not have been the best use of resources from a long run point of view. Apart from reservations with respect to the desirability of expanding public investment for demand considerations, there is an additional question about its feasibility. First, there is the resources constraint. Second, it has to be recognised that the net impact of an expansion in public investment on demand would depend upon the extent of the crowding out of private investment (through competing for the limited funds for investment available to the economy). In passing, she also feels that the attitude towards deficit financing has been conservative.

# Thorough and comprehensive review of the Banking Industry is the need of the hour.

**THE UNITED WESTERN BANK LIMITED**

## Speech of the Chairman Shri. A.G. Pandit at the 48th Annual General Meeting of the Shareholders held on 28th June 1985.

**LADIES & GENTLEMEN,**

It is a great pleasure to welcome you to the 48th Annual General Meeting of our Bank. The Annual Report and Financial Statements as at the end of the year 1984 have already been circulated and with your permission I take them as read.

The year 1984 witnessed the brutal assassination of our Prime Minister Mrs. Indira Gandhi. She struggled for the unity and integrity of our Country. She led us for almost two decades in which our Nation made notable progress on various fronts. We pay tribute to her for giving the banking industry a totally new orientation and a sense of direction that helped it to switch over from the stagnant traditional banking to dynamic developmental banking aimed at achieving integrated and broad-based economic growth for the Country After her death, Citizens of this Country once again gave evidence of their deep rooted faith in democracy by bringing about smooth change over of the New Government under the inspiring leadership of our young and dynamic Prime Minister Shri. Rajiv Gandhi in the last general election.

We also mourn the death of Shri Yashwantravji Chawan, who was not only a National leader, Freedom fighter but a guide & friend of this Bank. His love towards this institution was basically natural not because it was from his native district but because he was a genuine witness to its growth.

During the year 1984, our bank continued to march towards progress in its business over that of the previous year. The bank added Rs. 23.63 crores in deposits and attained a land mark in the annals of its history by crossing a deposit figure of Rs. 200 crores. Thus, its total deposits amounted to Rs. 203 69 crores as at the end of 31st December 1984

**Profitability of the Banking Industry:**

The banking industry was brought under social control in the year 1968 and since then it is being used by the Government as one of the important instruments of social change. Accordingly, banks have been discharging this great responsibility with remarkable success by channelising their resources, monetary as also human, in desired and hitherto neglected economic sectors and by extending their operations to remote and normally non-lucrative rural areas. The above experiment meant financing every conceivable economically viable activity which ranged from, "shipping to shoe shining" and from international trade to dry farming in the rural areas.

The range is stupendous and one doubts if such an experiment has ever been successfully undertaken by any other country in the world. This, however, has subjected the banking industry to tremendous strain on its profitability.

The Reserve Bank of India and also the Government of India have shown due consideration to the problems faced by the banks, and to meet the situation, have, from time to time, released various concessions such as interest rate subsidies, refinance for certain priority sector advances at concessional rates etc. Although these concessions have, to some extent, alliviated the strains created by the industry's problems, the element of adhocism could not completely be eliminated while granting them. I consider, therefore, that in the light of the experience the banking industry has gained in the past 17-18 years i.e. after social control was introduced, now is the time when the Government should undertake a thorough and comprehensive review of the banking industry in all its aspects, such as, the wide range of activities at present financed by banks permit them to which, incidentally, do not encourage specialisation so necessary for bringing about efficiency in their operations and the rates of interest on advances including priority sector advances The proposed review should also cover the existing packages for refinance for priority sectors not excluding one concerning export finance, where refinance under the present scheme is made available only on the incremental levels, thus, while a large portion of such advances do not qualify for refinance, these continue to earn interest at uneconomically low rates

The findings of such a study should enable the Government and the Reserve Bank of India to devise a long term banking policy that will ensure healthy and continued growth of the banking industry while enforcing its monetary policy, the guiding principle for deciding which, it is conceded, has to be the country's monetary needs and not the profitability of the banking industry

Now, I shall turn to the performance of our bank for the year 1984.

**SHARE CAPITAL :**

There is a change in the Authorised Capital of the bank in the year under report. The Authorised Capital of the bank has been increased from Rs. 50,00,000/- to Rs. 75,00,000/- during the year. The bank issued 20,000 equity shares of Rs. 50/- each which were fully subscribed and paid-up. Thus, the bank's issued, subscribed, called up and paid up capital stands increased at Rs. 50 lacs at the end of the year

**RESERVES :**

The Board of Directors have recommended to appropriate an amount of Rs. 24 lacs from the profit of the year to the Statutory Reserve taking it upto Rs. 109.50 lacs. Our aggregate reserves now stand at Rs. 112.01 lacs.

**DEPOSITS :**

Our bank has shown a satisfactory performance in deposit mobilisation. The total deposits of the bank have gone up to Rs. 203 69 crores at the year end from Rs. 180 06 crores of the last year. The average growth rate, works out to 15.82% which is only marginally lower than 16.19% of the previous year.

**ADVANCES :**

The total outstanding advances at the year end reached a level of Rs. 118.25 crores as against Rs. 105 72 crores in the last year.

The bank has continued its efforts to give financial assistance to priority sectors such as Small Scale Industries, Agriculture, Small Business, Professionals and Self-employed Persons Bank's priority sector advances have increased to Rs. 39.40 crores as against Rs. 38 99 crores for the year 1983 Bank is actively participating in assisting the weaker sections of the society in accordance with the National Policy with special effort to step up IRDP advances and advances under New 20-Point Programme Bank has extended credit of Rs 84 87 lacs and Rs 2 47 crores respectively under IRDP advance and New 20-Point Programme Bank's advances to Agriculture, Other Priority Sectors and DRI Scheme as at the end of the year were Rs. 8 00 crores, Rs 10 10 crores and Rs. 0.25 crores respectively. As regards advances under SEEUY Scheme, I am happy to announce that our bank has crossed the physical target of number of beneficiaries of 635 in 1984 and has sanctioned 684 cases during the financial year 1983-84. Total amount sanctioned under this scheme comes to Rs. 1.1 crores and our bank is, thus, actively participating in the lending programmes announced by the Government of India.

**FOREIGN EXCHANGE BUSINESS :**

The performance of our bank in foreign exchange business is also satisfactory. The turn over of our merchant sale and purchase transactions amounted to Rs. 52.47 crores during the year as compared to Rs. 25.94 crores in the previous year. Financial assistance for exports at the end of the year stood at Rs. 10.39 crores as against Rs. 6.27 crores at the end of 1983 Taking into consideration the lucrative income on this type of business, while arrangements for handling foreign exchange business at our Hyderabad and Panjim branches have almost been completed, we intend to open a few more foreign exchange centres shortly for which we are already holding necessary licences from the Reserve Bank of India

**PROFIT & DIVIDEND :**

The bank has earned a net profit of Rs. 29.95 lacs showing a rise of Rs 6.85 lacs over that of the last year It gives me a pleasure to state that the Board of Directors have recommended to maintain the last year's dividend of 14% to the shareholders.

**MECHANISATION IN BANK :**

At the industry level, a decision to introduce mechanisation/computerisation in certain identified areas has been taken to enable them to extend better customer service and to effect better operational efficiency. Recently the Reserve Bank of India has formed a high level Committee comprising the representatives of Central Government, Reserve Bank of India, State Bank of India and its subsidiaries, all Nationalised Banks and Private Sector Banks to ensure smooth introduction of computerisation in the banks and as well as for standardising related procedures. Our bank represents the private sector banks on the said Committee. We shall, therefore, have to fall in the line with other banks in this area.

**ORGANISATIONAL STRUCTURE :**

The task of re-organisation of administrative set up at Head Office and Divisional Offices for improving working efficiency was entrusted to the National Institute of Bank Management and they have submitted their report. The implementation of the New Organisational Structure in the light of the recommendations of the National Institute of Bank Management has begun and it will be completed in stages in 1985

The relations with staff remained cordial and satisfactory during the year

Thank You,

**A.G. Pandit**
**Chairman**

**This does not purport to be the proceedings of the Annual General Meeting.**

## DEFICIT FINANCING

While reviewing the gamut of trends and policies analysed by Isher Ahluwalia, let me start with the last remark which is an aside but which cannot be left as such. The average annual growth in net national product at factor cost at 1970-71 prices between 1970-71 and 1983-84 was 3.7 per cent. In comparison, broad money ($M^3$) increased 17.2 per cent and the wholesale price index 9.8 per cent on an average annual basis between March 1971 and March 1984. The Reserve Bank's net credit to government was the principal source of reserve money, amounting to 83 per cent in 1970-71, 85 per cent in 1980-81, rising fast thereafter to 92 per cent in 1983-84. As a proportion of gross domestic product at current market prices, the outstanding amount of Central government securities including Treasury Bills was about 17 per cent between 1970-71 and 1976-77, but rose steadily thereafter to reach 24 per cent in 1983-84. More than two-thirds of these securities are held by the banking system, and almost the entire balance by institutional investors.

With all this in focus, particularly since 1980, it is hardly correct to state that the government has been too conservative in the matter of deficit financing. While some order of single-digit annual price increase is inevitable and perhaps also desirable, it is contrary to good sense to advocate, even as an aside, a higher order of deficit financing in order to promote industrial growth, which can result only from a clearer formulation and articulation of long-term objectives, and policies and mechanisms consistent with these, as well as with emerging short-term situations.

## OBJECTIVES, PRIORITIES, CONTROLS

In the national perspective, a multiplicity of objectives such as industrial growth with its inter-linkages, generation of employment, promotion of balanced regional and ethnic development, saving and earning of foreign exchange, to mention the principal ones, is unavoidable. A trade-off between these objectives is necessary from time to time depending upon the weightage of each in a given situation. No single objective, and no single sector or sub-sector, can have the "highest priority" indefinitely for all time: it is an axiom of any organised effort at planning that priorities have to be related as consistent quantities procured from subsystems at various levels of performance, that the basic function of control is to set objectives and give sanction for sacrifices or posteriorities, resolve inter-sectoral or inter-departmental conflicts or frictions, and evaluate performance for setting future sights, leaving scope for adequate initiative on the part of each performance level. Our control systems are of World War II vintage; they hardly worked even then, and, to the extent that they worked, they disregarded costs; they were even at their best not intended to be stretched till infinity as they have almost been.

As a young student in the late forties and early fifties, the heady years after war and Independence, I was brought up to have faith in development on a war footing: if regulations, pleasant or unpleasant, could be advocated and implemented for war, and sacrifices consequently endured for objectives considered dear and valuable, then, why not the same for development also? Rather than endure the cycles of boom and slump of unregulated capitalism, and the prolonged blight of under-development, why not substitute the atomistic or monopoloid market with wise far-sighted men dedicated only to the common good, and replace profit with social benefit? Arthur Lewis and Hicks, Hicks and Rostas gave ample warning against this approach but, the warning was ignored in India in what were by Indian standards boom conditions in industry during the fifties and early sixties.

Briefly, Arthur Lewis had cautioned against controls, especially price and profit controls, on essential activities, which would discourage further investment in them, leaving non-essential activities free to make large profits. The lesson we drew from this warning was to seek to control almost everything, including both the strong and the weak, for nearly all time. Hicks, Hicks and Rostas were quite emphatic that unlike war, development had multifold objectives with built-in conflicts, that development could not ignore costs of operation and of asset replacement, that human beings valued their income and relative status more in peacetime than their blood in war. What we lifted from them (despite their categorical warnings) was the concept of tax on excess profits or control on prices to reduce profits in those industries which were the prime beneficiaries of development like steel and cement, on the ground that such profits were of a windfall nature and should be sucked away through one form or other of betterment levy.

Underlying such policy views was the Hotelling Theorem presented in *The Economic Journal* (1926) and the subsequent debate on welfare maximisation under both competitive and socialist systems, through equalising prices with marginal costs, and recovering fixed or overhead costs from direct taxes which could not be shifted by definition (an article of faith established by the UK Royal Commission on Taxation in the early 1920s).

## NEW LOGICAL FRAMEWORK

After the 1950s, nearly all professional economists shifted away from these basic tenets (and cheap money) towards the other extreme of generating surpluses from essential industries and scarce capital or commodities but, a whole generation of policy makers had, meanwhile, imbibed The Original Truth and would not be shaken out of Faith till events overtook them. No amount of facts can, it is known, controvert a philosophy. Even false or failed gods are not abandoned till new ones are put in their place. It has been generally recognised for some time—on both sides of the divide between socialism and capitalism—that central planning (as well as business corporate planning) and the market mechanism need to be consciously and systematically integrated for the twin objectives of growth and welfare. We are still quite far, however, from a new logical framework that inspires faith and commands acceptance through performance. Pragma is obviously inadequate, not only because it comes under immediate attack from the high priests of accepted deities, but mainly because it leaves one without any sheet anchor of reference.

It is beyond my competence to draw up a charter for a new faith. I can merely draw attention to a few salients. First, nobody in his senses wants deletion of all central direction or planning. Even the basic functions of the State, namely, defence, law and order, and justice, require a significant centrally-determined re-allocation of resources towards central objectives. New basic needs like infrastructure, money and banking, education, health, town planning and environmental conservation need some degree of intervention or regulation since they cannot be left entirely to market forces. Every large organisation requires some variety or degree of corporate planning with defined objectives and perceived constraints, together with an assessment of the benefits and costs of alternative strategies. Planning is not a monopoly of government, nor is government or large business independent of market forces. A complex modern inter-dependent economy is an inter-weave of group direction and individual initiative, with the bureaucracy and market intermediaries as essential middlemen. A delicate balance between the *babu* and the *bania* holds the key to macro-economic efficiency.

Second, public ownership of the principal means of production (other than agricultural land) needs some re-definition not only to keep away from the abuses of State Capitalism (in particular, the strong temptation to treat public property as private or factional domain) but also to incorporate the recognition of plural institutional public entities and decentralised local bodies in the conceptual framework of public ownership. Participants in the current debate on de-regulation or liberalisation have spent their energies on the relatively peripheral matters concerning private trade and industry, ignoring the central reality of pervasive regulation (often in the name of co-ordination or parliamentary accountability) as *the* prime immover in government and the public sector. Conceptually as well as empirically, de-regulation or liberalisation can make effective headway only if it starts with the commanding heights where operating management is choked by the political and administrative proprietors of the day.

Third, there have to be accepted social criteria for productivity and efficiency in the utilisation of resources, especially in the public sector itself (governmental as well as commercial), since it is a much larger part of the economy than ever before and its strategic role is crucial for both growth and welfare. When the public sector accounts for one-tenth of national income, a misdelivery system can pass with tolerant amusement. At one-third of national income, together with pervasive regulation, the misdelivery may not be fatal but it has to be taken seriously as a problem in conceptual systems, not just in 'implementation' or 'co-ordination'.

### PLAN KNOW-HOW

At the risk of uncivilised disturbance of quiet academe, may I ask for some upgradation of plan technology? Way back in the 1950s, the inter-sectoral input-output matrix was a near-revolution (with distinguished French ancestry). Since then youthful energies have been devoted to raising the number of sectors to more than a hundred but, within the limits of my moderate literacy, I am not aware of any significant alteration in the rigorous assumptions of the matrix. Must we live with a framework which assumes *inter alia*, subject to correction by the more literate, that over a given time period:

(i) there is no change of relative prices of inputs/outputs;
(ii) there is no change in technology or capital-output ratios;
(iii) inventory (or working capital) requirements can be ignored; and implicitly
(iv) financial planning is irrelevant?

While explaining macro-plan concepts to a broadening spectrum of practitioners, my discomfort with the above Plan equilibrium analysis exceeds my discomfort in earlier days with competitive or monopoly equilibrium. Planning is a dynamic policy function. Pray, wherewith shall it be salted if productivity, inventory and money are put away?

Furthermore, some of the advances in corporate planning techniques over the last three decades can be usefully grafted on to central planning techniques. That the latter have to operate in a plural, federal society should never be forgotten (though often it is), but the former has a sharper focus on the time pattern of benefits and costs and consequently on working capital, which needs to be integrated into central planning, now more dependent upon generation and ploughback of public sector surpluses.

Growth models that came in vogue from the 1930s onwards classified and established what industrial businessmen and economic historians had known for long, namely, that public sector investment is or can be autonomous of pre-existing market demand or savings and that, the function of planning is to impart it with maximum leverage, that is to direct the investment in channels which have the maximum linkage co-efficients. Some refinements need to be incorporated in the light of experience.

### SOME REFINEMENTS

(i) This autonomous force of public sector investment can attack the points of linkage in a sustained manner only to the extent that it actually generates and ploughs back substantially larger surpluses. The autonomy, in other words, is finite and limited.
(ii) Procedural exigencies lead to bunching of most Plan investment orders in the middle of each Plan period (remember what Schumpeter said of bunching of new men, new ideas, new products, new methods of production, etc? The New Commanders have not yet evened out the high and low tide). Order books of suppliers (both public and private) are thin at the beginning and end of each Plan period. The long-term success of any business enterprise dependent upon orders arising out of public investment hinges upon getting over-committed in mid-Plan, phasing out the deliveries over a period longer than contracted, and keeping down mobilisation of equipment and labour to below the required peak level in order to keep down overheads during the lean years. This unwritten business rule might, to the uninitiated, smack of monopolistic restriction of output. Actually, it is the key to survival in a skewed monopsonist market. In any event, it is a high cost process for the community as a whole because it implies either reinforced delays in completion of projects or frequent idle labour and equipment or mismatched inventories or, all of them. To this extent, central planning does not overcome the deficiencies of the market mechanism. The fast-or-feast phenomenon can be tackled only upstream by long-term planning of high linkage standardised items, advance orders by negotiation instead of tenders, stringent penalties for delayed deliveries and insistence upon effective, total control of project implementation, rather than meticulous application of obsolete compartmental rules. To my knowledge, the rule book of government purchases has not been revised to take cognisance of large inter-linked project orders. That the task is feasible has been shown by National Thermal Power Corporation and, earlier, tragically by Kudremukh Ore Project.
(iii) The dividing line between Plan and non-Plan outlay has become as meaningless or socially destructive as the historic dichotomy between high-caste and low-caste. The end of each Plan converts the maintenance of so-called completed projects into non-Plan outlay which (along with the growth of administrative and security expenditure) is now of much greater significance.

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Since plan (or capital) outlay is more glamorous (and more attractive to fly-by-night public entrepreneurs), little attention is devoted to getting returns from older investments through adequate physical maintenance and provision of the equivalent of working capital, while more attention is focused on getting sanctions for a large number of new Plan projects, even at the cost of grossly inadequate funding of each one of them. Such compounded wastage piled high on top of inflation erodes the resource base for public investment. The damage from ending this false and suicidal distinction from the Eighth Plan onwards will be restricted to the continuity of the statistical series of Plan outlay figures.

(iv) For at least a decade, if not two, after independence, a quiet but conscious bias in the locational pattern of public investment (including defence outlay) and postage stamp rates for essential commodities was maintained in favour of Punjab and the South, partly for security reasons, partly for reasons of ethnic integration. Neither of these two reasons is alien to or inconsistent with central planning. It has now to be clearly recognised that the regions east of Varanasi require a new positive bias, not in policy statements or increases in per capita public outlay, but in performance on the ground. Apart from security and ethnic reasons, there is a large concentration of poverty in these regions. Infrastructure is both deficient and sadly inefficient. Productivity is a dirty word. Industrial relations are at best patriarchal, at worst, chaotic. New technology has barely touched agriculture. River floods are unavoidable in the foreseeable future. West Bengal excepted, caste/tribal conflicts are endemic and land tenures are uncertain. State governments or central administrations in Union territories are even less of working entities than in the rest of the country. Damodar Valley Corporation and Hirakud in the early Nehru era, and some improvement of communications in the northeast after 1962, marked the beginning—and end—of conscious effort in these regions. The whole area is riverine and highly fertile. One has to get away from high cost compartmental attention through security steps, sectoral programmes, central projects, centrally sponsored schemes, state plans, flood control, working of large public and private industrial units, etc, on to a comprehensive but quite cost-effective view of eastern and north eastern security and development problems as a whole, and then see how each programme contributes towards solution of these problems.

My purpose in drawing attention to these salients is not to fly away from the immediate concerns of what is called industrial policy but to try to fit industrial policy into a wider perspective of emerging requirements. It is a fallcy to believe that de-regulation of private activity *alone* will fetch the millenium though I readily assert that the regulatory environment in which we have been brought up since the 1940s smacks more of negative pre-capitalist mercantilism than positive statecraft of any preferred brand. If, as is stated in some quarters, private investment has not spurted immediately in response to recent de-regulatory measures, the explanation lies apart from the time factor, in the usual trough between two mid-Plan peaks and the continued sluggishness of public investment in railways and power. Essentially, de-regulation allows management to function more effectively and efficiently and to promote investment selectively, it does not by itself directly boost the general level of investment. Central planning, corporate planning, market mechanism and individual initiative, all have a positive integral role to play, generally in cohort, sometimes in conflict with each other for, that is the very essence of a plural society.

## SPECIFIC BUGBEARS

Having reiterated the primacy of central direction for major policy goals and of efficient public investment, especially in infrastructure and heavy industries, let me deal with a few specific bugbears. First, industrial licensing and MRTP. My work on these areas in the 1960s has spawned a lot of misconceptions, strengthened by lack of direct reference to what was written originally. (The works have been out of print for nearly two decades. I have recently arranged a reprint). Even then I had pointed out that licensing was a very limited tool of industrial policy and increasingly so, as direct public investment and a variety of other policy measures (especially the recommendation in favour of bank nationalisation and credit planning) were more effective means of achieving its aims, and that checks on concentration of economic power in private hands had to have positive aims of growth through general policy measures, rather than be effected through legal processes which were doomed to be futile.

To cut a long unhappy story short here, I would feel that, in principle, the Industrial Development and Regulation Act and Chapter 3 of the MRTP Act should go off the statute book, since other policy measures and mechanisms can serve their objectives and functions more effectively. Till that happens, the exemption limit for industrial licensing should be raised to Rs 100 crore, the same as for MRTP undertakings. The corollary of compulsory registration with DGTD should be abolished, and alternative arrangements should be made simultaneously for import licence eligibility and statistical reporting. DGTD itself is an anachronism now. Its technical skills, if any, are obsolete and compare unfavourably with the scientific and technological manpower available in both public and private units. After abolition, its staff could be deployed elsewhere in directly promotional agencies. I reiterate the recommendation in my report on licensing to delete the concern with capacity (which is nothing less than a racket from any standpoint) and new articles, both of which militate against better utilisation of resources and quick response to new plan and market demands. The concern of policy, in short, should be with the direction of investment, not regulation of production which is an operational matter.

Import licensing, whether of capital goods or materials, etc, should be de-linked from licensing or registration under the IDR Act. The credibility of new policy measures would be greatly enhanced if the policy statements and statutory notifications are issued simultaneously, so that a hiatus between the two (as has taken place now in respect of cotton textiles) is avoided.

In matters concerning FERA and ex-FERA companies, i e, policy towards multinationals, I would make only one limited point for the present. The official concern with percentages of share capital held by foreigners appears to be inspired more by shades of the caste system than any realistic appreciation of the mechanics of corporate control. The practical difference between holding, say, 11 per cent, 26 per cent, 39 per cent, 51 per cent or 74 per cent of share capital lies in the dispersion of the balance than in the intrinsic percentages. Much of the rest of the Foreign Exchange Regulation Act needs a fresh review from the policy viewpoint, so that transactions other than capital transfers can be effected without ubiquitous reference to the Reserve Bank.

## RELATIVE COST DISADVANTAGE

The 'real heat' now is in matters related to import control rather than industrial licensing or even FERA. The genuine areas of concern are not the traditional ones of foreign exchange constraint and import substitution but the more mature, meaningful and tricky issue of the relative competitiveness of domestic products. The issue is, fortunately, not so sweeping or pervasive as sometimes made out by Radical Defenders of the Faith whose nostrums apparently boil down to autarchy, underwritten with substantial concessional aid from the Pagans. Rather than enter the tournament between faith and logic, the approach should be to disaggregate the phenomenon and roughly quantify the magnitudes of volume and relative prices involved, together with the opportunity costs in major industries/markets. Nobody, for instance, is suggesting dismantling of the green revolution because international wheat prices are lower than domestic wheat prices. The bulk of consumption and investment will continue to be met from domestic production, whatever the stance on liberalisation might be!

In disputes at the margin, relating to conspicuous projects, one major question of alternative investment choice has escaped critical analysis: how worthwhile is it to step up our investment (with a predominant foreign exchange component) in petroleum in order to save foreign exchange on imports, along with all the associated 'elitist' development, as compared with stepping up investment in water for drinking and irrigation which involves no import substitution but subserves many other objectives? Petroleum can be imported at some price, but water cannot be. I am surprised that those who get quite worked up about *swadeshi vs bideshi* plants, for example, have totally ignored this larger issue.

Granted that no country has a totally free import regime, one needs a detailed exercise to determine: (i) the range of cost disadvantage of domestic products in excess of, say, 25 or 40 per cent, which level broadly indicates the "normal" level of import duty, and (ii) the more complicated question of technological lag in respect of designs and plant and machinery.

So far as (i) is concerned, the sad fact is that, due to low productivity across the board, and high prices of materials, and frequent resort to dumping in the world markets, the cost disadvantages are fairly ubiquitous and substantial. Yet, if these disadvantages are to be reduced over time, the interests concerned must be on advance notice to somehow narrow the productivity and price gap; exhortation will not be enough. Regarding (ii), assessments do tend, either way, to be less than wholly objective. My lay observation in the matter is that, in the past, there has been a tendency towards excessive protection and short-sighted attempts at substitution of *past* imports, rather than forward-looking substitution of *future* requirements, both reinforcing the technological lag. Some shake-up is absolutely necessary but its impact needs to be cushioned through stepping up of the relatively standardised orders for railway, power and telecommunications equipment on domestic producers, but here alleged resource constraints, actually poor and un-innovative management, is a bottleneck.

Resource constraints are familiar accompaniments of planned growth and have been known to bedevil plan-less low rates of growth also. It is the basic function of entrepreneurship, whether public or private, to overcome them—provided this function enjoys recognition and its operating arm, namely, management, is allowed adequate leeway, including the privilege of making a few mistakes on its own, which are generally cheaper than centralised mistakes with all the requisite prior approvals. The point is obvious in principle, but difficult of acceptance in practice, the moment one asks for flexibility and delegation down the line even within an over-all control system; it needs to be pushed, nevertheless.

It has taken the authorities a long time to perceive and accept the utility of adequate interest rates in real terms for mobilising financial resources. Even now, however, many of the popular saving media offer barely positive real rates. Those that do, like corporate deposits and debentures, have established the point that the mobilisable pool of resources is capable of manipulation for remunerative ends. This market borrowing, far more genuine than what has passed for it in the government budgets, would be a useful supplement to conventional 'plan' resources. It cannot make up a deficit of, say, Rs 10,000 crore in the Seventh Plan—if only because such debt has to be serviced at positive real rates of interest—but it should not be difficult to raise about Rs 500 to Rs 1,000 crore a year from this source.

Would such mobilisation tend to crowd out private investment, as Ahluwalia seems to fear? I doubt it for a number of reasons. First, unlike the successive pre-emptions of bank deposits for low-yielding approved securities and advances (as also for sick units and overdue advances), this mobilisation would be in successive rounds on market terms, not by administrative fiat. Second, larger availability of non-budget funds with public sector units should relieve the banks to some extent of their onerous financing of food, fertiliser, petroleum and steel, and thereby release funds for more flexible customers. Third, easier availability of medium term funds should enable public sector units to pay their bills to suppliers with shorter lags than they do now (provided their own performance improves). The danger on the other hand, is that this likely source could open up another window for concealed deficits and/or for the kind of improvident expenditure ideas that have received official blessing since the new bank proprietors also conferred upon themselves the 'rightful' authority to dispense bank funds. The market mechanism is a better and more effective safeguard against this danger than all the possible official checks and balances.

To conclude, may I express the hope that the younger generation of economists would apply their trained fresh minds to the problems of industrial planning and markets?

## Notes

1 If, as some have pointed out, there has been some improvement since the late seventies, it has to be more perceptible and sustained in order to have a leverage effect.

2 I have had serious reservations about the reliability of textile data ever since the 1950s: the formulae used for converting yarn into cloth have been consistently and increasingly wrong and misleading, and the growth of powerlooms and 'unregistered' imports and output have played havoc with the data. Anyone who travels around and sees for himself even in the remotest places (certain parts of Western Orissa, southern Bihar and eastern Madhya Pradesh excepted) bazars teeming with cloth and garment vendors and tailor shops of all price ranges, can establish the incredibility of official textile statistics and the level and pattern of cloth consumption derived therefrom. The data for sugar are known to suffer contamination from gur and jaggery.

3 It could be argued off the statistical record that the latter under-estimates the growth of consumer demand to the extent of the growing importance of unregistered imports and production, but a large part of these also percolate to the low income earners.

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## Boppana Oils

BOPPANA OILS, a new company, is offering 4.90 lakh equity shares of Rs 10 each at par to raise a part of the finance required for its Rs 3.64 crore project of processing annually 9,000 tonnes of crude rice bran oil into cooking grade oil based on the technology developed by the reputed Japanese firm of Yoshino Seisakusho. The subscription list for the public issue will open on July 15. The issue is managed by the Merchant Banking Division of Canara Bank. The plant is located at village Punadipadu near Vijayawada and lies in an area popularly known as 'the rice bowl of Andhra Pradesh' where crude rice bran oil is in plentiful supply. The company has been promoted by B G Chowdry and associates with equity participation by APIDC. The promoters are technocrats with substantial experience in manufacturing, marketing and finance management. The implementation of the project is progressing successfully and the plant is likely to be commisssioned for commercial production by August. The project will help effect saving on the foreign exchange which is currently being spent on imports of edible oils. According to the Chairman, B G Chowdry, the company's production of refined oil at optimum capacity would be 4,500 tonnes per annum which constitutes only a small fraction of the overall gap between demand and supply for edible oils. The by-products, namely, free fatty acid, wax and gums have a ready local market. The country has been importing massive quantities of edible oils every year to bridge the gap between demand and supply. Despite record domestic availability of edible oils in the 1983-84 crop year, imports of edible oil aggregated over 16 lakh tonnes. The imports during 1984-85 (upto May 1985) have been more than 13 lakh tonnes and the value is higher than Rs 1,319 crore of 1983-84. The company's shares will be listed on the Bombay and Hyderabad stock exchanges to ensure easy liquidity of shares. The investors in the company's share will be eligible for 80 CC, 80 L, 80 M and wealth tax benefits.

# The Communalising of Punjab, 1980-1985

**Dipankar Gupta**

*Any attempt to comprehend the problem of contemporary Punjab should begin by first accepting the reality that a new minority consciousness has emerged. In which case neither the ethnicised history of a community, such as the Sikhs, nor the mere existence of a communal party like the Akali Dal, can explain, singly or jointly, the specificity of this new phenomenon.*

*It is for anthropology and sociology to plumb the depths of this problem but only after the practitioners of these disciplines too realise the uniqueness of the event. For so many years these disciplines had only primitive communal givens to contend with and write about. This gave rise to the belief that communal mobilisations only occurred between certain culturally pre-ordained groups. It was as if every dyad of proven communalism was a pair bound by a very special and inherent tie of antagonism, such as between the Hindus and Muslims or between scheduled castes and upper castes.*

*Punjab over the last six years should have changed all that. It has demonstrated that communalism does not require that its passions be always traceable to hoary traditions in order to raise dust and settle it down with blood. The communalising of Punjab over the last six years provides the only active historical base for the comprehension of the problem.*

THE tragedy of Punjab today is not the making of Punjab alone. The entire nation is party to it and is implicated by definition in the emergence of a new minority consciousness among the Sikhs. Yet such an awareness has never clearly surfaced because of the uncritical acceptance that communal practices are sponsored only by communal parties. Once this readily assimilable position is taken one has almost no qualms in ethnicising an entire population such as the Sikhs as being inherently prone to fundamentalist diktats. The possibility that Sikhs may have other identities too is relegated into the background. One has also, as a consequence, no qualms, no analytical bewilderment either, with the term 'Hindu backlash'. Unmindful of the communal swagger that this term validates it is freely used to explain the repeated and large-scale violations on the Sikh community by the non-Sikhs (primarily Hindus). The diacritica of this new majority consciousness should not have gone unnoticed.

## THE NEW MINORITY

Any attempt to comprehend the problem of contemporary Punjab should begin by first accepting the reality that a new minority consciousness has emerged. In which case neither the ethnicised history of a community, such as the Sikhs, nor the mere existence of a communal party like the Akali Dal, can explain, singly or jointly, the specificity of this new phenomenon. It is for anthropology and sociology to plumb the depths of this problem but only after the practitioners of these discipline too realise the uniqueness of the event. For so many years these disciplines had only primitive communal givens to contend with and write about. This gave rise to the belief that communal mobilisations only occurred between certain culturally preordained groups. It was as if every dyad of proven communalism was a pair bound by a very special and inherent tie of antagonism, such as between the Hindus and Muslims (cow worshippers *versus* cow eaters), or between scheduled castes and upper castes (pollution *versus* purity). Punjab over the last six years should have changed all that. It has demonstrated that communalism does not require that its passions be always traceable to hoary traditions in order to raise dust and settle it down with blood.

This is perhaps the unkindest cut of all to scholarship but there is no social tragedy however great from which anthropology and sociology do not happen to benefit. Undoubtedly in this situation too these disciplines are privileged for Punjab in the last six years approximated a gigantic laboratory leavening communal passions over a slow fire. The resultant Hindu-Sikh communal dyad does not seem any the poorer, or feeble, in spite of its late nativity. The nationwide massacre of Sikhs in November 1984 should leave little doubt on this score.

That fateful day Indira Gandhi cast a long morning shadow as she walked through the opening that connected residence to party office. Home and office, domestic menials and party liege men, all merged into one which only an acute exercise in parallax separated. When she fell her shadow fell too, only it crumpled faster to form a shady and irregular hem around her. Her legacy too adjusted to this stone cold certainty within a matter of hours and stayed true to the shady fringe that hugged her to the last. In a tutored attempt at reflexive mourning the dark margins came to life and roamed at large, displacing national shock with private griefs, and bloodshed with a blood bath. Through every slain victim the body of the 20th century *Purusasukta*—or the communal nation state—was reconstituted amidst howls and arhythmic chants of '*khoon ka badla khoon*'. It is at dark moments such as these that the term 'violation' draws deep into its etymological roots.

The massacre of the Sikhs in November 1984 was no thoughtless throw away curve. It completed the circle of communalism with such vigour that its involuted overflow darkened every space and publicly tainted the Centre.[1] The swiftness of the xenophobic stroke conveys the superficial impression that it was primarily reactive in character, thus justifying the wide circulation of the term 'Hindu backlash'. Even if one were to entertain the phrase 'Hindu backlash' for the time being with its reactive connotations then of necessity one must conclude that the score is now even: action-reaction, point-counterpoint. From the time of Operation Bluestar no opportunity was lost by the Centre to humiliate the Sikhs as a community,[2] and on each such occasion it has earned greater sympathy from the Hindus. The normal divisions between the Sikhs, such as between Jats, Mazhabis, urban Khatirs and Aroras, shaded off into a single identity because in the making of communalism subtlety is positively shunned.[3] As a matter of fact it is the Sikh identity that is reactive as many Sikhs till the November massacres had other political and social identities as well.[4] The fact that neither Hindu activism recognised it in deed, nor Hindu pacifism in words, signifies first the fact of Hindu communal consolidation *vis-a-vis* the Sikhs, and second, that Sikh communal identification is not a mirror image of Hindu communalism.

## THE LIBERAL AND LEFT PREDICAMENT

The communalising of Punjab over the last six years provides the only active historical base for the comprehension of the problem. The close infighting, feints, and counter-moves making for the dense minutae of these short years have also had the contrary effect of spreading confusion because the reportage on these events pivoted around the vivid prototype of the Sikh provocateur. Even among those resolute liberals and deliberate secularists who are still not willing to 'blame the victims' for the 'backlash' it is difficult to find a complete, unabashed, unquestioning, and irrevocable partisanship with the victims and potential victims. Unused also to viewing victims of communal violence as anything but poor, helpless and the traditionally persecuted, they feel that they are somehow being cheated by the sheer prosperity and the confidence of the Sikhs. So every time they raise a voice for this new minority it is hollowed by a dubiety they are unable to position. This adds to the concentricity of the Punjab problem as the victims categorically spurn the patronising hand up.

There is, however, one cultural factor which has also contributed to this unification of the Sikh sentiment. Sikh religion is a very young religion and still retains much of the vigour of youth. It is a participatory religion in which there is one principal text, the *Granth Sahab*, uniformly recognised five principal *takhts*, and hardly any significant doctrinal emendations or conflicting schools of interpretation. The gulf between the laity and the hierarchy is nowhere as wide as in most other religions. The congregation do not sit back in awe and incomprehension but intone silently but knowledgeably with the *granthis* and *ragis*. But even this cultural factor does not stand alone. Sikhism has also been a vehicle in recent years for the assertion of the community's economic affluence. To be a Sikh was to be economically prosperous, independent, and enterprising:[5] and that is why many bleeding heart liberals are not sure whether they should bleed with the Sikhs or not.

For the left political formations too it would have been so convenient if only the Sikhs had been poor, helpless, and had sought patronage. The left could then have reflexively, and with a clear conscience, stood by the victims without being in two minds as they are today. Confused by the concentricity of the Punjab problem, confused too by the vigour and unanimity of the Sikh response they erroneously believe that the current intransigence in Punjab is an independent outcome of Akali politics. But this is certainly the lowest common denominator. If one works one's way through the positions that the left has taken over the years *a propos* of the Punjab, one finds that, on this issue at least, the entire gamut of left politics is quite rudderless. Several discordant voices pulling in different directions can be heard from the ranks of even the CPI(M). Many leftists, particularly in the CPI, even found words of praise for the Operation Bluestar which killed hundreds of innocent pilgrims in order to claim the lives of approximately fifty militants led by Bhindranwale.[6] Many among them also considered the Anandpur Sahab resolution as one potent with mischief which only reveals that they have either not read the resolution, or did not like the confident look of the Sikhs. The full story of the needless massacre at the Golden Temple has yet to be written, but in the following pages we will have occasion to return to a consideration of the Anandpur Sahab resolution only to show how its non-reading coupled with persuasive misinformation and disinformation by the Centre has created the chimeric image of the Sikh fanatic.

Still the left, particularly the Left Front government in West Bengal, gave evidence of what no-questions-asked-anti-communalism can be when they put a quick end to the anti-Sikh saturnalia in West Bengal. It must be remembered that anti-Sikh violence began in Calcutta even before the country knew that Indira Gandhi was dead. It was kicked off only after Rajiv Gandhi left West Bengal on hearing of his mother's death on a privileged basis. The rest of India, true to the old adage, thought of massacres the day after. This is why the accomplishment of the West Bengal government on this score is unparalleled. It cannot be equated with the other non-Congress states because there were no riots in these states in the first place and also because the Congress partisans here were nowhere as powerful as they were in West Bengal. The success of the Congress in the 1984 parliamentary elections in West Bengal should demonstrate that.

### THE CRUCIAL YEARS: 1980-85

Even if we take the years 1980 to 1985 as the active historical base for comprehending the communalising of Punjab, one must of necessity also be willing to move vertically and horizontally, and co-mingle various levels of India's polity and society to provide perspective to the last six years. One must, for instance, take into account the constraints under which the new political masters of India must function as micro chips of the old block; one must also be able to fathom why the promise of breathing on the open spaces of the 21st century must be accompanied by ethnic marginalisation. There was an opportunity earlier during the partition of learning some truths on issues such as these, but it was pushed aside in the euphoria of political independence and on the mistaken notion that there was something very special about Hindu-Muslim antagonism.

So history has obliged by repeating itself with the communalising of Punjab. It has again demonstrated the feasibility of making points with blunt instruments. But it would be a mistake to think that when history repeats itself then it is always as a farce the second time around. Be that as it may, the political centre stage today does not depict a single-act tragedy, or farce, but a vignette from a performance of epic proportions where climaxes heap upon climaxes leading exhaustingly to a wasted donouement. The donouement when it comes will reveal the waste, the tragedy, and possibly the farce too, but right now the unbridled need for climatic highs is still deliciously recalling the foreplay.

It helps to look back into the past to comprehend how the current passions were stoked, provided we use history and not let history use us. The past lends itself to the present with different degrees of valency: the recall subserving current obsessions. Many commentators of the Punjab situation have viewed the recently finished Sikh identity as an outcome of Sikh traditions and history with the present only offering another occasion.[7] As a matter of fact such unflexible uses of history are lit by spontaneous communal impulses so bright that the scholar-commentator often mistakes them for flashes of erudition. It is true that Sikh lore makes a great to-do about martyrdom, *peeri-meeri*, and so forth; and it is also true that the Akali Dal constantly returns to these evocative symbols. There are no doubts, least of all for Longowal, that the Akali Dal is a communal party, but there are grave doubts if the people of Punjab were politically always communal. If communalism were confined to the communal parties then the sluice gates of xenophobia could be jammed fairly effectively. It is only when it spills over that the circle of communalism darkens: the Centre and the periphery are equally tarred.

If one were to examine the career graph of the Akalis then it would become obvious that far from the graph depicting a steady curve riding high on lore, myths, history (mythstory), it actually features both peaks and troughs. If one wishes to go back to pre-Independence Akali politics the record would seem even shabbier. In 1946 when Master Tara Singh, prodded by the mythstory of the Sikhs, incomprehensibly lisped the demand for a separat Sikh state he found his constituency quickly leaving the room to have a hearty laugh outside.[8] He hurriedly withdrew this demand and was only able to re-establish himself much later during the partition by demonstrating his solidarity with India. If in those days this was accomplished by anti-Muslim bigotry, today it is accomplished by anti-Sikh xenophobia.

Incomprehensibly too, to the unreflecting scholar-commentator, some of the most outstanding Sikh Congress leaders of the past four decades had begun their political careers as Akali partisans. Their conversion to Congress did not make them apostates, nor were they declared *tankhaiya*. Swaran Singh and Pratap Singh Kairon are perhaps the best known among such men. Yet these notables did not cease being Sikhs, or even cease subscribing to the sectarian Sikh folklores and mythstory. If the Sikhs were really unable to distinguish between temporal and spiritual authority (as enunciated by the *peeri-meeri* duo) the Congress would never have won as resoundingly as it has in the past with Sikh votes, and neither would the Akali party have been in near disgrace in the 1980 elections. In the Sikh majority district of Ludhiana, for instance, the Congress won nine out of 12 seats in 1980.

## CHANDIGARH, WATER AND TERRITORY: TAKE OFF OF A SECULAR MOVEMENT

If there is a historic cut-off point for the current tensions communalising Punjab then it is 1980. That is the time around when the sluice gates of communal passions around Punjab were gradually being oiled and unjammed, and kept in readiness to be flung open. History stood by in attendance with its records and accomplishments, but in order of the most recent first. Not Guru Gobind Singh, nor the *gallughara* (literally, blood-bath) of Abdali, nor even the Akali *jathas* of the 1920s, got precedence. Like memory the past stretched slowly backwards from the present. Chandigarh, territorial disputes, and the sharing of river waters were the main issues then. Ironically the martyrdom of Guru Tegh Bahadur seems all important now. Five years of Congress rule inclusive of Operation Bluestar and the Sikh massacres of 1984 mnemonically revived the past, pushed away the present, and filled in the concentricity of a new communalism.

The demand for Chandigarh as the capital of Punjab; the demand that the sharing of river water between Punjab, Haryana and Rajasthan be adjudicated by the Supreme Court; and the demand that territorial disputes between Punjab and its neighbours be decided by the territorial tribunal, were among the principal demands of the Anandpur Sahab resolution. This resolution was passed in 1978 when the Akalis and Punjab in their grip and also a finger in the sticky Janata pie in the Centre. Yet, the adoption of the Anandpur Sahab resolution did not signal mass communal excitement in 1978. All the Akali Dal did was to file a case in the Supreme Court on the issue of inter-state distribution of water. What is more, the Akalis showed no enthusiasm to implement any of the ethnic demands contained in the Anandpur Sahab resolution. Paradoxically the Congress(I) while refusing to take heed of the secular elements in the Akali resolution were quick to recognise and make concessions on ethnic issues. The most remarkable being the publicised willingness of the Congress(I) to constitute a separate Sikh code bill, thus amending Article 25 of the Constitution.[9]

## SOURCE CREDIBILITY OF AKALIS

Why did the Anandpur Sahab resolution come to mean so much in the years following 1980? After all the Akalis were defeated in Punjab a scarce two years after the resolution was formally adopted. The majority of elected legislators in Punjab after the 1980 elections were Sikhs, but not Akalis. But by 1982 Sikh opinion began to give the Akali Dal a source credibility which it perhaps lacked even in 1978. To comprehend this and to plumb the depths of the communalisation of Punjab the period since 1980 deserves closer scrutiny.

The increasing source credibility of the Akali Dal can be traced to two factors. First, the apparent transparent honesty of the Akali demands. Chandigarh, the Akali Dal demanded, should be given to Punjab as it was built as the capital of Punjab at a site where the majority language was Punjabi. The Akalis further urged that disputes over water and territory be handed over to superior adjudicating bodies and that the Dal would accept the decision of these bodies. In spite of the apparent honesty of the Akali demands, that alone would not have given it its source credibility. At this point we must take into account the second factor which enhanced the Dal's credibility, *viz*, the fact that the Congress never squarely faced the Akali demand. The Centre put off any consideration of the major issues by (a) calling the Anandpur Sahab resolution secessionist; (b) by withdrawing from the Supreme Court the case that the Akalis in 1978 had filed on water disputes; and (c) by linking Abohar and Fazilka with Chandigarh. The last meant that the only way Punjab could get Chandigarh would be if it gave Abohar and Fazilka to Haryana in return which are deep in Punjab. The transfer of these regions to Haryana would entail the construction of a corridor, not unlike Danzig. Instead the Akalis contended that all territorial disputes be handed to the appropriate commission/tribunal, and the matter be decided as in all territorial disputes, on the principles of contiguity and village (not block or district) level language enumeration.

Instead of responding to this position openly, the Congress(I) kept talking of Abohar, Fazilka, corridor, Chandigarh, all at once. To make matters worse, after their accession to power in Punjab the Congress(I) in 1980 withdrew from the Supreme Court the case on water distribution that was filed by the earlier Akali Dal government. When the Congress(I) withdrew the case the only reason it gave was that the Akalis were being unneighbourly and unpatriotic in moving the court.[10] If this were the case surely the Supreme Court would have given the same judgment and the well curved Akali sail would then have hung limp.

None of these three major demands made by the Akalis were ethnic or communal. They were straightforward regional and secular issues. West Bengal, Karnataka, or Andhra Pradesh could have come up with similar demands. But unlike these states, also known for the strength of their regional political formations, the party sponsoring these demands in Punjab was a communal party, the Akali Dal. Also unlike any of the issues actually raised by West Bengal, or by any other non-Congress(I) state, there was no ambiguity in any of these three issues raised by the Akalis since 1980. Not one of these could be reasonably controverted: at least the Congress(I) did not exert itself to do so. On the contrary it insisted on communalising these demands by raising the bogey of Sikh separatism. This immediately struck a responsive chord in Hindu hearts uneasy with forebodings of another partition.

I would further contend that the issues of water, territory, and Chandigarh were not equally important nor equally transparent in their honesty in the eyes of the Sikhs. Though each of them merited a 24-carat status, it was Chandigarh that was the real solitaire—shone to resplendence by the heaviest of Congress(I) handlings. For a long time, till actually Operation Bluestar, it was the unassailable Akali position on Chandigarh that helped the Dal to get its act together *vis-a-vis* the Centre. Though the Anandpur Sahab resolution also talked of reworking Centre-State relationships this aspect received no salience with the people. With time, however, as the Centre tossed about the issues of Chandigarh, water, and territory, instead of firmly grappling with them, the validity of redefining Centre-State relationships found vindication and objectification in the eyes of an ever growing number of Sikhs. Surely and rapidly the Akali Dal kept gaining in source credibility such that it was even emboldened to talk in terms of *Dharam Yudh* (religious war) on August 4, 1982 even though a large number of Sikhs still thought it to be quite irrelevant. Operation Bluestar and the November 1984 Sikh massacres completed the communal circle. *Dharam Yudh* suddenly became the most relevant issue.

## FROM SECULAR TO COMMUNAL: HEIGHTENING OF MINORITY CONSCIOUSNESS

If Operation Bluestar was designed to smash communal extremism, nothing could have been a greater failure. Secular and regional issues went into the shade and Sikh opinion consolidated as never before behind its religious ramparts. It is not as if Sikhs objected to the necessity of using the army to weed out criminal elements from the Golden Temple. In fact they would have favoured a police action in the Golden Temple as early as in 1982 when A S Athwal, the DIG of Police, was allegedly murdered by extremists. The groundswell of Sikh hostility to the army action of June 1984 grew as it did primarily because the brutality of Operation Bluestar resulted in the deaths of a large number of innocent pilgrims. Bluestar was followed by similar operations in other gurudwaras too, where again, as in Dukhniwaran Sahab in Patiala, a large number of devotees lost their lives. That Bhindranwale is near canonisation in the minds of many Sikhs today is because Bhindranwale's blood mingled with the blood of at least 400 pilgrims who died during Bluestar. Other factors such as the over use of force, mortar, HASH, and tanks which devastated large portions of the Temple fell in line and stoked this initial anger further. The scale of and the devastation wrought by Operation Bluestar even horrified some loyal Congress(I) members.[11] When the Bluestar showed no signs of a flagging momentum, and was followed by large-scale harassment of Sikhs, young and old, men and women, more recalcitrants slipped behind fundamentalist ramparts and ideologically barricaded themselves. The November 1984 massacres successfully nationalised this tendency among Sikhs. The enemy was no longer the Congress(I) government but the Hindu *sarkar*. The source credibility of the Akalis became unassailable and their communal prognostications took on a clairvoyant character.

This is what source credibility is all about. Once an individual or an organisation wins absolutic credibility on certain issues, thereafter, that individual or organisation is deemed in the public eye as a source of unimpeachable credibility such that its other pronoucements are subscribed to without scrutiny.[12] Exhortations towards martyrdom, towards traditional obeisance to the temporal authority of the *takhts*, towards the defence of Sikh religion and traditions; in short exhortations towards *Dharam Yudh*, began to possess a credible ring. It is not as if the past heavily burdened the present in 1980, but rather it is the manner in which the Centre reacted to the Akali demands, which were initially secular that mnemonically revived tradition as an ideological rationale for activism. If, however, we fail to take note of this and argue instead that Sikh religious consciousness was from the beginning the motivating factor then we would be making a superficial use of history, and in objective terms 'blaming the victims'. It needs reminding that every community is capable of creating a history full of glory, sacrifice and martyrdom. The Tamils of Sri Lanka next door are doing it right now. The Druze, the Palestinians, the Iranians, the Bengalis, the Maharashtrians, to name a few at random, have all demonstrated this capacity in recent times.

## HINDU COMMUNALISM AND SIKH COMMUNALISM

The gradual consolidation of Sikh opinion around the Akalis did not produce Hindu communalism. The two proceeded apace but were pointed in different directions. While the various Sikh factions tilted at the Centre, Hindu communalists organised against the Sikhs. The communalism of these two communities are still not mirror images of each other. Most incidents of communal violence on the streets, such as the recent ones in Hoshiarpur district, or the earlier ones in Patiala, Ambala and Panipat, as well as the Sikh massacres in November, have occurred where the Sikhs are in a minority. Rural Punjab where Sikhs are a majority is tense, thanks to the ruthless persecution of Sikh youth, but there has been no major communal incident in Punjab villages. It hardly needs repeating that from the early years of this century a significant section of the Hindu community in Punjab has rallied behind the Arya Samaj to deny Sikhism its separate identity. The gurudwaras too were under Hindu mahants who made every effort to efface them of any special significance to Sikhism. Hindu idols were installed in the gurudwaras to convey the impression that the Sikhs had no special claim to these shrines.[13] The Sikh resentment of this was obvious and understandable. This explains why it was necessary to take Hindu idols away from the gurudwaras in 1905 to appease the Sikhs. But the Sikhs even then were against that brand of Hindu communalism that was aimed against them and not against Hinduism as such. This is what allowed Gandhiji to talk to the leaders of the Akali movement of the 1920s like a school master.[14] Neither did Master Tara Singh receive mass approbation for his advocacy of an autonomous, sovereign Sikh state in the 1940s. This strain still characterises Sikh politics even though it has become much communalised. Already stress lines are developing and there is not much time before the mirror cracks from side to side and Sikh communalism becomes a mirror image of the Hindu one.

Time is indeed running out. Perceptions and counter-perception—not issues—seem to be fuelling passions increasingly. The perceptions among Hindus that the Sikhs are out for another partition is an outcome of a non-reading of the Anandpur Sahab resolution aided in no small measure by the Congress(I)'s deliberate policy to misrepresent the situation The radio and the television flood out by sheer cusecs of verbiage any possibility of a fair assessment of the Anandpur resolution. The view has gained ground that the resolution is every bit as cretinuous as Hindu communalism would wish: that in fact it is a mirror image of Hindu communalism. The fact that the Anandpur Sahab resolution of 1978 nowhere makes the claim that Punjab should be under the sway of *khalsa ka bol bala* (or Sikh fundamentalist diktat) will come as a surprise to many. The volume, consistency, and intensity of government misinformation and disinformation on Punjab tightly interwove with the popular perceptions of the Sikhs among the Hindus to give the Congress(I) an unprecedented number of seats in the Lok Sabha elections of 1984.

## UNDERCUTTING OF MODERATES

This Hindu communalism is no backlash. The raw material of popular Hindu perceptions was carefully worked upon by the Congress(I) such that in Punjab today one has two completely distinct views, one Sikh and one Hindu, on almost everything. In the years 1980 to 1984 the government portrayed the Anandpur Sahab resolution principally as a religiously inspired secessionist document, when in reality it was far from that. From 1980 to 1984 the government refused to talk to Akali leaders breaking off talks on one pretext or the other. On three instances in these years the Akalis were ready to negotiate but had to return to Punjab in humiliation. The talks were still-born because of the abortive tactics of the government. On one occasion on the eve of a slated round of talks P C Sethi suddenly announced that there would be no talks till normalcy was restored. This lofty pronouncement was made without even pausing to consider why talks should be held regarding the restoration of normalcy if normalcy prevailed anyway. The fact that there was no public condemnation of Sethi's position at the national level is symptomatic of the success with which the government had won the credibility of the non-Sikhs. On a second occasion Bhajan Lal's Haryana erupted with anti-Sikh riots in several districts on February 14, 1984 forcing the Akalis to return to Punjab. On a third occasion on February 18, 1984, on the eve of another round of talks, the police unnecessarily created an incident in front of the Golden Temple thus forcing the Akalis again to return to Punjab. But what is perhaps unknown to many is that on the eve of the inauguration of the Asiad in 1982 an agreement was actually arrived at between the Congress(I) and the Akalis, where even Harkishan Singh Surjeet of the CPI(M) was involved. While the Akali leaders, such as Prakash Singh Badal, and Congress(I) mediators were toasting this event and waiting for the official declaration from the cabinet, Indira Gandhi suddenly announced that the agreement was not acceptable to her. This not only dumbfounded the Akalis but several Congress(I) members too.

All this was cutting into the moderate and majority section of Sikh opinion. While Longowal and the Aklai Dal were gaining in source credibility they were not really prepared to carry out a fundamentalist drive. The moderates were thus shoe-horned into a dilemma by the force of their own latent potentialities. Each rebuff by the Centre gave respectability, *albiet* in small doses, to refactory Sikhs, and any concession to these elements by the Akali Dal weakened Longowal's public commitment to the integrity of India, to the Anandpur Sahab resolution and to communal amity. The Akali Dal is careful to play only a limited risk game of communalist politics. However, the Akalis at this juncture chose unwisely not to conduct an ideological war against Bhindranwale for a dubious kind of united frontism which publicly overlooked the enemy at the door step. Yet they could not help but constantly look back over their shoulders to protect their flanks against militant depredations. As a consequence the Akalis had only a blurred image of the Centre's moves and an incomplete grasp of the 'Bhindranwale effect'. After Operation Bluestar they were made to pay dearly for this. The meeting at Khatkar Kallan in March 1985, to commemorate Bhagat Singh's death anniversary is illustrative of this situation. Unaware of the public mood after long months in detention following Bluestar, Longowal began his speech by asking the gathering to consider issues "with a cool head". The hostility with which the *kesari* turbaned crowd created to this prefatory comment compelled Longowal to change gears instantly and adopt a shrill and belligerent attitude. As a consequence he had also to swallow his bile and refer to Bhindranwale as a *Sant* and a martyr. Neither did this position him advantageously *vis-a-vis* the Centre. All the latter had to do in this situation was to gloat to the rest of India with a: "I told you so".

If there was any pride (*izzat*) left among the Sikhs after the massacre of their numbers in the Operation Bluestar even that was being forced out into the streets. First, the Sikh library and museum in the Golden Temple complex was set on fire a full two days after Bluestar was officially concluded. Then again instead of allowing the SGPC to rebuild the Akal Takht and the bullet marked sanctum sanctorum and re-cover its shame, the government handed the task to an interloper from a renegade Sikh sect, the Buddha Dal, which further aroused the ire and resentment of the Sikh masses. This was followed by the arrest and torture of hundreds of Sikhs reminiscent of the Naxalbari operation a decade ago. The crucial difference with the anti-Naxalites operation however is that in this case it is enough to be a Sikh to be worthy of suspicion. Other identities do not matter.

The country's military and para military forces have come down heavily on the restless Sikh youth, both in the countryside and in urban areas. The youth who were already frustrated with the tapering-off of the green revolution were immediately incensed. Because of the pressure on land, and the decreasing returns on agriculture, they were now on the look-out for scarce jobs in urban areas, in the Middle East, and elsewhere. The number of schools and colleges that came up in Punjab after the state was redemarcated, especially after 1969, is evidence of the growing need among Sikh youth for formal education as a passport for other economic opportunities. They had already lost their privileged position in the army after the British left. All this makes for a very volatile and inflammable situation. It is often believed that resentment can only be furthered by absolute deprivation and to that extent the believers of such a position are at a loss to understand why the economically prosperous Punjab should demand more water and employment opportunities. But as a matter of fact economic deprivation is quite as often viewed relatively as well. The fact that the first thrust of the green revolution set off a standard of living and a scale of emulation which became difficult to sustain as the years went by should also be remembered. The increasing costs of agricultural inputs, the rush to buy mechanised agricultural implements which in many cases only increased the household's financial liability, queered the pitch a good deal and rubbed off some of the shine generated by the first few years of the green revolution.[15] The Sikh cultivators, of course, saw the problem as an economic one, so much so that the Bharatiya Kisan Union was able to hold a large rally even after the Bluestar operation in Punjab. Yet this has not been able to counteract the extant suspicion among the Sikhs that it is the Sikhs alone who are being singled out for persecution. The manner in which the Akali Dal slowly gained charisma and source credibility as mentioned earlier bred and fed this suspicion till it became an unshakable faith.

### Army Desertions: Communalising Process in a Microcosm

The 'desertions' of Sikh troops is another indicator of the level of alienation among the Sikhs today. Here too we find in a microcosm the national forces at work in the communalising of Punjab. Not once has it been mentioned that in Ramgarh, from where maximum desertions took place, as many as 20 out of 23 officers left their position in the Sikh Regimental Centre and sought refuge with their families elsewhere. It was only after the officers left their posts and left their troops leaderless that mass anxiety gripped the soldiers—some of whom were just raw recruits. On the following Sunday when it is the custom that every officer of the Sikh Regimental Centre, accompanied by his family, attend the regimental gurudwara along with the soldiers, there was not a single officer present.[16] Neither did the officers ever hold a *darbar* with the soldiers on this issue. Past practices should have made the holding of *darbar* an occasion to explain to the Sikh troops the compulsions of the Bluestar operation which would have helped to assuage their feelings. The first desertions that took place was the desertion of these officers. It is a fact too that Sikh soldiers everywhere were disgruntled and disaffected after the Bluestar operation, but wherever their officers stood by them and provided leadership 'desertions' did not take place. What fear, what propaganda took hold of the minds of the non-Sikh officers to desert their posts will never be known with certitude, but certainly the army command succumbed as much as did the nation at large to the persuasive typification of the blood thirsty, disloyal, extremist, and secessionist Sikh.

This continues to be evident during the court-martial proceedings too. While the soldiers under trial pleaded guilty to desertions, the prosecution is still not happy. The army prosecution wants to prove that these undertrials conspired and that the conspiracy was led by their JCOs and NCOs. The prosecution is unwilling to accept that the soldiers acted spontaneously out of grief and anger and that they were provoked by the desertion of their officers. To accept this would weaken the case against the soldiers and the accusing finger would point instead at the government and the army brass. Hence the long hours of torture and deprivation to compel the prisoners to commit perjury. So far they have held out by reliving in their minds the martyrdom of Guru Tegh Bahadur.

### Centre Strikes Back: Ethnicisation in Reverse

Since Independence India has constantly been embroiled in tensions between the Centre and the federating units. This has emboldened political scientists to put down in print that the cultural variations in India will soon bring down the fragile unity in the Centre which embodies the nation state. A closer inspection at the points of conflict between the Centre and the federating units however reveals that cultural factors *per se* have never put any tension on the political unit of this country. In fact, it would be wrong to believe that the current tensions between the Centre and several states is actually the final efflorescence of the earlier movements of cultural assertion. If anything there have been three distinct phases involving three distinct kinds of political problems over this entire period with reference to unity and diversity, or cultural primordialism and political cohesion.

The first phase was with the demand for unilingual states. This was followed by nativist or 'sons of the soil' movements. This in turn, after a gap of several years, was followed by regional movements which demanded a re-working of Centre-State relationships. It would be incorrect to assume that the last is the logical culmination of the first, or that any of these political phases ever questioned the Indian Union.

The most cultural of the above three kinds of political manifestations was the linguistic movement demanding unilingual states. This movement actually demonstrated the possibility of a nation state celebrating its differences and thus questioning both the inevitability or the inherent superiority of the western type of nation state.

The nativist movements too always turned to the Centre for help and looked upon the Centre as the prime adjudicating body, much as the linguistic movements had done before them. The Centre yet again played the role of the arbitrator but not before it had gained some advantages for itself. Only with the regional movements of the 1970s and 1980s do we find, for the first time, purely secular and economic issues being raised to the forefront, and it is only now that the Centre seems most maladroit.

During the linguistic movements the Centre had to preside over the re-shaping of the administrative structure and boundaries of its constituting elements but as it did not have to deny the linguistic demands of any major linguistic group by acquiescing in the linguistic demands of another, we witnessed, as was mentioned above, a celebration of differences which defied the western model (which is also the RSS model) of a nation state. The nativist movements too provided no major challenge to the Centre for the ruling party in Delhi was never threatened by nativist movements. On the other hand, the latter was always willing to be co-opted into the former. There could be no better example of this than the Shiv Sena of Bombay. But with regional and secular movements the ruling party at the Centre, more particularly the Congress(I), was for the first time faced with a political formation that was hostile to it. Now was the time for the Centre to strike back. And the Centre struck back ethnically. It ethnicised secular issues in order to marginalise its opponents, one by one, from the national mainstream. The fact that the demarcation of state boundaries is superimposed by linguistic and/or religious markers provided the temptation for the regional political formations to lapse into the ethnic slot the Congress(I) was pushing them into. While Farooq Abdullah and N T Rama Rao came periliously close to it, the Akali Dal blundered straight into it.

The Centre's policy of ethnicising regional demands in Punjab was aided not merely by the fact that it was the Akali Dal that was playing the leading agitational role, but also because the Congress was able to place a communalising catalyst in the shape of Bhindranwale. It may be recalled that Bhindranwale's candidates were wiped out in the SGPC elections in 1979. But Bhindranwale was able to overcome this humiliation with the help of the state government. He was arrested for the murder of Lala Jagat Narain in 1981 but then the government dramatically released him. The manner in which he was arrested and released created an aura around Bhindranwale. The '*Sant*' had made it known that the police could arrest him only after he had spent a week in meditation in his hermitage, and he laid down the further condition that only proper *khalsa* Sikhs with open beards should be sent to take him into custody. The government acceded to this unprecedented request, and that too to a man who had, at that point, no standing in the Sikh community. His release soon after from prison added dramatically to his charisma. It was hard to believe that only a year back his candidates supported by the Congress were routed in the SGPC elections.

From then on Bhindranwale's prestige kept soaring. He bucked the Akalis to a pace and to a style of politics they were just not in the shape for. Sikh fundamentalism which did not figure even during the Master Tara Singh-led Punjabi Suba movement began to gain salience with the emergence of Bhindranwale. Operation Bluestar almost canonised him and for a while it seemd that Longowal had thrown in the towel. But he rolled with the punch and is finding his feet again.

Fortunately for Punjab, Longowal is not allowing the ghost of Bhindranwale to act as an *eminence grise* any longer. To this end he has publicly distanced himself from the faction led by Bhindranwale's father and Jathedar Talwandi. Fortunately too for Longowal he was able to assert his leadership over the Akali Dal on June 9, 1985 in Manji Sahab. Fortunately too, there are many economic, sectional, and old fashioned idealist interests left in Punjab which together, for different reasons, want the tangle to be sorted out fast and to unmake the communalising of Punjab. But unfortunately every day of procrastination only succeeds in communally titillating the environs, every instance of unwarranted police or paramilitary atrocity only aggravates the situation further. The Sikhs are not yet used to subservience. Their economic strength and prosperity allow them the extravaganza of defying the victimisers. But once the mirror image of Hindu communalism is reflected in Sikh communalism, then in the final climax of wargasm the fundamentalist Sikhs will ride the Congress(I) and turn the clock back for a long time to come. Well, might many say, good riddance like they said to Pakistan in 1947. But just think of the devastation of lives, the profligate expenditure of mortality, and yet another crippled limb that will never grow again like the heads of cabbages and kings do. We are all prepared after a fashion, to expect a wasted denouement, but one is never prepared enough for an irrevocable and avoidable disaster.

## Notes

[I have greatly benefited from discussions with Gautam Navlakha. I alone am, however, responsible for the shortcomings of the paper.]

1 See, "Who Are the Guilty?", People's Union for Democratic Rights (PUDR) and People's Union for Civil Liberties (PUCL), New Delhi, 1984.

2 See, "Black Laws in Punjab", People's Union for Democratic Rights (PUDR), New Delhi, 1985.

3 Scheduled Caste Sikhs such as the Mazhabis are known for their anti-Jat Sikh, and hence anti-Akali Dal, political preferences. For instance, over 90 per cent of the left organisation, the *Khet Mazdoor Sabha*, is made up of Mazhabi Sikhs. Giani Zail Singh was also successful in mobilising a large number of Ramgarhia Sikhs into the Congress(I). He himself is a member of this community. However, the Operation Bluestar seems to have obliterated these differences. The best illustration being the Scheduled Caste origins of both Satwant Singh and Beant Singh, the assassins of Indira Gandhi. It is also undeniable that the Delhi Sikhs who were in the past with Congress(I) openly supported opposition candidates in the 1984 parliamentary elections.

4 For a moving account of this, see Baljit Singh Malik, 'To Dare to Belong', *Lokayan*, New Delhi, 1985, Vol 3, No 1, pp 29-41.

5 Richard Fox, 'Urban Class and Communal Consciousness in Colonial Punjab: The Genesis of India's Intermediate Regime', *Modern Asian Studies*, 1984, Vol 18, pp 459-90; see especially pp 480-84.

6 The CPI(M) in two separate resolutions first praised Operation Bluestar and then criticised it. In the first resolution on June 3, 1984 they blamed the Akali Dal alone. The second resolution of June 6, 1984 they blamed both the Akali Dal and Congress(I). (*Statesman*, June 12, 1984). Even H S Surjeet of the CPI(M) charged the Akali Dal for separatist tendencies (*Times of India*, March 25, 1984). The CPI has been more unambiguous and consistent. It publicly proclaimed great relief that the Operation Bluestar had taken place (*Times of India*, June 7, 1984) and has not found it necessary to modify this position since.

7 Sudhir Kakkar, 'Legend as History', *Times of India* (1984). M J Akbar also inclines towards an identical argument in his book, "India: The Siege Within", Harmondsworth: Penguin, 1985, see especially pp 173-200.

8 Christopher Shackle, "The Sikhs", published by Minority Rights Group (Report No 65), London, 1984, p 7.

9 The Centre declared its agreement to amend Article 24 of the Constitution as a gesture of goodwill on March 31, 1984 (*Times of India*, April 1, 1984).

10 See also Government fo India's "White Paper on Punjab" of July 11, 1984.

11 Swaran Singh of the Congress(I) said on record that the Operation Bluestar was not necessary, "especially when other solutions were available". He went on to say that the sanctity of the Golden Temple was first defiled by the extremists and then by the government. "Two wrongs", he added, "do not make a right" (*Amrit Bazar Patrika*, June 17, 1984).

12 For an understanding of source credibility see, James A Davies, 'Sociology of Attitudes', in Talcott Parsons, ed, "Knowledge and Society", Voice of America Publication, 1968, p 25. I have tried to demonstrate the utility of this concept in greater detail elsewhere with refernece to the Shiv Sena movement in my book "Nativism in a Metropolis: The Shiv Sena in Bombay", Manohar Publication, New Delhi, 1982, pp 140-146.

13 Shackle, op cit, p 7.

14 See M K Gandhi, "Collected Works", published by Ministry of Information and Broadcasting, 1960-67, Vol 18, p 356; Vol 19, p 402; Vol 23, pp 229-30.

15 According to one estimate the rate of return on wheat for Punjab farmers fell from 27.28 per cent in 1972-73 to as low as 10.89 per cent in 1978-79. In 1977-78 it was an unbelievably low as 1.32 per cent. See Sucha Singh Gill and K C Singhal, 'Punjab: Farmers Agitation—Response to Developmental Crisis in Agriculture', *Economic and Political Weekly*, 1984, Vol 19, pp 1728-32; see p 1729.

16 These facts came to light in the military court-martial proceedings as Jabalpur on June 3, 1985.

# Irrigation Performance during Drought

**B D Dhawan**

*The extent to which agricultural growth is accompanied by increasing instability in crop output has been adequately probed. But the behaviour of crop output during drought years, both under irrigated and unirrigated conditions, has not been subjected to any thorough analysis.*

*The impression is that the Indian irrigation system is itself vulnerable to drought. Since the irrigation system extends to hardly 30 per cent of the country's crop acreage, it is conceivable that the diminution in crop output during drought could be mainly confined to the unirrigated segment of the farm sector. In that case the expert opinion about irrigation affording substantial insulation against drought appears plausible in a limited sense. This paper seeks to verify this insulation hypothesis.*

## Introduction

IRRIGATION is developed with a view to augmenting farm output, as also insulating rural economy against the calamity of failure of rains. While the output-augmenting role has been well investigated by research scholars, the same cannot be affirmed about the other role, namely, income and output stabilisation. To what extent added crop output ensuing from multifarious development programmes for the farm sector turns out to be more unstable than the earlier output—i e, to what extent agricultural growth is being accompanied by increasing instability in crop output—has been probed by a number of scholars (S R Sen, C H Hanumantha Rao, S K Ray, Peter Hazell, Shakuntla Mehra, B D Dhawan, S P Pal, etc). But the behaviour of the crop output during drought years, both under irrigated and unirrigated conditions, has not been subjected to any thorough analysis. It is, therefore, not surprising that one comes across contrary views on this matter.

When a drought appears to be of modest severity and grain stocks are high, the daily media carry assurances (emanating mainly from the Yojana Bhawan and the Krishi Bhawan) to the effect that there is no cause for alarm as irrigation has substantially insulated Indian agriculture against drought. This is in contrast to the widespread complaints emanating from the irrigators during the course of a drought that the water supplies from the irrigation works are inadequate in relation to demand. These periodic complaints have given rise to the impression that the Indian irrigation system is itself vulnerable to drought, an impression that is reinforced by the substantial reduction, revealed by subsequent release of grain output statistics, for the drought years. Since the irrigation system is hardly extended to 30 per cent of the crop acreage of India, it is conceivable that the dimunition in crop output during drought could be mainly confined to the unirrigated segment of the farm sector. In that case, the expert opinion about irrigation affording substantial insulation against drought appears plausible in a limited sense, namely, irrigation insulates substantially the irrigated segment, and not the whole farm sector, against drought. The cardinal question is: how does one go about verifying this insulation hypothesis?

## Methodology

Scholars and irrigation administrators, who have examined *ex poste* the protective role of irrigation works established during the British rule, quantitatively assessed the changes in irrigated crop area within a canal command (or a region served by one or more canals) during a drought. This irrigated area approach was necessitated by the absence of crop output statistics at individual canal command level. Stability of this area statistic (or its rise) during a drought period was, however, no guarantee that irrigated output did not fall below its normal level due to aridity and hot winds of the drought period. Thus, the irrigated area analysis provides only partial insights into the protective role of irrigation. Fuller insights can emerge from an analysis of crop output and crop income statistics, both of which have also a bearing on incomes of the landless classes—especially of agricultural labourers and village artisans.

So long as crop output statistics are not separately available for both the irrigated and the unirrigated segments, one has per force to take recourse to a time series of total output data from which one has to select at least two drought years which are of comparable intensity but are separated by a length of period during which the irrigation system has expanded perceptibly enough to make a marked difference to crop output. To the extent crop output during the latter-period drought of more irrigation facility is found to be less adversely affected in comparison to the earlier-period drought, one may conclude postively about the stabilisation role of irrigation. While computing the adverse impact, if any, the usual procedure adopted by scholars is to assess a normal magnitude of output for the drought year. It is against this normal magnitude (derived either as some trend value or an average value of the few years preceding the drought year) that the adverse impact of drought on output is adjudged. The pitfalls encountered in this approach need to be enumerated so that both the researchers and their readers can be on guard against erroneous inferences. First, it is very difficult, if not impossible, to select two drought years of comparable intensity. To go by the deficiency in normal rainfall during a year can be an inadequate measure of drought intensity. For, a deficiency in rainfall which occurs early in the wet season can affect crop output differently from one that is encountered in the middle of the season, or towards the end of the season. Again, a drought in one year may be preceded by a drought or above normall rainfall year, or a drought in one region is accompanied by a pervasive drought all round. Thus selection of two drought years of comparable intensity can prove faulty, giving rise to faulty conclusions about the protective role of irrigation.

Secondly, the results can be confounded if *ceteris paribus* clause of comparative analysis is violated. The two drought periods, even if of comparable intensity, may differ, among other things, in respect of (i) the underlying procedures employed for estimation of crop outputs; (ii) farm production incentives (e g, price support policy, production subsidies, government levy and other procurement schemes, etc); and (iii) the farm technology. The role of these factors cannot be so easily disentangled from the output impact of drought *per se*.

Thus drawing inferences from the behaviour of output in two comparable droughts can indeed be hazardous. The root of these hazards is the task of assessing what might have been the decline in output had there been no irrigation at all in the drought year. Though the task belongs to the realm of speculation, some workable methods have emerged from the literature on cost-benefit analysis. We wish to adopt these methods in this paper, though duly bearing in mind their own peculiar pitfalls.

The investigation is being carried out at the state level. For the period of the seventies, during which most states in India experienced at least one severe drought, such states are selected for which estimates of crop yield for principal crops are available both for the irrigated and the rainfed conditions. These estimates, taken alongwith crop area statistics, help us in building separate estimates of aggregate crop output for the irrigated and the rainfed segments of state agriculture. Using the rainfed segment as a 'control' for the irrigated segment, we assess the comparative performance of the irrigated segment *vis-a-vis* the unirrigated segment during a selected drought year. That is, per cent dimunition in aggregate irrigated output from normal or trend value (if any) during a drought year is compared with the corresponding diminution in the aggregate unirrigated output. If the former approaches zero, irrigation is inferred to confer total insulation against drought. If it is relatively less in magnitude than the latter, a case of partial insulation against drought is indicated. Only when the former exceeds the latter by a perceptible margin, one can conclude absence of a protective role of irrigation.

The principal pitfalls to be guarded against in this with-and-without approach are two-fold: (1) those which stem from the well-known limitations arising from the choice of a 'control' and (2) the externalities imposed by irrigated agriculture on unirrigated agriculture when both co-exist side by side. Let us first set forth the problem of externalities. The adverse external effect of irrigation on rainfed farming arises from (a) concentration of attention and resources on irrigated plots by farmers having partially-irrigated holdings and (b) diversion of traditional productive resources of adult male labour and farm yard manure from dry tracts to adjacent canal tracts where demand for traditional productive resources may rise steeply in the wake of irrigation. These adverse effects have been pointed out in the literature by a few very discerning scholars (D R Gadgil, Scarlett Epstein, V M Rao, etc). We believe that these adverse effects are a phenomenon of the initial stage of irrigated farming. These effects gradully vanish and are later reversed in direction (i e, these become beneficial effects) during the mature stage of irrigated farming. Anyway, the truly beneficial effect of irrigation on rainfed farming is a real possibility during drought time. This can arise *via* (a) the beneficial change in micro-climate due to extra evapo-transpiration from irrigated fields and (b) the roots of the rainfed crops tapping some of the seeped waters from the adjacent irrigated plots and the irrigation channels. In that case, per cent dimunition in rainfed output during a drought may be smaller than one that would have arisen in the absence of irrigation development. To what extent this underestimation is countered by the adverse externalities referred to above is as yet undetermined.

Among the usual pitfalls posed by a 'control', one has to ascertain that the drought in question did not impinge on the irrigated and the unirrigated segments of farm sector of a state in a differential manner. Such a possibility exists for large states—as indeed are most Indian states—where irrigation is not evenly distributed over space. For, drought may differ in intensity across regions of a state. Even where irrigation appears to be evenly spread on the basis of district-wise data, irrigation may be confined to heavier soils of the valley lands and the rainfed farming practised more on the shallower, eroded soils of the uplands. If that be the case, the output decline in the rainfed segment overstates the decline that could have occurred in the irrigated segment under natural conditions.

Finally, since the dependability of irrigation during drought has come to be recognised *inter alia* in terms of (a) source of irrigation and (b) characteristics of a source of irrigation, it is imperative to carry out an analysis of crop output for each source of irrigation separately. In the absence of source-wise yield (and area) statistics, we adopt the following stratagem, whence such districts within a state are identified as are dominated by a single source of irrigation. Inter-source performance in this paper is derived from such a sub-state analysis of irrigated crop output. Needless to add, such inter-source analysis also suffers from intra-state disparities in climate, soil, topography, etc. Though an attempt has been made to eliminate the effect of spatial difference in drought intensity—this is done by computing output elasticity with respect to rainfall deficiency—the results continue to be more of an indicative than cardinal value.

## The Data Base

The results are based on the drought of 1972-73 in the case of Madhya Pradesh, Bihar and Andhra Pradesh, and the 1974-75 drought in the case of Punjab, Haryana, Gujarat and Tamil Nadu. Most of our time series of output commence in 1970-71, by which time yield estimates based on crop cutting experiments (known as GCES estimates in contrast to 'annawari' estimates in vogue at the time of the British departure from India) were being compiled for the selected states on an extensive scale. The series could not be extended to include the drought of 1979-80 and 1982-83 because of a great lag in the availability of crop-wise irrigated statistics. The author hopes that some scholars would reappraise the results of this paper on the basis of experience of the subsequent droughts, especially those of 1979-80 and 1982-83 when grain output fell markedly.

As for disaggregative analysis, we have not proceeded beyond two main crop groups, namely, foodgrains and non-foodgrains. A more disaggregative analysis has been deliberately avoided for a variety of reasons, of which the following need specific mention. One is the lack of firmness of yield statistics at crop level—in an aggregative analysis one hopes for some cancellation of errors in the opposite directions. The second is the smallness of the set of crops for which output statistics are available both under irrigated and unirrigated conditions for a state.

Aggregation of diverse crop outputs has been carried out by using calorific units of crops as weights. Wherever the crop diversity does not permit the use of such a weighting scheme, constant farm harvest prices are employed for aggregation. We believe that the results of this paper are totally unaffected by the choice of the weighting scheme.

## Empirical Findings

### PUNJAB STATE

We begin with Punjab, the state with the highest growth rate in agricultural production. After the construction of the Bhakra and the Pong reservoirs the dependability of canal irrigation of the state improved substantially. Similarly, the extensive development of private tubewell irrigation (which totally displaced private dugwell irrigation) since the early sixties not only enhanced the dependability of groundwater irrigation but also added to the overall quality of the whole irrigation system of the state. Not only was the intractable problem of rising water table duly arrested but the conjunctive use of groundwater and surface water added to the farmers' flexibility in irrigation operation. One aspect of this flexibility is that tubewells during a drought can pump additional water from deeper underground reservoirs that are immune to the drought of that year. Thus, the extra demand for irrigation water arising either due to a shortfall in canal supplies on account of rainfall failure or due to enhanced evapo-transpiration needs of plants on account of dry weather (or both) can be met with the tubewell mode of irrigation so long as pumping operations are not curtailed by an energy crisis.

During the severe drought of 1974-75, when rainfall was 37 per cent below the state normal level of about 580 mm, there was hardly any downturn in the irrigated output of the state. Taking due note of the uptrend in irrigated acreage and irrigated yields, one may place the 1974-75 irrigated output to be about five per cent below its trend value for that year. This is indicative of a high order of insulation against drought. Both the tubewell-irrigated tracts and the canal-dominated tracts reveal a high order of protection from drought. In the extremely low rainfall region of Bhatinda and Faridkot districts where canals are the main source of irrigation, rainfall was 46 per cent below normal (440 mm), and yet the irrigated output was barely one per cent below its trend value for that year. Similarly, the irrigated output of the main tubewell region of the Central Plains (comprising of the four districts of Ludhiana, Jullundur, Patiala and Kapurthala) tended to stay-put on its historical course despite rainfall of this region dropping 43 per cent below normal (675 mm).

Because of the extensive development of irrigation on the one hand and the rainfed farming prevalent on (i) high rainfall, submontane region adjacent to the cool Himalayas and (ii) water-logged areas and riverine lands of high moisture content on the other hand, the performance of the irrigated segment during the drought of 1974-75 exihibited a high insulation to drought. Taking due note of the persistent downtrend in the output from the shrinking rainfed segment of the state, the decline in output amounted to three per cent below the trend magnitude. However, this cannot be taken as a foil or 'control' for irrigation which provides a beneficial spillover on the rainfed plots. A more appropriate indicator of what would have been the shrinkage in farm output without irrigation development altogether is provided by the neighbouring Haryana state where a comparable drought in the same year (rainfall 32 per cent below the normal level of 720 mm) led to a reduction of 42 per cent (below trend value) in output of the rainfed segment. Of course, the impact of the drought in Haryana on its rainfed agriculture was accentuated by the proximity of this state to arid western Rajasthan which also witnessed a severe shortfall in precipitation during the same time (50 per cent below its normal rainfall of 310 mm). Punjab's greater proximity to the cool Himalayas than to the arid Rajasthan should bring a somewhat lower reduction in output under wholly rainfed farming than is suggested by Haryana's figure of minus 42 per cent.

### HARYANA STATE

The irrigated output of Haryana state showed a marked downturn during the drought of 1974-75, falling 15 per cent below its trend value. Bulk of the fall is traceable to a reduction in crop yields. Furthermore, the reduction in the output of the foodgrain group is somewhat higher than that for the non-foodgrain groups—a similar differential is observed in Punjab too. When irrigated foodgrains are contrasted with unirrigated foodgrains, one is struck by the substantial protection afforded by irrigation during a drought: while the output of unirrigated foodgrains shrank by 49 per cent, that of the irrigated foodgrains fell by only 19 per cent. This is a noteworthy result on two counts: (1) the unirrigated foodgrains are dominated by less-water using millets, barley and pulses which possess intrinsically higher tolerance for rainfall deficiency and (2) the irrigated foodgrains comprise mainly of wheat and paddy, grown largely with HYV seeds possessing lower tolerance limits for water stress. Thus irrigation accompanied by a radical change in crop pattern or crop varieties need not add to output instability so long as it is dependable during drought time.

In the matter of reliability, the irrigation system of Haryana cannot be rated as high as that of Punjab—this mainly accounts for the superior performance of Punjab irrigation during a drought. Firstly, private tubewell irrigation in this state is comparatively less important in relation to canal irrigation. Secondly, canal irrigation is comparatively less backed by storage reservoirs—the western Yamuna Canal is simply a diversion work. Thirdly, Haryana has to share canal waters with Punjab (Bhakra) and UP (Yamuna river)—canal sharing arrangements are liable to come under strain during drought to the detriment of areas in the lower reaches of the canal network.

### GUJARAT STATE

This is another state where the output protective role of irrigation was highly commendable during the severe drought of 1974-75 when rainfall was 55 pepr cent below the state normal of about 725 mm. (The rainfall deficiency is computed with the aid of district-wise rainfall data of the state *Season and Crop Report*; the region-wise statistics compiled by the Meteorological Department of the Central government indicate a higher rainfall deficiency—66 per cent in Gujarat region and 69 per cent in the Saurashtra and Kutch regions.) The reduction in crop output of the irrigated segment was of the order of 19 per cent, three-fourths of which could be traced to the yield effect alone. Once again, the set of foodgrain crops exhibited slightly higher (21 per cent) dimunition than non-foodgrains; yet this dent by the drought was way below the dent (54 per cent) produced in the foodgrains output originating from the purely rainfed segment. The substantial output protection afforded by the irrigation investments is abundantly evident from the fact that overall the irrigated output declined by 19 per cent in comparison to the 55 per cent decline in the rainfed output.

Gujarat state, more particularly its Saurashtra and Kutch region, suffered a series of bad weather years during the first half of the seventies. While in the case of the Saurashtra and Kutch regions the drought of 1974-75 was preceded by two successive years of rainfall failure (58 per cent and 20 per cent below normal in 1972-73 and 1973-74, respectively), the Gujarat region had good rains during 1973-74 (36 per cent above normal) but poor rains during 1972-73 (44 per cent below normal). For reasons of these considerations—taken alongwith the fact of a comparatively high rainfall deficiency during 1974-75 itself—the adverse performance of both the irrigated and the unirrigated segments of the state agriculture turns out to be unduly high. This needs bearing in mind in any inter-state, comparative analysis of performance of agriculture during a drought.

Probing into the parameters that determine the dependability of the irrigation system, one finds the state canals are duly backed with storage works. However, canals hardly provide one-fourth of the total irrigation. Three-fourths of the irrigation is supplied by groundwater sources; tubewells and dugwells contribute irrigation in the proportion of 1:3. It must, however, be pointed out that in this state many groundwater structures, which are recorded as tubewells in the northern states of Punjab, Haryana and UP, are listed in the category of dug-cum-bore wells, and not tubewells. This implies that the intrinsic dependability of groundwater means of the state is higher than that apparently indicated by the relative share of tubewells vis-a-vis dugwells. Anyway, with regard to the dependability of deep dugwells and shallow tubewells, during the distress time of a drought, scholars must bear in mind the possibility of deleterious consequences on groundwater availability in the season following the drought year. In other words, the protective role of well irrigation during drought has to be appraised alongwith any penalty in output due to diminished groundwater supply (or reduced use of groundwater due to increased cost of pumpage due to excessive lowering of the water table during the drought year) borne by well owners in the subsequent year. Chances for such output penalty are high if (i) the subsequent year is also one of serious rainfall deficiency, (ii) the groundwater table is secularly receding on account of excessive development of well irrigation (including installation of heavy duty tubewells for meeting industrial and urban civil demand for drinking water) and (iii) the natural recharge of groundwater is poor, because of geological, climatic and topographical reasons. The delayed impact of drought on dugwell irrigation is briefly explored in the case of Tamil Nadu which is next taken up for discussion.

### TAMIL NADU

Tamil Nadu, which also experienced a drought during 1974-75, is an instructive case in more than one respect. First, crop yield estimates are, comparatively speaking, firm for both the irrigated and the rainfed segments. Second, all the principal sources of irrigation—tanks, tubewells, canals and dugwells—are encountered to permit some analysis of inter-source performance during a drought. Third, it is the first state for which results do not sustain the hypothesis that irrigation affords protection against drought, thereby stimulating a search for factors that erode the protective role of irrigation.

According to the Meteorological Department, the rainfall deficiency during 1974-75 was 31 per cent of the normal value of about 1000 mm—the district-wise data on rainfall, as published in the state *Season and Crop Report*, indicate a comparable deficiency of 32 per cent below normal. On the whole, the overall irrigated crop output fell 25 per cent below its expected value under normal conditions. Once again, the output of irrigated foodgrains is found to be dented slightly more than the non-foodgrains crop group. The adverse output impact results from reductions in both area and crop yield—12 per cent in irrigated area and 15 per cent in the overall irrigated crop yield. The corresponding decline in the rainfed agriculture was comparable to that of the irrigated agriculture, namely, 23 per cent below normal. (In the matter of agricultural output instability—as measured by the coefficient of variation—the irrigated segment of the state was found to be as unstable as the rainfed segment.)

From the viewpoint of dependability of the state irrigation system, one cannot rate it highly. Tubewell irrigation constitutes a tiny fraction (four per cent during 1978-79) of total irrigation, in which tanks that are known for their vulnerability to drought, account for one-third—the rest is equally shared between dugwells and canals. Canals are not fully backed by massive storage reservoirs, with a good deal of the catchment areas of the rivers lying outside the state, which is having a serious dispute on water sharing with the upper riparian state of Karnataka. Finally, the groundwater resource, which has mostly contributed to the development of new irrigation facilities since the mid-sixties, is under pressure due to overexploitation at several places.

Let us now explore source-wise performance. In the Pudukottai district, where tanks are the primary source of irrigation, the drought of 1974-75 was very severe indeed, with recorded rainfall dropping by about 55 per cent below the district normal of 925 mm. The irrigated output, with paddy as the pre-eminent crop within tank commands, shrank by 88 per cent. In comparison to Pudukottai, the drought in canal-irrigated Thanjavur district (this district accounts for half the canal acreage of the state) was less severe, causing a smaller dent in output. More specifically, consequent upon a 36 per cent reduction in normal rainfall of about 1170 mm of this deltaic district of alluvial soils, the overall irrigated output of the district (dominated by the paddy crop) fell 14 per cent below its normal value. The less-than-proportionate impact of the drought is partly attributable to normal rainfall conditions in the upper catchment of the Cauvery river, the principal source of canal waters in the state.

As for dugwell irrigation, we have analysed the data for two districts separately. These districts are Salem, where dugwells alone dominate in the irrigation system of the district, and Coimbatore where dugwells are used in conjunction with canal waters—to promote such conjunctive use the Lower Bhavani Canal is so scheduled that canal beneficiaries in odd-numbered distributaries receive water in one year and the even-numbered in the next year. The rainfall deficiency in Salem district—23 per cent in 1974-75 and 17 per cent in the preceding 1973-74 (N = 840 mm)—produced 22 per cent dimunition in irrigated output. The delayed effect of the drought of 1974-75 is noticed during 1975-76 when output was about 17 per cent below normal despite deficiency in rainfall during that year being only 11 per cent. In the case of the Coimbatore district, where dugwells and canals are of equal importance in total irrigation, the rainfall deficiency during 1974-75 was of the order of 26 per cent (N = 720 mm) though preceded by a 39 per cent deficiency in preceding 1973-74. Despite the greater severity of the two droughts in this district than in Salem district, the output reduction amounted to only 14 per cent. More importantly, one does not discern any lag effect on output during 1975-76 when a rainfall deficiency of 11 per cent occurred in this low rainfall district. This demonstrates the role of canal seepage in enhancing performance of well irrigation both during drought and after drought. If tank water supplies are also strengthened by promoting groundwater development in tank commands, the seepage of tank water, if tapped through dugwells and tubewells, can not only enhance the productivity of tank-irrigated farming but also impart it much-needed stabilisation.

The output performance of tubewell-irrigated tracts could not be assessed as there is no district in the state where tubewells alone constitute the mainstay of irrigation. All that we could unearth through analysis of tubewell aereage data is the noteworthy area flexibility of this mode of irrigation. The net irrigated area under tubewell irrigation, instead of undergoing a reduction during drought time, tends to expand. Part of the expansion could be due to governmental and other endeavours to establish new tubewells under crash programmes undertaken invariably in the midst of a drought. Adjusting for this factor, the area elasticity during drought for this mode of irrigation is around minus 1.4 as per the statistics of South Arcot district which has witnessed a noteworthy development of tubewell irrigation under private aegis. This means that a tubewell can extend irrigation to 28 per cent additional area if a drought of 20 per cent intensity occurs. Such a flexibility on a much lower scale is observed in the case of dugwells also. During the comparable droughts of 1968-69 and 1974-75 dugwell area elasticity with respect to drought intensity was minus 0.14 for the 1968-69 drought and minus 0.07 for the 1974-75 drought.

### ANDHRA PRADESH

Like in Tamil Nadu, the performance of irrigated agriculture during a drought in Andhra Pradesh is no better than that of rainfed farming. This is not surprising for two reasons. First, the two states have comparable irrigation sources—Andhra is fortunate that it has no noteworthy water disputes with other riparian states and it has no problem of overdevelopment of groundwater resource. Second, farmers in both the states reveal a marked preference for paddy over dry crops (millets, pulses, jowar and oilseeds) once they get access to irrigation. This is to some extent a forced choice in the case of surface irrigation works located in medium rainfall tracts. For, in the absence of individul field channels, field-to-field distribution of water takes place. Under such a water regime, dry crops are prone to suffer from periods of excess moisture that is best coped with by an aquatic plant like paddy.

Andhra Pradesh was fortunate to escape from the nation-wide drought of 1974-75, which was mainly confined to the coastal region of the state, without any deleterious impact on irrigated output. To begin with, the drought was modest in severity (21 per cent below normal rainfall in the Coastal Andhra region). Secondly, the drought occurred in the deltaic region having considerable waterlogging on the one hand and extensive development of individually-owned shallow tubewells ('filter points') on the other hand. When we turn to the more serious drought of 1972-73 which was an extremely bad year in the annals of the entire Deccan Plateau, the rainfall deficiency for the state as a whole was modest (being 18 per cent below the normal of 890 mm) but the Telengana region (which lies in the Deccan) witnessed more deficiency (32 per cent below normal as compared to six per cent deficiency in Rayalaseema and a one per cent deficiency in the coastal Andhra region). Yet, the drought made a serious dent in irrigated output which could be rated 28 per cent below trend value. This more than proportionate impact of rainfall deficiency on output arose because of the following reasons. One, the drought followed another drought in the preceding year when rainfall was 34 per cent below normal in Telengana, 27 per cent below normal in Coastal Andhra and 12 per cent below normal in Rayalaseema, implying thereby reduced groundwater availability in the subsequent year. Two, the drought was pervasive in the upper catchment of the Andhra rivers that fed Andhra canals which supply 47 per cent of the irrigation in the state. Three, the drought intensity is understated for 1972-73; the drought set in early in the kharif season (the main crop season of the state) and lasted till the end of September—the South-West monsoon deficiency was 40 per cent in Telengana, 27 per cent in Coastal Andhra and 25 per cent in Rayalaseema, amounting to a 33 per cent deficiency for the state as a whole. The corresponding dimunition in the output of kharif-irrigated crops of the state was 28 per cent below normal which was marginally less than the 32 per cent reduction observed in the rainfed output of the state for the same kharif season.

### BIHAR

At the very outset, it may be mentioned that the results for this state are of a preliminary nature. Since Bihar escaped from the drought of 1974-75, let us examine the impact of the 1972-73 drought. This year the South-West monsoon failed in the plains region by 40 per cent and by 16 per cent in the plateau region. The rainfall deficiency for the whole of 1972-73 averaged 26 per cent below normal (1240 mm) for the plains region, where the bulk of the state irrigation facilities are concentrated. The deficiency for the state as a whole amounted to about 30 per cent below normal. The irrigated output fell 25 per cent below its normal level (much of it due to shrinkage in crop yields). For this relatively high susceptibility to rainfall failure, one explanation would suffice. Though a variety of irrigation sources exist in the state, their reliability is low. Tubewells, both public and private, account for only one-fifth of the toal irrigation. But then the rural electric supply system of the state is weak—this is to be taken along with the poor management of public tubewells. Public canals constitute two-fifths of the total irrigation but are mostly of the diversion type—and their management is poor, more so during drought time. Both tanks and dugwells are of minor importance. The remaining sources (pynes, bundies, etc) can be rated no better than tanks in the matter of productivity and dependability during drought.

In contrast to rainfed agriculture, irrigated agriculture in Bihar shows up in an unfavourable light. While the rainfed output was dented to the extent of 14 per cent, the dent in irrigated output due to the drought was of the order of 25 per cent. It is quite plausible to envisage that in a very high rainfall area like Bihar, a rainfall deficiency of 30 per cent still leaves enough moisture for rainfed crops to mature without there being a proportionate reduction in output. On the other hand, a precariously irrigated agriculture can cave in due to a reduction in availability of irrigation supplies during drought. But before affirming such a plausible view, we invite readers' attention to the fact that the Bihar data—more so the data in respect of its rainfed segment—revealed some crass discrepancies which should caution us about the veracity of our findings. Let me illustrate this. Both the rainfed yield and the unirrigated area under wheat crop for 1972-73, as reported in the state statistical reports, were out of alignment of the whole time series under analysis. While the rainfed wheat area jumped to 1705 thousand ha (the range of the series being 529-684 thousand ha), the yield jumped to 912 kg/ha (the range of the series being 233-560 kg/ha). If no corrections were made for these questionable jumps in a crop that has considerable weight in the rainfed segment, we would have the preposterous result of output of the whole rainfed segment during the 1972-73 drought being higher than that of 1971-72, a year of above normal rains (16 per cent in Bihar plains and 24 per cent in Bihar plateau).

### MADHYA PRADESH

One does not come across a serious drought year in this sprawling state of good rainfall conditions during the seventies. Keeping in mind that departure upto 19 per cent from normal rainfall is viewed with equanimity in the official agricultural circles (such a year is dubbed as a 'normal' year), the 25 per cent deficiency in west Madhya Pradesh (N = 1070 mm) and 14 per cent deficiency in east Madhya Pradesh (N = 1140 mm) during 1972-73 are not indicative of serious water stress. Yet, the irrigated output fell 14 per cent below its expected magnitude; while the overall crop yield of the irrigated segment fell by 17 per cent, the irrigated area did expand by five per cent above its trend value. With little tubewell irrigation, the dependability of the state irrigation facilities cannot be placed on a high rating. Though tank irrigation is of minor significance, yet canals (43 per cent share) and dugwells (40 per cent share) are not reliable during drought—the dugwells are quite shallow.

Given the modest nature of rainfall deficiency, one is struck by the low protective performance of irrigation, more so when the rainfed output emerged totally unscathed from the drought. It is no doubt true that area-wise the irrigated segment is almost one-tenth of the rainfed segment, Also, wheat and rice dominate the irrigated segment whereas the rainfed segment consists of a highly diversified crop pattern in which low water-using crops with higher tolerance limits for water stress are duly present—pulses alone constituted 28 per cent of the total unirrigated area during 1972-73. If we restrict our comparison of the two segments of wheat and rice crops only, one observes hardly any difference in the performance of the two segments. More specifically, the combined output of irrigated wheat and irrigated rice fell by 19 per cent as compared to the 18 per cent fall in the combined output of rainfed wheat and rainfed rice. While this does indicate absence of a protective role of irrigation in the state, prudence demands more investigation of the matter with the help of the data for a really severe drought year for this state of rather high rainfall.

## Results of Inter-State Comparison

The inter-state comparison is being undertaken more with the view to (a) sizing up the results of our analysis in a summary form and (b) drawing inferences about the comparative performance of various types of irrigation works during drought time than simply assessing state-wise variations in the protective role of irrigation during a drought. For one reason, the state-wise variations based on the experience of a single drought year do not warrant the inter-state comparisons. No less important in this context is the uniqueness of each drought that renders even a temporal comparison for a single state of questionable validity, not to

TABLE : SELECTED STATE-WISE AND SOURCE-WISE RESULTS OF DROUGHT IMPACT

| State/Source of Irrigation | Normal Rainfall (mm) | Year of Drought | Intensity of Drought (Per Cent) | Elasticity of output w r t Rainfall Deficiency | | Remarks |
|---|---|---|---|---|---|---|
| | | | | Irrigated Segment | Rainfed Segment | |
| 1 Punjab | | | | | | |
| (i) Whole state | 583 | 1974-75 | 37 | 0.14 | 0.08 | (i) Beneficial external effects of irrigation on rainfed segment. |
| (ii) Canal irrigated area | 442 | 1974-75 | 46 | 0.02 | NA | (ii) Bhatinda and Faridkot districts. |
| (iii) Tubewell region | 674 | 1974-75 | 43 | 0.00 | NA | (iii) Districts of Ludhiana, Jullunder, Kapurthala and Patiala. |
| 2 Haryana | 721 | 1974-75 | 32 | 0.47 | 1.31 | Drought also in neighbouring Rajasthan state. |
| 3 Gujatat | 725 | 1974-75 | 55 | 0.35 | 1.00 | |
| 4 Madhya Pradesh | 1240 | 1972-73 | 20 | 0.72<br>(0.95) | 0.00<br>(0.90) | Figures in brackets for wheat and rice. |
| 5 Bihar | 1221 | 1972-73 | 30 | 0.83 | 0.47 | Data discrepancies in rainfed segment. |
| 6 Andhra Pradesh | 890 | 1972-73 | 33 | 0.85 | 0.97 | For kharif season only. |
| 7 Tamil Nadu | 997 | 1974-75 | 31 | 0.81 | 0.74 | |
| a) Tank (Pudukottai) | 923 | 1974-75 | 55 | 1.60 | NA | |
| b) Canals (Thanjavur) | 1168 | 1974-75 | 36 | 0.39 | NA | b) Mild drought in the catchment. |
| c) Dugwells (Salem) | 842 | 1974-75 | 23 | 0.96 | NA | c) Lag effect of the preceding drought year ( −17 per cent). |
| d) Dugwells (Coimbatore) | 718 | 1974-75 | 26 | 0.54 | NA | d) Conjunctive use of canal and well water. |

talk of inter-state comparisons. Our attempt to eliminate the distortion arising from the inter-state (and inter-source) differences in drought intensity of the selected droughts—by computing the elasticity of crop output with respect to rainfall deficiency (through a simple division of the per cent reduction in output by the per cent fall in total precipitation)—is not a wholly satisfactory course of action. To begin with, it ignores the time element in rainfall deficiency. Thirdly, it ignores the lag effect of rainfall condition of the years immediately preceding the drought year, or the spillover effects of a drought in the neighbouring regions.

The summary results are set out in the Table. In the case of the semi-arid states of rather precarious rainfall conditions, namely, Punjab, Haryana and Gujarat, the protective role of irrigation is tremendous. In the case of states of medium rainfall conditions, that is, Andhra Pradesh and Tamil Nadu, the protective role does not emerge. In the case of a high rainfall state, Bihar, the intriguing role of irrigation (in the sense of irrigated segment being more vulnerable to drought) is of questionable acceptance. A similar intriguing picture in the case of Madhya Pradesh is turned into one akin to that of the two southern states once the comparison is restricted to finer grains of wheat and rice.

Another noteworthy finding is that the crop group of foodgrains is found in most states to be slightly more affected during drought than the non-foodgrain crop group. This may be attributed to two factors. First, irrigated foodgrains comprise mainly of wheat and paddy, where HYV seeds have been extensively adopted by the irrigators. These seeds make exacting demand for water (i e, these have low tolerance limits for water stress). In the event of an early onset of a drought (or an advance knowledge that irrigation supplies are uncertain and inadequate), farmers are prone to cut back on their acreage under these crops. In case the drought develops later in the crop season, the yield may be adversely affected if the irrigation source lacks dependability. In either case of area or yield reduction by a considerable margin, adverse output effect can be considerable. In the case of wheat and rabi rice, the area effect is likely to predominate as these crops are sown when the south-west monsoon is already over; the extent of drought is thus fully known and farmers know better about irrigation availability from their own wells, as also from rivers and reservoirs. But for kharif rice bulk of the output reduction, if any, may be in terms of crop yield, and not crop area.

Second, non-foodgrain crops like sugarcane and cotton that are sown under irrigated conditions well before the commencement of the monsoon, are of long duration. In the event of a drought, farmers prefer to curtail their irrigation commitments to other crops and allocate their available water supplies to these highly, remunerative crops. Such preference is very marked in sugarcane tracts because sugarcane is a heavy user of all farm inputs, but with assured remunerativeness from sale to sugar factories govered by statutory price support for sugarcane.

## Main Conclusions

In this paper, the protective role of irrigation during a serious failure of monsoon rains has been appraised from the limited angle of crop output protection, without due assessment of irrigation's role in protecting incomes in the countryside as a whole. To the extent rural incomes are ultimately determined by farm output during drought, the insulation attained in crop output against drought with the aid of irrigation constitutes a major test of the protective role of irrigation. On this score, the evidence thrown up by our analysis of data for seven states of India is far from uniform. Of course, in a country of continental variations in natural endowment the experiences of man-made efforts are more likely to be diverse (and even contrary in direction) than be uniform.

In the case of Punjab, Haryana and Gujarat, states having precarious precipitation during the main south-west monsoon season, the protective role of irrigation emerges in good measure. In the case of Andhra Pradesh and Tamil Nadu states with medium rainfall conditions (normal level about 900-1000 mm compared to 550 to 750 mm for the three states of north and west India mentioned above) the protection afforded to crop output during drought is practically nil, in the sense that the diminution in output in the irrigated segment is comparable to that in the corresponding rainfed segment. For the two comparatively high rainfall states of Bihar and Madhya Pradesh (N = 1200 to 1300 mm), the irrigated segment turns out to be more vulnerable to drought than the corresponding rainfed segment. It must, however, be pointed out that (1) the results of Bihar are feared to be suffering from some glaring data discrepancies and (2) the results of Madhya Pradesh become similar to those of the two southern states when the comparison of the two segments of the farm sector is restricted to finer grains of wheat and rice.

Since the intensity of drought is found to diminish as one moves from a low rainfall region in the medium and high rainfall regions (as represented by the set of 7 states in our study), one must be on guard against concluding that protective benefits from Indian irrigation are inversely related with the rainfall level. (The temptation to infer such an inverse relationship is heightened by another inverse relationship of Indian irrigation, namely, benefits from irrigation are inversely related with rainfall.) In point of fact, the results of the inter-state (and intra-state) analysis should be taken more for their indicativeness of the comparative performance of the different sources of irrigation during a period of rainfall deficiency than for the comparative performance of irrigation among states during drought. Thus the highest vulnerability to drought is in respect of tank-irrigated farming for which the output shrinkage is much more than (i) reduction in rainfall below normal level and (ii) corresponding shrinkage in dry farming. Besides, timely repairs (including desiltation of tank-beds) and removal of encroachers on tank-bed land, tank irrigation needs strengthening through ground-water development within tank commands. Such conjunctive use of surface and groundwater can not only enhance the productivity of tank-based agriculture but also improve the quality of irrigation service (including its dependability during time rainfall failure).

In contrast to tanks, tubewells turn out to be quite immune to drought. Thus tubewells, especially when used in conjunction with surface irrigation works, offer a sure way of insulating agriculture against drought. However, this potentiality of tubewells can be eroded if public tubewells are not managed efficiently and crippling power shortages happen to plague the countryside. Deep dugwells and canals backed by storage reservoirs (or augmentation tubewells) are not far behind tubewells in the matter of protection against drought. In the case of dugwells the ill effects of drought on output may appear with a lag of one year. Thus, if two droughts come in a row, dugwell owners may suffer output losses during the latter drought unless dugwells are located within the canal or tank command where canal/tank seepage provides a useful antidote to reduction in natural groundwater recharge during a drought.

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## Premier Vinyl Flooring

PREMIER VINYL FLOORING is setting up a Rs 9.85 crore project for the manufacture of a new range of PVC floor and wall coverings at Sikandrabad in UP in collaboration with Pegulan Werke of West Germany, a world-renowned giant in the field. The products to be manufactured include PVC floor coverings, PVC floor tiles, PVC sheets/films, PVC wall coverings and PVC coated fabrics (leather cloth). PVC sheets/films and leather cloth are at present manufactured in the country, but the other products will be introduced for the first time in India. PVC floor coverings and tiles find wide applications and, on account of superior properties, will have better acceptance than marble tiles. The capacity of the plant is 5.5 million metres per annum. The company will shortly enter the capital market with a public issue of 17.50 lakh equity shares of Rs 10 each at par, out of which shares worth Rs 85 lakh are reserved for allotment to non-resident Indians. The issue is managed by the Merchant Banking Division of SBI.

# Gujarat Kisan Sabha, 1936-56

L S Vishwanath

*This paper discusses the role and activities of the Gujarat Kisan Sabha during the period from 1936 to 1956. The first part of the paper deals with the relations of the Kisan Sabha with the Indian National Congress, which is important for understanding the role of the Gujarat Kisan Sabha. The second part describes the struggles launched by the Gujarat Kisan Sabha on behalf of agricultural labourers, small landowners and tenants, the areas where they were launched and the issues raised in these struggles. Finally, an attempt is made to assess the role of the Gujarat Kisan Sabha during the period under review.*

THIS paper covers the role and activities of the Gujarat Kisan Sabha during the period 1936 to 1956. The All-India Kisan Sabha was started in 1936 at Lucknow. The Gujarat Kisan Sabha was one of the provincial units of the All-India Kisan Sabha. In 1956, the Gujarat Kisan Sabha became dormant. The dormancy of the Gujarat Kisan Sabha was mainly due to the Tenancy Act of 1956 also known as the 'Tillers Day' Act. This Act unlike previous tenancy legislations had a marked impact in the districts where the Kisan Sabha had been working, namely, Kheda, Baroda, Mehsana, Surat and Broach. Hence two points of time have been chosen to review the activities of the Gujarat Kisan Sabha: 1936 when it was started as a provincial wing of the All-India Kisan Sabha and 1956 when it became dormant.

This paper is divided into three parts. The first part deals with the relations of the Kisan Sabha with the Indian National Congress. This is important for understanding the role of the Gujarat Kisan Sabha. The second part deals with the struggles launched by the Gujarat Kisan Sabha on behalf of agricultural labourers, small landowners, tenants, etc, the areas or districts where they were launched, the issues raised in these struggles, and so forth. Finally, an attempt will be made to analyse the role of the Gujarat Kisan Sabha during the period under review.

## KISAN SABHA AND CONGRESS

The Congress of the pre-independence days and even subsequently comprised diverse ideological viewpoints and leaders including rightists, centerists, socialists and, till 1948, even Communists. Within the Congress there was a socialist group which included leaders like Jayaprakash Narayan, Kamladevi Chattopadyaya and Acharya Narendra Dev. This group of Congress socialists wanted to start a separate organisation for peasants as part of the Congress organisation.[1] But this was vehemently opposed by Sardar Patel and some others. The Sardar masterminded the Bardoli Satyagraha of 1928 and emerged as an important national leader. He was a trusted lieutenant of Gandhi. Gandhi, when out of prison, was busy travelling from Kashmir to Cape Comorin mobilising support for the freedom struggle. Gujarat affairs were left by and large in the capable hands of the Sardar. For the Sardar, anything that smacked of socialism or leftism was anathema. With his peasant background and as a shrewd leader he knew that a peasant organisation formed at the initiative of leftists had all the dangers of being dominated by them. He, therefore, opposed it. At the time of the Lucknow Congress (1936) the Kisan Sabha was not a peasant wing of the Communist Party of India, as it became later. On the contrary, the idea of Congress socialists was to have a peasant wing within the congress.[2] But this did not happen. The Sardar opposed it. Even Gandhiji did not like the idea of a left dominated peasant organisation as part of the Congress. The Congress socialists had hopes of support from Jawaharlal Nehru, who was President of the Lucknow session. In the 1930s Nehru had his 'Marxist phase' and socialist leanings. He participated in the deliberations of the Kisan Sabha leaders at Lucknow. Nehru did not wish to antagonise Gandhi. According to the perceptive analysis of Nehru's 'Marxist phase' by Bipin Chandra, Nehru realised that his Marxist leanings would cost him the support of Gandhi. He, therefore, "came back to Bapu's fold".[3] At the Faizpur session of the Congress, Nehru opposed the formation of Kisan Sabhas. He said "for the benefit of Kisans there is need for an association, but where Congress is working for Kisans in villages, there is no need to start Kisan Sabhas". Nehru's speech angered the Kisan Sabha leaders like Shajanand Saraswati (from Bihar) and Indulal Yagnik (from Gujarat). The leftists', especially Congress socialists', hopes of forming a peasant organisation within the Congress fold were disappointed. At Faizpur, the Kisan Committee adopted the CPI's red flag as the All India Kisan Sabha's flag and thereafter for all practical purposes the Kisan Sabha became the peasant front of the CPI.

The second point to note in the relation between the Kisan Sabha and the Congress is that one year before the Lucknow session, the Government of India Act of 1935, which provided for provincial autonomy and elections to provincial legislatures, had come into force. Elections were to take place to provincial legislatures. Both the Congress and the CPI wanted to enlist the support of a broad section of peasants. With this end in view, resolutions were framed by both the Congress and the left-dominated Kisan Sabha. The Congress resolutions spoke of reducing the burden of taxation on peasants, of fair rents payable by tenants, of moneylenders/landlords not charging exorbitant interest rates, of reduction of the debt burden on peasants, and so forth. Similarly, the Kisan Sabha resolutions at Lucknow called for fixation of interest rates on loans taken by peasants at six per cent; land revenues to be in proportion to the income from land; all indirect taxes on land to be abolished; ownership rights on land to be given to the tiller, etc. There were, of course, significant differences between the resolutions adopted by the Congress and the Kisan Sabha. The latter, for instance, came out explicitly in favour of abolition of zamindari while the Congress resolutions sidetracked this issue. Likewise, the Kisan Sabha was very categorical (this is clear from the resolutions) on giving ownership rights over land to the tiller. However, in spite of these significant differences, the fact remains that for political reasons and with an eye on the coming elections, both the Congress and the Kisan Sabha framed their resolutions in such a way that they could appeal to poor peasants, middle peasants, tenants, etc. It is significant that while the major resolutions of the Kisan Sabha speak of reducing the tax debt burden on peasants, land to the tiller, etc, the minor resolutions speak of provision of irrigation facilities, fair price for sugarcane and commercial crops (this was aimed at attracting middle peasants and other peasant classes who cultivated commercial crops) and imposition of death duty and inheritance tax on landlords and merchants. As Sunil Sen, who was himself active in the Bengal Kisan Sabha, has remarked, "at Lucknow the emphasis was on immediate demands which could be realised so that it could appeal to the broad masses of peasants".[4] So far as the left-dominated Kisan Sabha is concerned, it is clear that from the beginning there were two pulls. One was the ideological pull which made the Kisan Sabha resolve to fight for poor peasants, landless and small landowning tenants, agricultural labourers, etc. On the other hand, there was the political pull which stemmed from the CPI's political rivalry with the Congress and a desire to beat the Congress in the political game by having as broad a base as possible in rural areas. Thus the Kisan Sabha did not wish to close its doors on middle peasants. In fact, the Bihar Kisan Sabha leader, Swami Shajanand Saraswati expressed his concern about the large number of middle peasants who had joined the Kisan Sabha in that state.[5] In Gujarat, it does seem from the available evidence that upto 1946, the bulk of the Kisan Sabha's membership was from poor peasants and agricultural labourers in the districts of Broach, Surat, Kheda and Baroda. The Gujarat Kisan Sabha also had a following among the Bhil tribals of Panch Mahals and the Dhodias of Valsad before 1946. After 1946, following large-scale evictions of tenants in the wake of land reforms, evicted tenants came into the Kisan Sabha in large numbers. This remained the position till 1956. It is difficult to say how many middle peasants became members of the Gujarat Kisan Sabha. We do not have a break up which will give us some idea of the peasant membership of the Gujarat Kisan Sabha according to the size of their landholdings. It is however clear that, in Gujarat and in other states where the Kisan Sabha tried to organise the peasantry, lack of clarity about the target group who should be organised among a heterogeneous mass of peasants as well the political pull which made the Kisan Sabha pass resolutions with a broad-based appeal, created problems for it from the very beginning.

With this background, the issues raised by the Gujarat Kisan Sabha in its struggles on behalf of peasants and other groups such as agricultural labourers it tried to organise or rather failed to organise effectively become more intelligible. We may now turn to the struggles launched by the Gujarat Kisan Sabha.

### STRUGGLES LAUNCHED BY GUJARAT KISAN SABHA

As stated earlier, two broad phases can be discerned. One was before 1946 when the major issues taken up by Gujarat Kisan Sabha on behalf of peasants were lowering of rents paid by tenants, reduction of land revenue, giving ownership rights on land to the tiller of the soil and giving minimum wages to agricultural labourers. On behalf of the Halpatis in South Gujarat, who were agricultural labourers permanently attached to their masters as bonded servants, the Kisan Sabha also put forward the demand that the Halpatis should not be treated as bonded slaves but as human beings. After 1946, the demands on behalf of agricultural labourers recede into the background, and tenants and peasants, mostly small landowning tenants with upto five to seven acres who were evicted in the wake of land reform legislation, came to dominate the Gujarat Kisan Sabha. The 1956 Tillers Day Act, which benefited a sizeable number of tenants considerably weakened the Gujarat Kisan Sabha. Following the 1956 Tillers Day Act, the tenants who got land left the Kisan Sabha. Communist ideology and talk of land redistribution did not appeal to them.

For reasons of space only some of the struggles launched by the Gujarat Kisan Sabha will be described. The Kisan Sabha leaders tried to focus attention on various issues concerning peasants by holding meetings at different places, taking out processions, courting arrest and by submitting representations or petitions to the authorities.

In February 1938, the Congress was holding its session at Haripura. The Kisan Sabha decided to organise a procession to the venue of the Congress session. Swami Shajanand Saraswati agreed to come from Bihar for the march. The programme relating to the march was printed and distributed. As February 18 (1938), the day the march to the venue of the Congress session drew near, the Kisan Sabha's leaders heard that Section 144 had been proclaimed at Vithalnagar, the venue of the session. Enquiries were made from the Congress office but there was no confirmation regarding imposition of Section 144.[6]

On the day of the procession, some 10,000 to 12,000 kisans and Halpatis, mainly from Bardoli, Mandvi, Mangrol and Songad Vyara, assembled. They carried the red flag and shouted that "the practice of taking half share rent be abolished and Halipratha [system of bonded agricultural labour] should be abolished".[7] Till the processionists reached Vithalnagar no one stopped them. When news of the march reached the Congress leaders, Sardar Patel made an angry speech and criticised the Kisan Sabha at the Congress general body meeting. But the President of the Haripura session, Subhas Bose, said that the Kisan Sabha had become well established in the country and could not be disturbed. Indulal Yagnik, Swami Shajanand Saraswati and N G Ranga spoke to the assembled Kisans and Halpatis. Swami Shajanand said that the Kisans supplied "food, milk and ghee and their grievances must be redressed".[8]

In April 1938, the Thakore landlords of Mansa in Mehsana district raised the rent to be paid by tenants by 200 per cent. The tenants organised by Kisan Sabha protested against this increase. The tenants' crops were seized by the landlords. There was a fight and subsequently police firing. The secretary of the Gujarat Kisan Sabha was arrested. Against his arrest and police firing, a big meeting was held at Mansa. The Kisan Sabha leaders spoke at the meeting against increase in rents and police firing. It was decided to observe April 3, 1938 as Akhil Hind Mansa day.[9]

In the years 1938-39, the members of the Gujarat Kisan Committee which included Dinkar Mehta, Kamlashankar Pandya, Harilal Shah, Chotubhai Shukla and Ramachandra Kaushik, worked among the kisans of Mangrol and Mandvi talukas. Pangarkar held meetings and spoke to the kisans and halis.[10] Through Pangarkar's efforts an agreement was reached with the landlords of Mangrol taluka. According to the agreement (1) old tenants who paid rent as per old government rules should pay rent as per those rules; (2) tenants not effected by the old rules should pay rent as in previous year and should not be asked to pay more rent; (3) those tenants and landlords who wanted changes in the rent agreement should be bound by governments decision on rent to be paid; (4) till the government takes a decision, landlords should not evict the tenants from his land; and (5) the practice of bonded labour, that is, Halipratha, should be recognised as slavery. Landowners who wanted servants should enter into a contract with the servants. They should not force the Halpatis to work permanently for them.[11]

Significantly there is no reference in this agreement with the landlords on giving minimum wages to the Halpatis. The Kisan Sabha leaders when asked about this maintain that Kisan Sabha compaigned for doing away with Halipratha or the system of bonded agricultural labour and when bonded agricultural labour is done away with, minimum wages to Halis would be taken care of. In fact, in Gujarat and elsewhere in the country (Uttar Pradesh, Haryana, etc) where the Kisan Sabha tried to organise both the small peasants and agricultural labourers, demands for minimum wages on behalf of the agricultural labourers gave rise to problems. This demand was not well received by the other section of the Kisan Sabha's following, namely, the small peasants.[12]

From 1940 till 1946 the Kisan Sabha held a series of meetings in Baroda district (Sankheda, Mevas, Tilakwada, Padra, Dabhoi), Surat district (Mandvi, Mangrol, Songadh Vyara, Olpad talukas), Broach district (Hansot, Jagadia, Rajpipla, Valia talukas) and Mehsana district (Kalol taluka). The issue raised at these meetings were more or less similar. They included giving ownership rights to the tiller, reduction of half share or *sathbhag* rent charged from tenants by landowners, abolition of debts, etc. However, after 1946, the meetings arranged by the Kisan Sabha increasingly sought to focus attention on the large scale evictions of tenants. A few instances of these meetings may be given. In June 1951, a big meeting was held at Chameda village (Baroda district). The Tenancy Act of the Bombay government had led to large-scale evictions of tenants from the land they cultivated. In 12 villages land which "belonged to poor tenants had been seized by the Thakore landlords". The Kisan Sabha leaders asked the evicted tenants who had come for the meeting to occupy the land which belonged to them and be prepared to go to jail and face other consequences. The evicted tenants did as they were told. They occupied and started cultivating the land from which they had been evicted. The landlords called the police who came and arrested the tenants and beat them up. However, in spite of the police action, some of the tenants did not leave the land they had started cultivating.

Around this time (1951) a Kisan Sabha meeting was held at Kasadgam (Kheda district). It was attended by several thousand tenants. The Kisan Sabha leaders spoke to those assembled. They said that the tenancy rules passed by government were put to wrong use. The cultivators were evicted. They asked the tenants not to leave or surrender even a bit of their land out of fear. The tenants were also asked not pay more than ¼ of the produce as rent. Resolutions were passed after the meeting.[13]

The sixth and biggest conference (in terms of attendance) of the Gujarat Kisan Sabha was held at Vankal in Surat district in April 1953. The open session of the Vankal conference was attended by about 22,000 peasants. According to Kisan Sabha sources, the Vankal conference was the 'high point' of Gujarat Kisan Sabha. At this time (1953) the Gujarat Kisan Sabha had 21,000 members. The previous available figure of Kisan Sabha members for Gujarat is 7,000 in 1939.[14] (After the Vankal conference, attendance at meetings and membership declined, and the Kisan Sabha became dormant in 1956.)

Before the open session of the Vankal conference the Gujarat Kisan Committee met at Vankal. The land and tenancy question was discussed at length.[15] The Committee members observed that "on the one hand government was saying that land belongs to the tiller but at the same time implementing that policy had led to eviction of thousands of tenants who became agricultural labourers". But there was concealed tenancy. The so-called agricultural labourer who tilled the land had to pay half share rent to the landlord. To circumvent the rules he was no longer called tenant but he had to give half share rent to the landlord. The Kisan Committee expressed its dissatisfaction with this state of affairs.

The Kisan Committee resolved that in areas where the practice of paying 1/5 or 1/6 portion of the produce had come into vogue, in those areas, the local standing Committee of the Kisan Sabha should enter into an agreement with the landlords on behalf of the tenants on the portion of the produce to be paid as rent. The Kisan Committee also resolved that for implementing the tenancy rules relating to land to the tiller, the existing tenancy rules should be suitably amended by government and a commission should be appointed for this purpose. Finally, the Committee resolved that when the demand for Maha Gujarat conceded, then Adivasis (tribals) would be given a fair deal including their social and economic uplift. In the meantime, the Adivasis should get reasonable wages from forest labour co-operatives, bamboo and other materials should be supplied to them for building houses and they should be given free land.[16]

This review of the meetings of Gujarat Kisan Sabha and the issues raised shows that the problems of tenants, their eviction and high rents paid by them to landlords figure prominently. This was to be expected for two reasons. First, landlords charged high rents from tenants which was generally half share of the crop. Moreover, successive land reform legislation led to evictions of tenants. The evicted tenants turned to the Kisan Sabha for support and joined it in sizeable numbers. Second, the Kisan Sabha was the peasant wing of a political party which was ideologically committed to fighting against oppression by landlords of tenants. Through its meetings the Kisan Sabha sought to focus attention on what it considered the burning issues concerning tenants.

## ROLE OF GUJARAT KISAN SABHA

We may first deal with the question why the Gujarat Kisan Sabha became dormant following the tenancy legislation of 1956. Fortunately for Gujarat, we have studies which seek to evaluate the impact of the 1956 Tillers Day Act. The studies by M L Dantwala and C H Shah on "Evaluation of Land Reforms" and M B Desai on "Tenancy Abolition and Emerging Pattern in Gujarat" show that sizeable number of tenants in Gujarat, especially landless and poor tenants, benefited as a result of the 1956 legislation. Dantwala and Shah's study covers selected talukas in Maharashtra and Gujarat. We will examine the data only for Gujarat. The study is at two points of time 1956-57, the year of the promulgation of the Tenancy Act, and 1964-65. It gives specific information on movement up and down the agrarian ladder in Nadiad and Matar talukas in Kheda district of central Gujarat. This information is presented in Table.

The Table shows that in both talukas, the biggest gainers of the 1956 Tenancy Act were the landless tenants who arrived in the small farm category from below. The next group of sizeable gainers were the small farmers who moved to the medium farmer group. Both the landless and small tenants constituted the bulk of Gujarat Kisan Sabha's membership.

M B Desai's study of the impact of the 1956 Tenancy Act is for the period 1957 to 1964 and it covers nearly all districts in Gujarat. It shows that out of 8,90,758 tenancy cases disposed of by the land tribunals, tenants purchased ownership rights in 3,95,111 cases, that is in 44.35 per cent cases ownership rights were acquired by tenants.[17] P S Appu in his paper on "Tenancy Reform" shows that as a result of the 1956 Tenancy Act, ownership rights in Gujarat had been purchased by 7.73 lakh tenants out of 12.94 lakh tenants (more than half the total number).[18]

The implementation of land reforms has been tardy from the very beginning. Though successive land reform legislation (of 1946 and 1948) tried to improve on the previous legislation, there were always some loopholes which led to evasions and evictions. The 1956 Tenancy Act made the tiller owner of land and did not recognise new tenancies on a permanent basis. But there was provision for landowners to enter into annual tenancies. The landowners must have taken advantage of this provision. However, in spite of this, as these studies show, a sizeable number of tenants gained in Gujarat and became owners.

The question that needs to be raised here is that if the Kisan Sabha helped the tenants why did they leave it? The landless who gained land and the small peasants who got more land developed a vested interest in land ownership. The ideology of the communist-dominated Kisan Sabha which spoke of land redistribution did not appeal to them. The same thing happened in Kerala and Tamil Nadu, as K C Alexander's studies show. Tenant dominated peasant organisations in those states led by CPI in Tamil Nadu and CPI(M) in Kerala became dormant following land reforms which gave ownership rights to tenants.[19] Thus the 1956 Tillers Day Act was an important factor which contributed to the dormancy of the Gujarat Kisan Sabha.

From pre-Independence days, the Indian National Congress was committed to reducing agrarian inequalities through land reforms. After independence, a series of land reform measures were enacted. There was also consistent pressure from the left-led peasant organisation like Kisan Sabha for land reforms. As Alice Thorner has remarked in her paper, "the land reforms represented a response to the demands voiced by vigorous peasant movements which were active in many regions of the country at that time; we need only for reference Telengana, Tan-

TABLE : MOVEMENT (UP OR DOWN) ON THE AGRICULTURAL LADDER IN TERMS OF NUMBER AND AREA, FROM 1956-57 TO 1964-65

*(Reference base 1964-65)*

| Sr No | Nadiad | | | | Matar | | | |
|---|---|---|---|---|---|---|---|---|
| | Up (No) | Down (No) | Same (No) | Net Area (Acres) | Up (No) | Down (No) | Same (No) | Net Area (Acres) |
| (1) Large holders | 0 | 2 | 0 | – 17 | 0 | 1 | 24 | – 78 |
| (2) Big holders | 1 | 3 | 21 | – 24 | 8 | 13 | 51 | + 22 |
| (3) Medium holders | 13 | 9 | 154 | + 58 | 32 | 14 | 185 | +416 |
| (4) Small holders | 44 | 9 | 565 | +262 | 68 | 9 | 303 | +464 |
| (5) Landless | 52 | 0 | 37 | +113 | 116 | 0 | 74 | +711 |

*Source:* M L Dantwala and C H Shah, "Evaluation of Land Reforms", Vol I, University of Bombay, 1971, p 88.

jore, North Bengal, the Punjab and Uttar Pradesh. As the bills made their way through the state legislatures, the members were conscious of pressures from proponents and opponents of practically every caluse; their decisions were taken in the midst of widespread public discussion and loud clashes of opinion".[20]

By and large, land reforms could not achieve their objective of reducing the inequalities and inequities in the agrarian social system. This was because of factors inherent in the agrarian system and also loopholes in the land reform legislation which enabled powerful groups in the countryside to protect their interest in land. It is, however, acknowledged that of the several land reform measures enacted since Independence one measure that has had a fair degree of success in some states was that for giving tenants ownership right on land they cultivated through the Tillers' Day Act which made tillers owners of land by purchasing ownership rights of the land they tilled.[21]

Finally, we may discuss the role of Kisan Sabha and organisation of agricultural labourers. For ideological and political reasons the Kisan Sabha tried to organise the small peasants who constituted the largest group among the peasantry and agricultural labourers. Organising both these groups at the same time gave rise to certain dilemmas for the Kisan Sabha. Thus pressing for higher wages for agricultural labourers, especially landless labourers, hurt the small peasants most. The small peasants who own, say, five to seven acres of land employ agricultural labourers if the need arises. When free they themselves work either on exchange basis or for wages on others' farms. However, the fact remains that they did not like it when the demand for minimum or higher wages was pressed on behalf of landless agricultural workers. When faced with these dilemmas, the Kisan Sabha, rather than lose the support of the more numerous small peasants, did not press vigorously the demands of the landless agricultural labourers.

From the thirties, the communists have been organising the peasants through their Kisan Sabhas and forming organisations specifically for agricultural labourers in several parts of the country. However, only in some parts of the country such as Thanjavur in Tamil Nadu, Kerala and West Bengal have they succeeded in building up effective organisations of agricultural labourers. Agricultural labourers' unions in these states have put forward and won demands for higher wages, fixed hours of work and other benefits, while in other parts of the country, including Gujarat, in spite of their efforts, the communists have not succeeded in building up effective organisations of agricultural labourers. The reasons, as mentioned earlier, seem to be the heterogeneous character of the agricultural labour population in terms of caste and class. Divergent interests of small farmers and landless agricultural labourers plus the fact that they belong to different caste groups appear to hinder the growth of effective organisations of agricultural labourers in many parts of the country.

In areas like Thanjavur (Tamil Nadu) and Alleppey (Kerala) the presence of a large population of agricultural labourers, almost all of them belonging to scheduled castes, and also the fact that one of the areas (Kerala) has had long spells of communist rule, would seem to be favourable factors for growth of effective organisations of agricultural labourers.[22] The data indicate that barely three per cent of agricultural labourers in the country are organised in the form of effective unions.[23]

## CONCLUSION

In the late thirties (1938-39), the demands put forward by Gujarat Kisan Sabha were on behalf of tenants, agricultural labourers and bonded agricultural labourers (the Halpatis). However, after 1946 there was a shift. The problems of tenants who were harassed by high rents and also by evictions in the wake of land reforms come to dominate Gujarat Kisan Sabha.

If we examine the role and activities of the Gujarat Kisan Sabha not as an isolated case of a provincial unit of a larger all-India organisation, but in a broader perspective of the efforts of the communists to organise the peasantry and agricultural labourers since the thirties, it would appear that the Gujarat unit of the All India Kisan Sabha was a rather weak link in the chain of peasant movements and 'struggles' organised by communists in various parts of the country. This is because the left has generally been weak in Gujarat. Even in 1953 at the time of the Vankal conference when the Kisan Sabha's movement in Gujarat was at its peak, the Gujarat Kisan Sabha's following was insignificant compared to its following in areas like Bengal where the Kisan Sabha organised the Tebhaga Movement or Andhra where the communists organised the Telengana struggle.

From the beginning, that is from the thirties, a number of strands, political, ideological and what may be called the desire to take up burning issues such as evictions of tenants characterised the functioning of Gujarat Kisan Sabha.

The fact that the Kisan Sabha took up the cause of the tenants who for their own interest sought the Kisan Sabha's support only weakened the Kisan Sabha in the long run. Thus tenant dominated organisations of Kisan Sabha become dormant in states like Gujarat, Kerala and Tamil Nadu. Once the tenants obtained ownership rights they lost interest in the Kisan Sabha and saw in the very organisation which had supported them a threat to their interest.

## Notes

1 Indulal Yagnik, *Athmakatha* (in Gujarati). Vol V, Ravania Publications, Ahmedabad, 1979. Also see Kamalasherkar Pandya's *Veran Jeevan* (in Gujarati), Kamalasherkar Pandya Samman Samiti, Baroda, 1973.

2 The socialist group within the Congress wanted to gradually bring the rank and file of Congress to its line of thinking. They were, however, disappointed when they found this was not happening.

3 Bipin Chandra, 'Jawaharlal Nehru and the Capitalist Class 1936', *Economic and Political Weekly*, Vol X, Special Number, August 1975.

4 Sunil Sen, "Agrarian Relations in India: 1793-1947" Peoples Publishing House, 1979, pp 188-89.

5 D N Dhanagare, "Peasant Movements in India 1920-1950", Delhi, Oxford University Press, 1983.

6 Indulal Yagnik, *Athmakatha*, op cit.

7 Ibid.

8 Ibid.

9 Ibid.

10 Ibid.

11 Ibid.

12 S N Pandey, 'The Emergence of Peasant Movement in India: An Area Study', *Indian Journal of Industrial Relations*, Vol 7, No I, July 1971.

13 These Resolutions relating to payment of ¼ rent usually went unheeded. Tenants had to pay generally half share rent to the landlord. Evictions, of course continued, see Sunil Sen, "Agrarian Relations in India", op cit.

14 See Gujarat Kisan Sabha, *Muval Adhiveshan, Heval Ane Theravo* (in Gujarati), published by Gujarat Kisan Sabha, 1978.

15 Ibid.

16 Indulal Yagnik, *Athmakatha*, op cit.

17 M B Desai, "Tenancy Abolition and the Emerging Pattern in Gujarat", M S University of Baroda, 1971.

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20 Alice Thorner, 'Nehru, Albert Mayer and Origins of Community Projects', *Economic and Political Weekly*, Vol XVI, No 4, January 24, 1981.

21 P T George, 'Land Reforms in India', in "Rural Development in India: Some Facets", National Institute of Rural Development, Hyderabad, 1979.

22 K C Alexander, op cit.

23 See K C Alexander, 'Agrarian Relations and Organisations of the Rural Poor' in "Rural Development in India: Some Facets", op cit.

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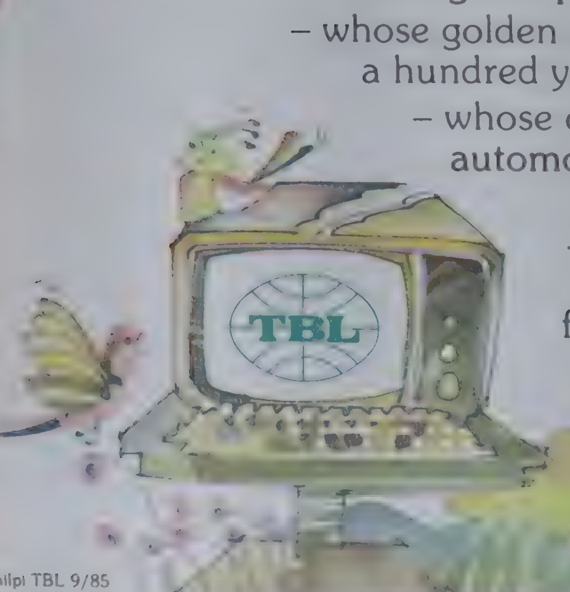

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# Right to Life, but . . .

A FIVE-MEMBER constitution bench of the Supreme Court delivered its long-awaited judgment in the Bombay pavement dwellers case on July 10. In what has been described as a 'landmark judgment', the Court has held that pavement and slum dwellers have no right to encroach on footpaths, pavements or any other place earmarked for a public purpose, such as a garden or a playground, and that they can legally be evicted under Section 314 of the Bombay Municipal Corporation Act. The judgment has evoked the expected responses from different quarters. The Municipal Commissioner of Bombay has welcomed it; the city's Mayor has exhorted the civic administration and the state government to take expeditious steps to remove encroachments after the expiry of the time-limit of October 31 stipulated by the Supreme Court; the Commissioner of Police is happy that there will be free movement of pedestrian traffic now with the removal of pavement encroachments; the Shiv Sena has viewed the judgment as a vindication of its campaign to stop the flow of 'outsiders' into Bombay.

For a lay reader of the Supreme Court's judgment, however, it is difficult not to be puzzled by some aspects of it. What is especially striking is the position taken by the Court on the principal argument put forward on behalf of the slum and pavement dwellers, the petitioners before the Court—that the right to life which is guaranteed by Article 21 of the Constitution includes the right to livelihood and since slum dwellers and pavement dwellers will be deprived of their livelihood if they are evicted from their slum and pavement dwellings, their eviction is tantamount to deprivation of their right to life. Two questions are involved here: first, whether the right to life includes the right to livelihood; and, second, whether in the specific case of slum and pavement dwellers, they will be deprived of their livelihood if they are evicted from their dwellings.

On the first question, the position taken by the constitution bench is categorical—that the right to life indeed includes the right to livelihood. The judges observe: "That which makes it possible to live, leave aside what makes life livable, must be deemed to be an integral component of the right to life." Further, "If the right to livelihood is not treated as a part of the constitutional right to life, the easiest way of depriving a person of his right to life would be to deprive him of his means of livelihood . . .". The judges then turn to the factual question of how far it is true that slum and pavement dwellers will be deprived of their means of livelihood if they are evicted from their slum and pavement dwellings. Here again their verdict is unambiguous. They say: "persons in the position of the petitioners live in slums and on pavements because they have small jobs to nurse in the city and there is nowhere else to live. Evidently, they choose a pavement or a slum in the vicinity of their place of work, the time otherwise taken in commuting and its cost being forbidding for their slender means. To lose the pavement or the slum is to lose the job. The conclusion, therefore, in terms of the constitutional phraseology is that the eviction of the petitioners will lead to deprivation of their livelihood and consequently to the deprivation of their life."

However, despite accepting that the right to life conferred by Article 21 of the Constitution includes the right to livelihood and despite acknowledging that it had been established to their satisfaction that if slum and pavement dwellers are evicted from their dwellings they will indeed be deprived of their livelihood, the judges proceed to sanction precisely such eviction on the ground that Section 314 of the Bombay Municipal Corporation Act which provides for removal of encroachments on footpaths or pavements "cannot be regarded as unreasonable, unfair or unjust". It is held that the existence of dwellings on pavements "is unquestionably a source of nuisance to the public" and further that the putting up of a dwelling on a pavement "is an act of trespass"—though it is clarified that while slum and pavement dwellers are using pavements and other public properties for an unauthorised purpose, "their intention or object in doing so is not to 'commit an offence or intimidate, insult or annoy any person' which is the gist of the offence of 'criminal trespass' under Section 441 of the Penal Code".

Judicial pronouncements are, of course, full of legal fine points and subtleties which those untrained in the legal method are very liable to miss, but a lay person may be forgiven if he draws the conclusion from the Supreme Court's judgment in the slum and pavement dwellers case that the Court has weighed in the balance slum and pavement dwellers' right to life and the pedestrians' right to use pavements, a Fundamental Right written into the Constitution and (as the judges themselves agree) reinforced by the Directive Principles of State Policy and the power granted to the Bombay Municipal Corporation under an Act passed in 1888 and has found it fit to uphold the pedestrians' right and the Municipal Corporation's power. It is difficult to avoid a sense of puzzlement over this position of the highest court in the land. Is the answer to the puzzle to be sought in the combination of a rather easy espousal of social justice and the cause of the poor at the level of rhetoric and a cold-eyed endorsement of the diktats of a class society when it comes to brass tacks?

## *Politics*

### Self-Deception on Emergency

REACTIONS to Rajiv Gandhi's *faux pas* on Emergency cover a very wide range of judgments. While his party colleagues have expectedly either extended staunch support to his pronouncements or tried to explain them away with an air of mild embarrassment, the response of non-Congress(I) commentators has also been varied. Some of them have tried to play the whole thing down as a casual riposte to an unexpected provocation, while some others have branded them as an unabashed declaration of a sinister intention. Overall, the hullabaloo raised by the Prime Minister's statements on the subject of Emergency—past and future—is an unflattering commentary on the naivete of Indian political circles.

First of all, it reveals an all too innocent faith in the late Prime Minister's repentance about the 1975 Emergency and her promise not to be so naughty in future, although even her most ardent admirer would hesitate to swear that Indira Gandhi was strictly wedded to 'the truth, the whole truth and nothing but the truth'. It is hardly a correct understanding of *real politik* to take the profession of even a most truthful politician at its face value.

Secondly, the current uproar also reveals the tragic lack of the awareness that, irrespective of all promises and professions, a creeping Emergency has already overtaken the country. Witness the enactment and operation of various extraordinary laws, stretching from the NSA to the Terrorist and Disruptive Activities (Prevention) Act in varius parts of the country. Under the present dispensation, not only many ordinary men and women are illegally liquidated by the police with impunity, even when a Raja in Rajasthan or a tribal ex-MP with close ties with the ruling party falls victim to the trigger-happy policemen, the wheels of the legal process are not seen to be moving with any alacrity.

Of course, one cannot ignore the one redeeming feature of the current situation—the absence of nationwide censorship that accompanied the 1975 Emergency. But the way a total blackout was imposed on the Punjab press and pressmen during and following the so-called Operation Bluestar and the way a particular journalist is being persecuted for his effective exposure of the Punjab events are tell-tale indicators of the ferocity of powers enjoyed by the existing regime in the sphere of news 'management'—that is, of course, excluding the 'self-imposed', 'responsible' restraints practised by the big papers.

Although there was nothing to inhibit Rajiv Gandhi from repeating his late mother's honeyed phrases about Emergency and although he has indeed created problems for his image-builders by blurting out his real opinions, most of the commentators on the subject have tended to obfuscate the issues by making superficial observations. Most particularly misleading are the attempts to underestimate the critical dimensions of the present situation by focusing on 'the mood of optimism and hope' in the country. Then, also, the emphasis on Rajiv Gandhi's personality as a deterrent factor against Emergency type of rule is not strictly relevant, even if it were true really. If the attempt to explain the 1975 Emergency at least partly, by reference to "the decomposition of the Nehruvian system of consensual politics and economic difficulties" be correct, then to reassure oneself by saying that "India in 1985 is very different from the India in 1975" is largely a self-deception.

There is little hard evidence so far to conclude that Rajiv Gandhi is personally allergic to anti-democratic norms and forms. More importantly, grave turns in politics are not determined solely or even mainly by the personality of individuals in high places. Situations mould or lead to changes of persons in power. The only difference between now and 1975 is that the Indian people may not be caught napping again—provided of course they do not allow the creeping Emergency creep much further.

## *Assam*

### 'Restoration of Democracy'

A CURIOUS feature of the announcement revoking the notifications under the Assam Disturbed Area Act of 1955 and the Armed Forces Special Powers Act of 1958 (as amended by the Armed Forces Assam and Manipur Special Powers Amendment Act of 1972) which was made in the Assam Assembly on July 18 is the rather transparent evasion about the circumstances in which notifications under these two Acts were originally issued. The official statement revoking the notifications suggests that the two Acts were initially invoked because of the "agonising times" that the state had to pass through due to the "protracted agitation over the issue of foreign nationals". The statement then reassuringly notes that "the restoration of democratic life in the state through the general elections in 1983 and the installation of a popular government however ushered in new hope for the creative and well meaning forces which started gradually asserting themselves under the leadership of the democratic government.

The fact is that the notifications in question were issued by the 'democratic government' that came into existence after the bloody and controversial elections of 1983. One of the first actions of that 'democratic government' was to declare, in stages, the whole area of the Brahmaputra valley as 'disturbed'. The 'popular ministry' assumed office on February 27, 1983; and on March 3, the first of the notifications covering, initially, fifty-five of the (then) 107 thanas in the Brahmaputra valley was issued, to be followed by further notifications on March 16, March 21 and April 10 by when the whole of the Brahmaputra valley came to be declared a 'disturbed area'. It is true that on an earlier occasion, at the height of the agitation when the supporters of the agitation had perpetrated unspeakable atrocities on linguistic and religious minorities in north Kamrup in early 1980, the whole state had been declared disturbed; but that notification was not renewed and the army which had been called in to restore law and order soon withdrew. But the notifications issued in the wake of the installation of the 'popular government' were periodically renewed. The chief minister has now merely announced his government's decision not to go in for fresh notifications. The law itself, of course, stands.

To suggest that the "restoration of democratic life in the state through the general elections in 1983" was in some ways a prelude, and a fairly extended prelude at that lasting over two years, for the eventual revocation of the notifications under the two Acts is thus not merely to be evasive about the origins of the notifications but also about the nature of the 'democratic life' and its restoration that the elections of 1983 brought about.

## *Tourism*

### Over to R and R

THE planned shift of thrust from 'culture tourism' to 'leisure tourism' (whatever these two terms might mean) that the Centre is reported to be planning to further encourage domestic tourism and attract more foreign tourists to India is quite in tune with the broader strategy of taking this country—which is increasingly being treated as synonymous with the dominant and affluent sections of its population—into the twenty-first century so assiduously being promoted by the Prime Minister. The plans revealed during the conference of secretaries to the departments of tourism in the state governments and the managing directors of the state tourism development corporations in Delhi on July 15 envisage vigorous promotion of domestic tourism as well diversification of overseas tourism. The diversification, apparently, would be away from the "traditional sightseeing tours centred primarily on places of cultural tourist interest and towards the rapidly growing holiday tourism market".

This is of a piece with the feverish efforts, at home and abroad, to 'sell' India—at any price. Indeed, the splurge of spending on the hotel industry and allied infrastructural services, which considerably predates the building of the vast facilities in Delhi and Goa in connection with the Asian Games and the CHOGM conference, clearly foresaw the shape of things to come. Increasingly official policy takes it as axiomatic almost that only a small segment of the Indian population can be involved in *consumption* (though the vast majority may be engaged in *production*). Far from doing anything to correct the imbalance, government takes such imbalance as a necessary aspect of the developing class relations which alone, it is assumed, will modernise the economy and propel the country into the twenty-first century. The task of the government is seen as being to push things along on these lines as rapidly as it can.

The country is thus speedily moving towards becoming a centre for rest and recreation of every kind of jaded appetite, foreign as well as domestic. The enormous increase in 'domestic tourism' has little to do with the desire, let alone the ability, of the masses of our people, or even of the middle classes, to travel into other parts of the country to experience the rich diversity of Indian life and culture; the boom is almost entirely related to the proliferation of expense accounts and the stupendous increase in conspicuous consumption financed out of black money.

This is now being sought to be camouflaged and rationalised by the development of overseas tourism. With the proposed diversification programmes envisaging, among other things, development of 'beach resorts and incentive holiday packages' one can foresee a situation where soon Indian beach resorts, fully developed beyond the reach of locals except those supported by the public exchequer or by industry and business, will be competing with places like Pattaya in Thailand—and naturally will be catering to a corresponding clientele. As many as 26 chartered flights have already been booked, we are proudly informed, to carry West German tourists (whose favoured resorts, as those of so many other Europeans and Americans, continue to be in South East Asia) directly into Goa and out between October this year and April next, the peak holiday season.

## *Oil*

## Widening Cracks

THE world oil scene has become hazy as the market situation reflects highly unreliable and uncertain trends. Over a year ago predictions were made by some so-called oil experts that oil prices would fall to about $ 20 per barrel. If this prediction had come true, oil prices should have fallen to that low level in the latter half of 1984. But almost a year has passed and oil prices continue to hold around $ 28 per barrel, though there are widespread reports that discounts are being offered by some exporters. At the current dollar exchange rate, the price of oil is almost equal to the earlier price of $ 34 per barrel that prevailed a couple of years ago.

More recent guesswork that oil price would decline has again not proved to be correct. It is true that the OPEC is a much less coherent and united force today than it was upto mid-1981. But it has not yet reached breaking-point despite the prolonged Iran-Iraq war that has deeply divided the West Asian OPEC countries. All the countries appear to realise that despite their deep differences they should not do anything that upsets the apple-cart of oil price too violently.

The basic trends influencing the oil export market have turned out to be continuously adverse since the latter part of 1981. World oil consumption is declining at an annual rate of about seven per cent. The short-lived recovery in oil demand that took place in mid-1983 could not be sustained. The trend in world oil prices cannot, however, be explained merely in terms of falling consumption. There have been basic structural changes influencing the world oil economy. With the growing weakness of oil companion and declining control over the oil supplies, the oil market got fragmented so to say among national suppliers. This also resulted in the growing importance of the spot market as the more enterprising governments deemed it to be advantageous to sell larger quantities through the uncontrolled spot market. It should be noted that the spurt in oil price during 1978-81 was triggered by relatively short-lived supply interruptions, as many countries thought it safer to build up inventories. This boosted demand over and above current consumption needs which were declined at a more rapid rate during 1978-81 than during the subsequent period when the oil price got stuck at a much higher level.

The structural changes in oil economy cannot be explained fully unless we take into account the growing oil production in non-OPEC countries. While total world oil production declined by nine per cent during 1978-84, production in non-OPEC countries increased by 20 per cent. As a result, the combined export volume of OPEC fell by about 50 per cent and its share in world oil production declined to about one-third. In an attempt to maintain oil prices at a high level OPEC countries had to continually reduce their export volumes voluntarily in a mutually agreed fashion. Although there have been accusations of violation of discipline, all OPEC members are aware of the high stakes involved and are therefore not crossing the line.

Although it would be difficult to predict the course of oil prices, which largely depend on volatile West Asian politics, certain developments need to be noted. The demand for oil may not decline further as the tendency to draw down stocks is said to be abating. The stocks of oil which were equivalent of about 85 days' consumption in 1983 had declined to 73 days' by the early part of 1985. It is felt that bringing down stocks to further lower levels would not be favoured by the developed countries for strategic/defence reasons. Since the world economy has almost got accustomed to the current price levels, for some time there may not be the same drive to pursue energy-saving measures.

On the supply side, however, the situation is fluid. The combined current account deficit of major oil exporting countries has declined from $ 18 billion in 1983 to $ 6 billion in 1984 and is likely to remain steady around this level. Pressures for increasing exports of oil by any particular country would not, therefore, be unduly severe. On the other hand, Iraq is reported to be improving its export capacity which is expected to materialise by end-1986. Saudi Arabia is also reported to be under American pressure to disturb the apple-cart. Recent Saudi utterances to that effect may destabilise the market. The current Saudi exports which are around three million barrels a day can be easily stepped up to nine million barrels per day in no time. If the Americans really decide to push down oil prices to give a boost to their slackening economic recovery, Saudi Arabia may find it difficult to resist the pressure.

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|---|---|---|
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|---|---|
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|---|---|
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# Ministerial Cotton-Picking

**THE** Union Minister for Agriculture and Rural Development, Buta Singh, is reported to have made a fervent plea for evolving a national strategy to raise the overall production of cotton from the present level of 77-78 lakh bales to 95 lakh bales by the end of the Seventh Plan. The occasion was the national level meeting on cotton production held in New Delhi on July 15. The meeting was attended by the state agricultural secretaries, agricultural production commissioners, vice-chancellors of agricultural universities, managing directors of state seeds corporations and agricultural scientists. The minister laid special emphasis on production of medium and long staple cottons. He pointed out that it would help narrow down the varietal imabalance if 30 to 40 per cent of the cotton area is covered by certified seeds in the northern states—major producers of short-medium staple cottons—and 15 to 30 per cent in other states.

Unless it is a case of gross misreporting, Buta Singh's inaugural speech betrays complete ignorance about the current state of the cotton economy. Cotton production is sought to be raised to 95 lakh bales (170 kg each) by 1989-90 from the present level of 77-78 lakh bales. It is pertinent to ask as to how the Minister for Agriculture has come to reckon the present level of production at 77-78 lakh bales. He has himself mentioned in his speech that cotton production during 1984-85 is expected to be as high as 85 lakh bales. This itself is a gross underestimate.

Is one to believe that the minister is unaware that the Cotton Advisory Board's standing committee representing industry, trade, CCI and the Ministry of Agriculture has placed the 1984-85 cotton crop at 92 lakh bales. This production level has been achieved without much extra effort. Going by the careful scrutiny of the ginning/pressing figures, knowledgeable persons in the trade reckon the crop at between 94 lakh and 97 lakh bales.

In the circumstances, there seems little sense in pleading for evolving a national strategy to raise production to 95 lakh bales by 1989-90. One can certainly argue that production cannot be said to have been stabilised at 95 lakh bales. But that alone cannot justify the fixing of the Seventh Plan target at a level that has already been achieved.

Buta Singh appears to be equally ill-informed about the variety-wise production of cotton. The production of long and extra long staple cottons is not 30 lakh bales as mentioned by him; it exceeds 45 lakh bales, the figure for 1984-85 being estimated at around 46/47 lakh bales. No less surprising is his clubbing of medium and long staple cotton together instead of medium with short staple cotton while talking about varietal imbalance. The question of varietal imbalance resulting from a major technological breakthrough in the production of long and extra long staple cotton on the one hand and virtual stagnation in the production of short-medium staple cottons on the other has been the subject of a lively debate in recent years. The new textile policy makes special mention about the need to rectify this imabalace.

Few will question the need to step up cotton production to meet the textile industry's groing raw material requirements as also to exploit the potential for export of long and extra long staple cotton. The various suggestions made by the agriculture minister in this connection—enhanced use of certified seeds, proper plant protection coverage and better economic practices—merit serious consideration by all those concerned with increasing production and productivity.

Buta Singh's inaugural speech is apparently based on crop estimates prepared by the Agriculture Ministry which have always lacked credibility. Indeed, if one were to go by the Agriculture Ministry's crop figures one would come to the absurd conclusion that the cotton textile industry has consumed over the years more cotton than what has been available—indigenous production and carryover stock plus imports minus extra factory consumption, exports and season-end stock.

It is indeed shocking that nobody should be in a position to vouch confidently for the size of the crop even though the current season has only about five weeks more to go. The Agriculture Minister would be well-advised to evolve a national strategy to strengthen and streamline the machinery for undertaking cotton crop forecasting which could be depended upon by the government for taking appropriate policy decisions. The *ad hoc* measures adopted this season in regard to export and import of cotton reflect poorly on the government's ability to assess the overall and variet-wise supply position of cotton and steer clear of pressures from the industry and farm lobbies. New Delhi's latest decision allowing import of one lakh bales of short and medium staple cotton and simultaneously releasing an equivalent quantity of long and extra long staple cotton has very little to do with the statistical position of these varieties. It is a very crude attempt at striking a balance between the apparently conflicting interests of the cotton mill industry and cotton growers.

The pronounced contra-seasonal weakness in the cotton market despite record mill consumption—averaging around 7 lakh bales a month—is convincing evidence of the comfortable supply position. Despite this being the fag-end of the season, the market has had to reckon with considerable pressure of arrivals. Most varieties of cotton are quoted at our very close to the season's lowest levels. The Cotton Corporation of India has had to purchase nearly 70,000 bales of long and extra long staple coton—mostly from the southern states—at support prices. This, of course, has turned out to be a highly profitable business because of the realisation of higher unit prices in exports.

The release of export quota of one lakh bales of long and extra long staple cotton (announced on July 10) has had no noticeable effect on the market. This is partly because of the ample supply of long and extra long staple cotton and partly because of the simultaneous announcement of import quota of one lakh bales of short-medium staple cotton. If the ruling prices are any indication of the supply position, the decision to import cotton is highly questionable. Imports will be channelised through CCI which will effect purchases on the basis of indents submitted by the mills and fully supported by letters of credit. Although Pakistani cotton is cheaper by Rs 200 to Rs 300 per candy mills are unlikely to show much keenness in availing of the opportunity. There is no shortage of short-medium staple cotton in the domestic market. CCI alone is carrying over one lakh bales of medium staple cotton. Prospects of any significant rise in cotton prices are generally rated low. The current season is expected to end with a fairly large carryover stock. On current indications—weather conditions and sowing reports—the outlook for the new cotton crop appears quite promising. Of course, it is much too early to make any meaningful guess about the 1985-86 crop.

## *Tea*

### Global Manipulation?

CURIOUSLY the steep downturn in the price of tea in the world market, over the past six months, seems to have drastically altered the publicly expressed perception of spokesmen of planters, traders and companies.

In 1983 and 1984 the price of the commodity, in both the domestic and international markets, kept soaring, and attained a new peak in the latter year. During those two years the spokesmen repeatedly stressed that the industry could hardly be blamed for the rise. Production of tea in India, thev stated, had stagnated during the early 1980s, allegedly because of the unremunerative returns received by planters. (A fear was even expressed that if the tea industry continued to be neglected then India, presently the single biggest exporter, might well be forced into becoming an importer in a decade or so.) While the quantum of harvest remained at about 560 mn kgs, domestic demand was estimated to have been going up by about 6 per cent per annum. This demand-supply gap, it was claimed, was largely responsible for the spurt in domestic prices in 1983 and 1984. The prices received by the industry in those years, it was added, were not at all high in a sense since the returns secured then barely covered the losses the planters, traders and companies had accumulated during 1980-83.

The growing domestic demand-supply gap, the spokesmen continued, partly led to a similar gap (and therefore price rise) in the international market, since India contributed half the quantum sold in the world market. The political turmoil in Sri Lanka, which affected the island state's essentially foreign tea trade, was said to be the other major factor behind the rise in the world price of the commodity.

It will be recalled that the Indian government took certain measures in an attempt to beat down the escalating domestic price of tea in 1984, an election year. Export of the cut, tear and curl variety—which is the leaf mostly consumed domestically—was banned and an upper ceiling of 215 million kgs was fixed for total exports; a minimum export price was stipulated to also ensure that the buoyant world price was not dampened, at least by Indian exporters. At best these measures had the effect of retarding the rate of growth of the price rise. In other words, the domestic price of tea kept going up though not at the earlier accelerating pace.

Now the international price has declined, tumbling from £ 2.80 per kg in January 1985 to £ 1.24 per kg last month. Spokesmen of the industry blame surplus production and poor world demand for this downswing. (Closer examination will reveal that such an explanation contradicts their earlier understanding of the factors behind the 1983 and 1984 price rise. Perhaps such contradictions are only to be expected since lobbies like those of planters, traders and companies would mostly propound half truths to rationalise their actions or make policy demands or shield themselves from blame.) However the real explanation apparently lies in the accumulation and manipulation of stocks by the handful of multinational corporations who control the global free market trade in the commodity; the involvement of domestic interests, particularly that of the subsidiaries of the corporations, in such global manipulation is an issue that is well worth probing.

The decline in the international price of tea, the United Planters Association of South India claims, has again pushed the industry into a crisis: traders and companies are said to be wary of making purchases. The Association has represented to the government that the restrictions on exports, introduced last year, be lifted. It is expected that with the removal of the restrictions the quantum sold abroad would go up forcing the companies and traders to step up their purchases at the auctioning centres.

The price at the domestic auction centres has moved down marginally by about five per cent in recent months, in a muted response to the world situation. Not very surprisingly, though the international price has tumbled and the domestic auction prices too has slid down, domestic consumers continue to pay last year's high price. Evidently UPASI and other such lobbies want the government to change the tea policy so as to maintain the current price levels. Their earlier arguments—of a demand-supply gap, of the spectre of tea imports—have been set aside and will probably be taken up again when the next big spurt in tea prices occurs.

## *Stock Market*

### Taking Too Much for Granted

COMPLETELY unmindful of the alarm signals flashed by the Union Finance Ministry and undaunted by the enforcement of rigorous margins and the high carry-forward charges in settlement after settlement, the stock market kept pushing its way throughout June. Precariously perched at its all-time high at the end of June, the market experienced its first nasty jolt on July 2 and 3 which was severe enough to induce considerable nervous bull liquidation resulting in one of the sharpest two-day decline in equity prices.

In view of the phenomenal upsurge in equity prices since the turn of the year, technical considerations alone could have produced the kind of sell-off that the market witnessed during the first two trading sessions in July. But market sentiment also appeared to have been unsettled by the UTI chief's observations on the state of the stock market as also by the massive raids by the income-tax authorities on the offices and residential premises of certain stockbrokers alleged to have been involved in 'benami' deals in shares and securities. The UTI chairman had expressed the view that the prices of some shares had reached "unreasonably high levels" and that the yield on several shares was as low as one to two per cent which was "unheard of in our country".

The overall behaviour of the market after the initial sinking spell in the beginning of the month gave one the impression that the market had taken the long overdue pause to allow technical forces to have their full play. The erratic behaviour of the south-west monsoon and the prolonged dry spell in several important agricultural tracts growing kharif crops also made for caution. With bullish fervour having cooled off appreciably, technical correction seemed to have got well underway.

But the timely revival of monsoon and reports of fairly satisfactory rains in almost all the important kharif areas had an electrifying effect on the general trading sentiment. Bulls reappeared on the scene. The sharp decline in carry-forward charges from a record high of 60 per cent to just 12 per cent emboldened bulls to assume an aggressive posture. In just three trading sessions on July 16, 17 and 18, the market not only recovered all the ground lost since the end of June but dashed its way to altogether new high ground. The *Financial Express* equity price index for Bombay registered a rise of nine per cent in three days and the all-India index rose by eight per cent.

The stock market bulls do not appear to be the least bothered by the thought that the renewed upsurge which has lifted equity prices to well above the "unreasonably high levels" has enhanced the risk of institutional sales. Apparently they are well prepared to absorb all the stock institutional investors might offload. Nor is the market inclined to pay any serious attention to what economists have to say about infrastructural inadequacies, increase in government's non-productive expenditure, low capacity utilisation, technological obsolescence and shortage of resources for financing the public sector outlay envisaged in the Seventh Plan.

The stock market is convinced that the policy initiatives the government has already taken and proposes to take—the Budget proposals, long-term import-export policy, relaxation of MRTP restrictions, delicensing of a number of industries, the proposal to formulate a new fiscal policy coterminous with the Plan—have created an altogether new environment in the country.

Record approvals by CCI for raising capital by non-government companies during the first four months of 1985 as also the impressive increase in the number of letters of intent, industrial licences and foreign collaborations and the marked acceleration in the assistance provided by financial institutions are cited as indicative of the emerging economic and industrial boom. Judging by the registration of industrial projects with the secretariat of industrial approvals, the response to the government's new liberalised industrial licensing policy has indeed been very impressive. That the private corporate sector has never enjoyed the kind of operational freedom it has now been allowed will be readily conceded. But the stock market is perhaps taking too much for granted. The wide fluctuations in equity prices which have become the order of the day underline the need for utmost caution.

## STATISTICS

### Index Numbers of Wholesale Prices

(1970-71 = 100)

|  | Weights | Latest Week (29-6-85) | Variation (Per Cent) Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85$^{++}$ | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| All Commodities | 1000 | 357.0 | 0.9 | 5.6 | 3.4 | 7.0 | 9.5 | 2.6 | 9.3 |
| Primary Articles | 417 | 335.8 | 1.4 | 2.6 | 4.3 | 4.8 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 320.1 | 2.2 | 6.5 | 7.6 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 301.1 | −0.6 | −6.4 | −3.1 | 2.3 | 15.1 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 562.5 | — | 9.0 | 1.4 | 2.6 | 7.6 | 7.5 | 20.7 |
| Manufactured Products | 499 | 339.9 | 0.8 | 7.3 | 3.2 | 6.0 | 8.7 | 0.6 | 5.2 |

### Cost of Living Index

|  | Base | Latest Month | Variation (Per Cent) Over Last Month | Over Last Year | Over March 1985 | In 84-85 | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| For Industrial Workers | 1960 = 100 | $600^{5}$ | 1.0 | 6.8 | 2.4 | 6.4 | 12.6 | 7.8 | 12.5 |
| For Urban Non-Manual Employees | 1960 = 100 | $546^{4}$ | 1.1 | 7.1 | 1.1 | 8.1 | 10.3 | 8.0 | 11.9 |
| For Agricultural Labourers | July 60 to June 61 = 100 | $518^{4}$ | 0.2 | 1.6 | 0.2 | 0.2 | 11.4 | 5.2 | 12.4 |

### Money and Banking

|  | Unit | Latest Week (21-6-85) | Variation Rs Crore (Per Cent in Brackets) Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85$^{++}$ | In 83-84$^{++}$ | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| Money Supply ($M_3$) | Rs Crore | 1,05,408 | 1,577<br>(1.5) | 15,100<br>(16.7) | 3,932,<br>(3.9) | 15,443<br>(18.0) | 13,031<br>(17.9) | 10,115<br>(16.1) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 53,929 | 1,915 | 9,161 | 4,947 | 8,460 | 5,757 | 4,748 | 4,965 |
| Bank Credit to Commercial Sector | Rs Crore | 70,977 | 384 | 9,871 | 1,500 | 9,447 | 8,830 | 8,247 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 2,766 | −537 | 1,306 | −233 | 1,419 | −104 | −977 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 74,270 | 1,332<br>(1.8) | 11,358<br>(18.1) | 3,084<br>(4.3) | 10,590<br>(17.5) | 8,550<br>(16.4) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets** | Rs Crore | 6,686 | −537 | 1,129 | −275 | 1,463<br>(26.6) | 943<br>(20.7) | 911<br>(27.2) | −1,468<br>(−30.4) |

### Index Numbers of Industrial Production

(1970 = 100)

|  | Weights | Latest Month | Average of Months* 1985 | 1984 | Variation (Per Cent) In 1985$^{++}$ | In 1984$^{++}$ | In 1983 | In 1982 | In 1981 |
|---|---|---|---|---|---|---|---|---|---|
| General Index | 100.00 | $216.9^{3}$ | 208.3 | 200.3 | 4.0 | 6.6 | 4.5 | 4.5 | 9.3 |
| Basic Industries | 32.28 | $248.5^{2}$ | 257.8 | 243.2 | 6.0 | 11.7 | 5.5 | 8.0 | 14.5 |
| Capital Goods Industries | 15.25 | $228.3^{2}$ | 222.9 | 227.0 | −1.8 | 9.2 | 4.3 | −0.9 | 8.1 |
| Intermediate Goods Industries | 20.95 | $162.1^{2}$ | 167.1 | 156.5 | 6.8 | 1.7 | 7.9 | 1.9 | 3.7 |
| Consumer Goods Industries | 31.52 | $162.1^{2}$ | 168.3 | 169.0 | −0.4 | 1.3 | 0.4 | 5.8 | 8.2 |
| Durable Goods | 3.41 | $210.2^{2}$ | 209.7 | 181.4 | 15.0 | 13.0 | 0.1 | 3.6 | −0.1 |
| Non-Durable Goods | 28.11 | $156.3^{2}$ | 163.3 | 167.5 | −2.5 | 0.5 | 0.5 | 6.5 | 9.3 |

### Foreign Trade

|  | Unit | Latest Month (March 85) | Cumulative for* 1984-85$^{+}$ | 1983-84$^{+}$ | 1984-85 | 1983-84 | 1982-83 | 1981-82 | 1980-81 |
|---|---|---|---|---|---|---|---|---|---|
| Exports | Rs Crore | 951 | 11,297 | 9,872 | 11,297<br>(14.4) | 9,872<br>(10.8) | 8,908<br>(14.2) | 7,803<br>(16.3) | 6,711<br>( 3.9) |
| Imports | Rs Crore | 1,414 | 16,485 | 15,763 | 16,485<br>(4.6) | 15,763<br>( 9.8) | 14,356<br>(5.0) | 13,671<br>( 9.2) | 12,524<br>(40.6) |
| Balances of Trade | Rs Crore | −463 | −5,188 | −5,891 | −5,188 | −5,891 | −5,448 | −5,868 | −5,813 |

### Employment Exchange Statistics

|  | Unit | Latest Month (March 85) | Cumulative for* 1985 | 1984 | 1984 | 1983 | 1982 | 1981 | 1980 |
|---|---|---|---|---|---|---|---|---|---|
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,744 | 23,744 | 22,603 | 23,696<br>(7.9) | 21,953<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) |
| Number of Registrations | Thousand | 454 | 1,362 | 1,681 | 6,439<br>(−1.8) | 6,555<br>(11.8) | 5,862<br>(−6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) |
| Number of Vacancies Notified | Thousand | 49 | 150 | 162 | 734<br>(−11.4) | 828<br>(1.0) | 820<br>(−8.4) | 895<br>(6.6) | 840<br>(−4.1) |
| Number of Placements | Thousand | 29 | 86 | 101 | 406<br>(−16.5) | 486<br>(2.5) | 474<br>(−6.1) | 505<br>(5.2) | 480<br>(2.6) |

* For current year upto latest month for which data are available and for corresponding period of last year.

** Excluding gold and SDRs.

+ Variation in current year upto latest month for which data are available over corresponding period of last year.

+ + Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript$^{1}$ indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

# R and D Based Growth

**Hansavivek**

*HINDUSTAN LEVER* is setting its sights higher. It has submitted applications to the government for approval of investments in several projects in chemicals, petrochemicals, export-oriented ventures, etc. Meanwhile, its fertiliser complex project at Haldia in West Bengal has reached an advanced stage of erection. The drug intermediate project at Jammu has already been commissioned. The export-oriented herbicides project at Kandla was commissioned in June 1984 and the company exported 528 tonnes of the product during the year. The company has turned in good results for 1984 which was the first year when the full impact of transfer of domestic businesses of edible fats, dairy and AFS to Lipton India, pursuant to the scheme of reorganisation, influenced business operations. The company's turnover amounted to Rs 539 crore against Rs 501 crore in the previous year, even though Rs 66.60 crore relating to the transferred businesses was excluded. The increase of turnover from the rest of the businesses more than made up for the shortfall attributable to the transferred businesses. Gross profit was only a shade lower at Rs 54.85 crore against Rs 55.98 crore. With reduced provisions for depreciation and taxation, however, net profit increased from Rs 18.56 crore to Rs 21.68 crore. The total dividend of 24 per cent is covered 1.93 times by earnings as against 1.77 times previously. The company continued its thrust in exports, and export turnover, including that of subsidiary, reached a new high of Rs 74 crore. The new 100 per cent export-oriented ventures in the KFTZ for the manufacture of herbicides and garments registered export orders valued at over Rs 13 crore in the very first year of commercial production. The company also made fresh inroads in the North African markets by exporting detergent powder and packaged tea, and consolidated its position in Europe and Japan for exports of value-added sal fat. Prices of non-edible soap making oils increased abnormally during the year.

R and D efforts enabled the company to bring about some economies in manufacturing costs and reduce the impact on the end price of the products. The company was particularly successful in reducing the cost of Surf detergent powder which enabled it to hold prices for the fourth year in succession. The modernisation of manufacturing units and cost effectiveness programmes in the soap and detergent factories progressed satisfactorily. Sales volumes of nickel catalyst and fine chemicals improved substantially as a result of higher demand. Capacity utilisation of the STPP plant at Haldia continued to be good. Commercial sales of Plant Growth Nutrient were started on receipt of industrial licence. Initial reports of farmer acceptance of the product have been very encouraging. The demand for personal products continued to be buoyant but could not be fully met, as the company experienced some production constraints. R and D continued to provide excellent support to all sections of the company's business. Results from Indonesia and Philippines, as also reports from ICAR regional stations and Agricultural Universities supported the company's own research findings in respect of the efficacy of Plant Growth Nutrient for increasing crop productivity. Molecular level investigation into the structure of the soap system is showing the way for more efficient use of non-conventional inedible oil resources that are becoming scarce and expensive. Tissue culture for multiplication of coconut, cardamom and sugarcane, recombinant DNA technology to produce single cell oil, development of novel immuno diagnostic kits and the company's discovery of the concept of 'shadow nutrients' are some other key points of the basic research activity that are expected to break new business grounds for the company. Hindustan Lever Research Foundation organised a symposium on 'Oilseeds Production and Utilisation—Constraints and Opportunities' at New Delhi in September 1984 to focus attention on solving the edible oil shortage in the country. Eminent agricultural scientists, government officials, representatives of industry, the farming community and voluntary agencies participated in this symposium. The proceedings of the symposium have since been published as a book.

**The Week's Companies** *(Rs Lakh)*

| | | Hindustan Lever | | Dunlop India | | BASF | |
|---|---|---|---|---|---|---|---|
| | | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 |
| Paid-up Capital | | 4666 | 4666 | 1969 | 1968 | 301 | 301 |
| Reserves | | 7759 | 6667 | 4894 | 4200 | 822 | 741 |
| Borrowings | | 6927 | 5180 | 5094 | 4153 | 1516 | 1263 |
| *of which* Term borrowings | | 318 | 347 | 2216 | 1069 | 517 | 351 |
| Gross fixed assets | | 11441 | 10676 | 11912 | 8865 | 2102 | 1965 |
| Net fixed assets | | 8395 | 8090 | 7032 | 5262 | 1329 | 1394 |
| Investments | | 38 | 25 | 26 | 26 | 3 | — |
| Current liabilities | | 11139 | 10363 | 12350 | 13127 | 451 | 366 |
| Current assets | | 22148 | 18875 | 17198 | 18177 | 1753 | 1276 |
| Stocks | | 16979 | 13707 | 7049 | 6584 | 737 | 408 |
| Book debts | | 1799 | 1892 | 7727 | 8287 | 736 | 589 |
| Net sales | | 53900 | 50117 | 22688 | 23903 | 2956 | 2422 |
| Other income | | 445 | 294 | 598 | 437 | 166 | 119 |
| Raw material costs | | 34773 | 29604 | 14663 | 14528 | 1565 | 1154 |
| Wages | | 2813 | 2766 | 2270 | 2862 | 341 | 299 |
| Interest | | 1062 | 616 | 832 | 701 | 224 | 154 |
| Gross profit (+)/loss (–) | | 5485 | 5598 | 763 | 1437 | 319 | 255 |
| Depreciation provision | | 1084 | 1376 | 572 | 592 | 196 | 139 |
| Tax provision | | 2233 | 2366 | — | 275 | 10 | — |
| Net profit (+)/loss (–) | | 2168 | 1856 | 191 | 570 | 113 | 116 |
| Investment allowance reserve | | 85 | 85 | 191 | 121 | 75 | 86 |
| Transfer to reserves | | 963 | 721 | — | 129 | 2 | — |
| Dividend | | | | | | | |
| Amount | P | — | — | 5 | 5 | 2 | 2 |
| | E | 1120 | 1050 | 190 | 315 | 34 | 28 |
| Rate (per cent) | P | — | — | 8 & 5 | 8 & 5 | 9.5 | 9.5 |
| | E | 24 | — | 10 | 20 | 12 | 10 |
| Cover (times) | | 1.93 | 1.77 | 0.97 | 1.79 | 3.26 | 4.07 |
| *Ratios* (per cent) | | | | | | | |
| Gross profit/sales | | 10.18 | 11.17 | 3.41 | 6.01 | 10.79 | 10.61 |
| Net profit/capital employed | | 17.47 | 16.37 | 4.30 | 12.72 | 10.06 | 11.13 |
| Inventories/sales | | 31.50 | 27.33 | 31.07 | 27.54 | 24.93 | 16.98 |
| Wages/sales | | 5.22 | 5.52 | 12.21 | 11.97 | 11.50 | 12.44 |

*DUNLOP INDIA* has suffered a setback in its working results during 1984. Although sales have been only modestly lower at Rs 227 crore against Rs 239 crore in the previous year, gross profit has dropped from Rs 14.37 crore to Rs 7.63 crore and net profit from Rs 5.70 crore to Rs 1.91 crore even when there is no tax liability which had taken away Rs 2.75 crore previously. The total equity dividend has been slashed by half to 10 per cent which too is slightly short earned. The decline in sales was due to competitive conditions in many of the company's markets. This was particularly so in the tyre market where, since 1983, there has been an increase in manufacturing capacity, which is now well in excess of current demand. The sharp fall in profit margins has been caused by significant cost increases, particularly in regard to raw materials. To a large extent, the impact of these additional costs was offset by achieving a more profitable product mix in sales. This benefit, however, was neutralised by higher selling and administrative expenses, which increased by more than Rs 4 crore over the 1983 levels. Interest charges on borrowings also increased. Moreover, the rise in unit cost of energy used in production has had a considerable bearing on cost levels. Not only did costs rise but the incidence of unannounced power cuts continued to adversely affect plant operating efficiency, particularly at the Sahaganj factory. Steps are being taken to increase captive power resources, but Sahaganj suffered also from variable quality of coal whose thermal capacity is sometime so low that steam pressures in the factory fall below service requirements. J E S Hammond, Managing Director, assures shareholders that these two aspects are receiving priority attention from the management in consultation with the appropriate authorities. The company fared well on the export front and increased export sales by 56 per cent.

Capital expenditure amounted to Rs 16.10 crore as against Rs 8.23 crore in 1983. This includes expenditure in respect of technological upgradation and plant modernisation in selected areas. Commitments for capital expenditre at the end of the year amounted to Rs 6.54 crore. The company floated a non-convertible debenture issue of Rs 10 crore bearing interest of 15 per cent per annum, which was fully subscribed. L J Thompsett, Managing Director, retired from the board on May 20, 1984. Hammond joined the board as the new Managing Director on the next day. M R Chhabria was appointed additional director from December 15, 1984 and S Goenka was appointed Deputy Managing Director from the same date. J H Bell and B S Mehta were appointed additional directors from April 2 last. During the year, 67,65,229 equity shares were transferred by Dunlop Holdings, UK, to Dunlop Rim and Wheel Company, UK. Land and buildings of the company, last revalued in 1981, have been revalued afresh and an amount of Rs 7.4 crore representing the increase in value of these assets over the net book value has been transferred to the Revaluation Reserve. The subsidiary, India Tyre and Rubber Company, suffered a fresh loss during 1984. In view of the severe over-capacity in the industry leading to unremunerative price levels in truck and bus tyres, the operations of the company have been scaled down and the board is in the process of looking at other areas of diversifications.

*BASF INDIA* has been issued a letter of intent by the government for manufacturing 40,000 tonnes of caprolactum and 90,000 tonnes of ammonium sulphate per annum at Jagdhishpur in UP. The management is taking necessary steps to convert this letter of intent into an industrial licence. Meanwhile, the company has fared better during 1984. Its turnover has increased from the previous year's Rs 24.02 crore to Rs 29.56 crore and gross profit from Rs 2.55 crore to Rs 3.19 crore. These figures also show a small improvement in margins. With increased provision for depreciation and a tax liability of Rs 10 lakh against nil, net profit has turned out to be a little lower at Rs 1.13 crore (Rs 1.16 crore). Dividend has been stepped up by two points to 12 per cent and is covered 3.26 times by earnings as against 4.07 times previously. During the year, agrochemicals recorded an increase of 39 per cent in turnover and speciality plastics 10 per cent. Dyestuffs, the turnover of which was within the limit of FERA, registered a decline. Leather chemicals showed a 35 per cent increase in turnover. The Bokaro plant commenced commercial production during the year. The company experienced shortages of certain key indigenously manufactured raw materials and had to make up the shortfall by imports.

*ATUL PRODUCTS* intends to diversify and increase its activities further in the field of basic chemicals, pharmaceuticals, agricultural chemicals, resins and intermediates while maintaining its strong position in the dyestuff industry. It has already received a letter of intent for manufacturing a substantial quantity of intermediates for agricultural chemicals. The company has been making vigorous efforts to reduce costs. The Chairman, Siddharth Kasturbhai, however, points out that the prices of basic chemicals in India, which have already been high, would further increase steeply as a result of the last budget. The increase of duty on crude oil has pushed up prices of benzene and toluene, basic raw materials for the chemical industry. The price of energy sources, such as furnance oil, LSHS, petrol, diesel and kerosene have also gone up. There has also been a hike in the railway freight. According to him, the increased cost to the company due to these factors will be over Rs 3.5 crore. Referring to the tragic incident at Bhopal, the Chairman has observed that industrial safety for workers and the plants is becoming more and more important for the chemical industry. The company's plants have been carefully designed keeping in mind the safety angle. Both the workers and the staff are being continuously trained to understand, appreciate and follow safety instructions through lectures, group meetings, films, safety demonstrations, etc. After the Bhopal tragedy, the company has undertaken a total in-depth review of its own safety organisation. A special committee of senior technical experts is carrying out a thorough reassessment of safety procedures. In order to achieve environmental conservation, the company has put up a modern liquid effluent treatment plant in consultation with a reputed firm of environmental experts, the National Oceanographic Institute and the State Water Pollution Control Board. If necessary, the company detoxifies its liquid effluents at individual plant levels, where the volume of effluents are small and easy to treat. Whenever a new plant is put up or an existing plant modified, care is taken to put up equipment to reduce contaminants. This has been done by installing a DCDA system in the new sulphuric acid plant, elimination of mercury from hydrogen gas, reducing mercury contaminants from the caustic effluent to acceptable levels and evolving alternative processes such as hyrogenation to replace iron-reduction processes that produce solid waste. The Chairman concedes that the industry must take maximum precautions in handling chemicals like drugs, dyes, fertilisers, plastics, etc, and society and the government should certainly see that such precautions are taken. He, however, observes that they should not overreact against the industry because such discouragement of the industry will be counterproductive to national progress.

*NIPPON DENRO ISPAT*, a new company promoted by M L Mittal and associates, is setting up a Rs 14.5-crore project for annual manufacture of 35,000 tonnes of galvanised plain corrugated sheets in thin guages in a 'D' class backward area in the Nagpur district of Maharashtra. At present, thinner guages of sheets ranging from 0.40 mm to 0.18 mm thickness are not manufactured in India, and for its requirements the country is wholly dependent on imports. GP/GC sheets are primarily used for the construction of roofs/side walls of residential/factory buildings and are also being increasingly used in engineering industries, automobiles, electrical appliances, pipes and ductings, furniture, etc, due to their high corrosion-resistance and long life. The plant is being set up with technical knowhow from Nippon Denro Manufacturing Company, Japan, world-renowned manufacturer of steel sheets processing equipments. The main plant section and critical equipments are also designed and manufactured by this Japanese firm. The company proposes to enter the capital market shortly with a public issue of Rs 195 lakh to raise a part of the project cost. Trial runs at the plant are expected to start by July 1985 and commercial production should begin thereafter. The management estimates that the plant will be capable of producing 30,000 tonnes of galvanised plain corrugated sheets in the first year of operation. On this basis, the expected turnover of the first year's operations is expected to exceed Rs 50 crore and would enable the company to declare a maiden dividend.

# Looking at the Constitution

### Romesh Thapar

DESPITE all the alarums in the newspapers, and the commentaries on this and that problem, the central thrust of all discussion in political circles is around the chaotic state of the nation and the paralysis that has overcome all governance. Parallel to this discussion is the speculation about who will rule India if the present coteries collapse—a very important element in our present situation.

Within the chaos, the bye-elections are not really suggesting a definite trend. These contests are so trapped in local caste battles and local influence that they cannot be relied upon as conclusive pointers to changing alignments. But the pattern that is emerging reflects the chaos. Coherence is disappearing.

The political discussion will soon anchor on the Congress(I) breakdown in the South, its isolation in Gujarat and Maharashtra and its apparent splintering in Uttar Pradesh and Bihar. All this means a receding majority. Will the fear of the spreading chaos persuade Congress supporters to rally round their party or push them into other expectant arms? All election studies continue to suggest that the poor and deprived have a fatal fascination for the Congress now posturing as Congress(I). This anchorage might well be decisive, particularly if the Muslims, largely poverty-stricken, do not begin to scatter their votes in anger. The Sikhs are too divided and confused.

The heart of the crisis, of course, is what everyone describes as the lack of an alternative. At the moment, this means a personality or personalities. But the truth is that there is little to distinguish one bunch of politicians from another. A massive, and entrenched, mafia now exists to take care of all the political formations. Once upon a time, the Birlas played this role. Now, there are dozens of Birla-like operators pulling the strings. The cost of elections, the many distortions in facing the electorate, and the overriding desire to amass independent wealth, and the total absence of programmatic commitments, have put the lid on this process of establishing a *status quo* situation around the elections.

Disaffections, fronts (papered over or pampered by various interests), conclaving between disparate elements, seminaring, workshopping, seed-sowing, etc, etc, are important only to the extent that they facilitate a shaking up of the present game of make-belief democracy. Such a shake-up might yield new equations of thought and new combinations of concern. We might even witness the birth of a new party, a party of renewal, a Bharat Desam. The effort towards this end will intensify as the chaos increases and the opportunist fronts lose their inferior cement.

Certainly, even as these stirrings become visible, the old publicising of a presidential system will probably resume. There's no doubt that much of the advocacy for a presidential system—it is never made clear whether it is the highly centralised French model or the very decentralised US structuring that is sought!—will invariably be advertised as having the approval of whoever rules or attempts to rule. What interests me is that the courtiers haven't as yet explained how political stability is to be built into the presidential system.

Mind you, given the demented state of our rulers, a prod here or there could yield a harvest of suggestions designed to make the presidential system look monarchical. Actually, some articles are already providing such a tincture as a touch of authentic Indianness. In the Central Hall of Parliament, some princelings, after all, have been reminding their somewhat demoralised colleagues that the only segment of the Hindus which had some touch with the forgotten sense of rulership was the Rajput! Obviously, a commentary on the brahmins in power, and their servile supporters among the middle and lower castes.

Joking apart, with daily attendance in Parliament's two Houses really not recovering—even though it is higher than in Indira Gandhi's days—a large body of thinking opinion is beginning to feel that a kind of terminal disease has overtaken our democracy. The Antulays, the Adiks, the Jagannath Mishras, the Solankis, the Bal Thackerays, the Gundu Raos, the Shuklas, the G M Shahs, the Patils, the Charan Singhs, the Moilys, the Jathedars, and battalions of Aya Rams and Gaya Rams, have just about pummelled the system into a streamlined infrastructure for graft and aggrandisement. 'Terminal' may well be the right world, but renewal has to begin what is with us region-wise—for, we are unlikely ever to throw up a revolutionary response on a continental scale.

Is it possible to take this crisis of the system more seriously, and to lift it above current political permutations and combinations? Constitutional reform, adjustment, alteration, modification, is part of the process of growth and change. These few years of freedom have seen such transformations that we need to review many of the notions and concepts which influenced us in the late forties. Done with responsibility, and with a firm commitment to a future society based on true democratic involvements, genuine secular responses and justice, there is no reason why the present constitutional structure cannot be made more viable and strengthened.

If the ruling party functions only on the margins of manipulation, and to perpetuate the hateful dynastic kow-towing, then it is the duty of persons like Faroukh Abdullah, Jyoti Basu, R K Hegde, N T Rama Rao, associated with respected figures Chandra Shekhar and Atal Behari Vajpayee, to take the initiative to establish a body to undertake this task within a strict time-frame. The country does not lack serious constitutional talent, or the various types of expertise required to do the job with speed and precision. Only the absence of a determined political will to conduct a thorough exercise places us at the mercy of those who would twist the Constitution for their narrow and very short-term objectives, even give it extraordinary lawless dimensions.

It is a situation that needs urgent resolution. To keep stamping around the present non-working *status quo*, and to oppose any attempted constitutional changes without proposing genuine alternatives, is to invite isolation and defeat. This is what has been happening as trial balloons have been sent up in the past by various Congress(I) factotems. And now, this ruling party enjoys the kind of strength in Parliament to sow the seeds of authoritarianism in the Constitution.

In fact, the people of India, a majority of whom still follow the fortunes of the Opposition parties, would acclaim a Constitution-reviewing thrust were it to be sponsored by the next 'conclave'. It would be a refreshing change from the familiar competition in charismas and rhetoric. We are so tired of these tawdry performances—yes, from that man with the 'inner charm' to the aged mountebanks still living on past glories, and to the younger echelons still modelling themselves on characters who have lost, or are losing, their relevance. Enough is enough.

*July 12.*

# THE TATA ENGINEERING & LOCOMOTIVE COMPANY LIMITED

## Statement of the Chairman, Mr. S. Moolgaokar, for the year 1984-85

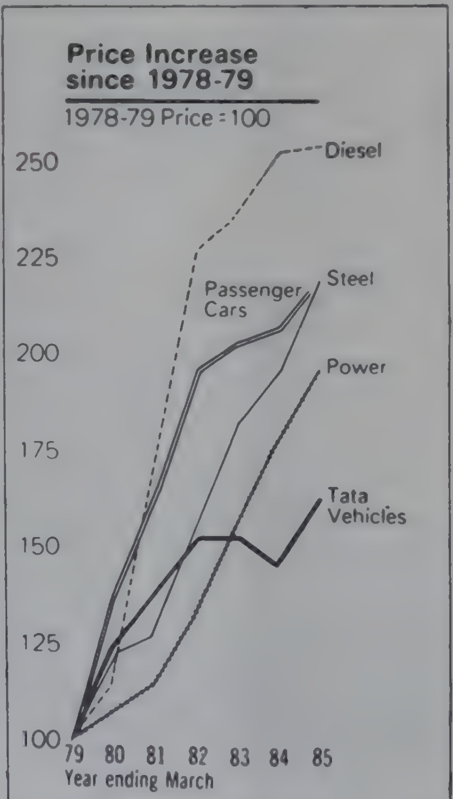
Our country went through traumatic times last year. Yet, even as the year drew to a close, the nation reinvigorated itself under the fresh leadership of our new Prime Minister. Mr. Gandhi's Government faces many problems, but it has chosen to tackle them with pragmatism — divesting itself of the pseudo-ideologies that have shackled the economic strengths of our country for so long. In his attempts at rapid industrialisation, the Prime Minister has sought the cooperation of the private sector. He has given concrete shape to this desire through the budget and through several other policy measures that have been announced in the past few months. It is now for us from industry to respond: by producing more goods, improving productivity and enhancing net foreign exchange earnings. Of course, Government can and should do more. But this is no time to ask and wait for yet more concessions. All of us in industry must show that the faith our Prime Minister has put in us is not misplaced.

We, in Telco, find the new emphasis congenial to our way of working and shall attempt to play our role as constructively as we can. Quite apart from the revenues we generate for the exchequer (which in 1984-85 amounted to Rs.265 crores directly, and several times higher through indirect means), we believe we have a vital contribution to make in the task of building the nation's automobile industry quickly and effectively. But before touching on the plans we have for giving concrete shape to our commitment, I must report what Telco has achieved in the year that is over.

### TELCO'S PERFORMANCE

With its close linkage to the economic mainstream of the country, Telco's fortunes seemed to follow those of the nation. Demand during the first eight months of the year fell short of expectations. By December 1984, however, performance began to catch up and we ended the year with higher sales than in the previous year. Exports touched Rs 63 crores, in spite of increasingly fierce competition in foreign markets

A relentless push in costs kept profitability squeezed. Prices of steel tyres and bought-out items increased substantially during 1984-85. To partially neutralise some of the increasing costs, we were obliged to increase our vehicle prices in April 1985.



### NEW COLLABORATIONS

The last year set two other landmarks in Telco's history: the first Tata-Hitachi excavator was delivered towards the end of the year. The Hitachi Construction Machinery Co., our collaborators in this venture, are world leaders in hydraulic excavators. The collaboration is proceeding smoothly and facilities for spares, service and training of operators and mechanics are being established with their assistance.

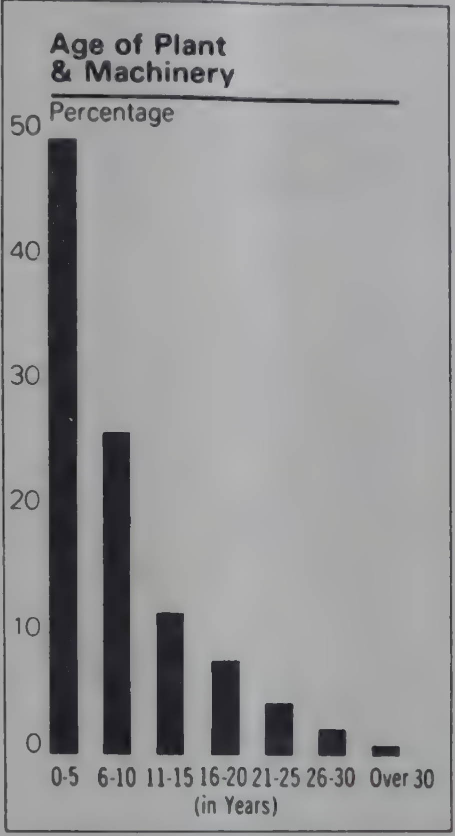
We have also entered into technical collaboration with Nachi Fujikoshi and Niigata of Japan for the production of numerically controlled flexible machining lines and machining centres. A large number of our professionals are now under training in Japan and India. We are setting up an electronics division at Pune. It will be manned by top-class electronic engineers and will produce the controllers for machine tools. These engineers will also spearhead our efforts in factory automation and will support the maintenance of the sophisticated and expensive machine tools which will enable us to produce efficiently, even at a low volume, a variety of components and aggregates necessary for upgrading and widening the range of our vehicles. We shall produce and use more and more such machines in the years to come.

## RESEARCH & DEVELOPMENT

In my previous statement, I had mentioned that our R&D capabilities were being strengthened. Much progress has been made since then. Our team of design and development engineers is being provided all the support they will need, so that their abilities can be used more productively. Computer-aided design and engineering centres have been set up at Pune and Jamshedpur. These are now operational and are offering increasing assistance to our technical staff. A number of modern testing facilities are also being installed. Resource constraints have prevented us from doing more. I assure you, however, that the development of our R&D facilities will receive the highest priority, for that is vital for our growth in the competitive years that lie ahead.

Our main vehicle lines continue to use the latest technology for high-volume production. In several of the new segments we are entering, however, the maximum number of vehicles that can be sold in India at the moment would not be considered large by any international standards. Yet, we must remain price-competitive. We plan to resolve this seeming contradiction by exploiting the flexible manufacturing technologies that are transforming the automotive industry.

The infrastructure we have built over the years and the experience we have gained in building it has given us a head-start on the road to developing a strong automobile industry for our country. Today, we are in a position to upgrade our present products and widen our range with the most efficient use of capital and the least import of capital equipment. Telco's ability to continually create the new strengths it needs, comes from the efforts it makes to rejuvenate its people through training and its plant through fresh investment. As a result, though Telco has been making automobiles for over 30 years now, the average age of the plant and machinery employed in the Company works out to only 8 years — and much of it represents the latest in technology.



## LIGHT COMMERCIAL VEHICLES

Among the various new products that Telco is developing, I should make particular mention of two series of light commercial vehicles which will be designated as the 407 and the 608 series. The 407 series has already gone through the design and development stage and has completed field and preproduction trials. It will be ready for commercial production by December 1985. The 608 series will be introduced soon thereafter. These vehicles have been designed from scratch for Indian conditions. Apart from some special steels we are forced to import, the vehicles will have a hundred per cent indigenous content from the very start. At the same time, they will satisfy international parameters of performance. Being suitable for a variety of applications, I am confident they will gain a substantial share of the rapidly growing market for this class of vehicles.

The new vehicles are not just additions to our increasing range of commercial vehicles. They are the expression of our ability to design and produce in-house all the aggregates as well as the tooling needed for bringing out a totally new vehicle. Our expertise in manufacturing heavy press tools is itself a result of 20 years of skill-building in a technology where there is no substitute for experience.

Customers for the 407 and 608 vehicles will have access to the same extensive service network and spare parts facilities which cater to the lakhs of our vehicles already on the road. We are also opening eight additional stocking points to feed spare parts more speedily to the existing outlets.

## PASSENGER CARS

The lead we have in commercial vehicles will help us acquire a similar position in the passenger car market which has been opened to us for the first time as a result of the timely liberalisation of licensing policies for automobile manufacturers. We have yet to take a final decision on the collaborator with whom we shall join hands. We are certain, however, that with the commitment to quality, the large pool of trained manpower and the extensive manufacturing and service infrastructure Telco has already built, the cars we field will come out on top.

## TO THE TELCO FAMILY

It is difficult to allocate thanks after a year which starts as dismally and ends as happily as the last one did. Every part of the Telco family of employees, suppliers and dealers worked hard to cope with the massive fluctuation in demand during the year. They have richly earned the praise that I am sure you, as shareholders, will grant. To the members of our ever-responsive family, I make a special appeal: we are now going to face some keen competition. I have no doubt we will all enjoy meeting it and will attain still higher levels of quality and performance — matching international standards. We will emerge from the experience with renewed pride and confidence in the position we hold at the forefront of the country's automobile industry.

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*Note: This does not purport to be a record of the proceedings of the Annual General Meeting.*

# New Phase in Sino-Soviet Relations

### GPD

> The barbarian affairs are fundamentally difficult to manage, but the basic principles are no more than four words of Confucius—*chung, hsin, tu* and *ching*, faithfulness, sincerity, earnestness and respectfulness . . . Hsin means merely not to tell a lie . . . We should start to work on the basis of this word.
>
> —Tseng Kuo-fan, Manchu commander in his letter to another Manchu official, 1862.

GOING by recent developments it would seem that Deng Xiaoping and his men are making some progress on the question of the barbarian affairs. The barbarians concerned in this particular case are, of course, the Russians. Yao Yilin has just concluded a trip to Moscow and by all accounts it has been a resounding success. The economic content of Sino-Soviet relations will now go up to twenty billion dollars. That's, of course, trade. More interestingly, the Soviets have decided to intervene in the technology market that Deng's China promises to be. The Japanese, the West Europeans and to a lesser extent, the Americans are there in the market already with their respective technology packets. The Soviets were so busy scoring points about moral superiority over the Chinese all this while—'we are less contaminated by imperialist contacts', and so on, which in any case was not particularly true—that they forget that it makes bad foreign policy sense to wait for China's return to socialist virtue as defined by Moscow. Obviously, Gorbachev has seen that ostracisation of China benefits Americans. So why not begin on the basis of *hsin*, i e, on the basis of not telling lies to each other when it comes to buying technology from the advanced world? The socialist world can also sell some technology to China. Gorbachev has decided that he should. Deng Xiaoping seems to have decided that he ought to do business with the Russians on the basis of their word. A new phase in Sino-Soviet relations is about to begin.

We have said a number of times in this column that Sino-Soviet relations are changing for the better. Yao Yilin's visit to Moscow and the agreements which have been reached while he was there together constitute a big leap forward in the stagnant Sino-Soviet relations. The more involved the Soviets get in the 'modernisation' programme in China, the closer and better will the Sino-Soviet relationship be. Before long the other East Europeans, particularly the Czechs and the Hungarians and slowly the East Germans will enter the Chinese arena and soon everybody will start rediscovering the socialist character of China.

The last few months have also indicated certain changes in strategic perspective, particularly as it relates to South and South-East Asia. Chinese interest in Afghanistan has always been marginal; lately it has further declined (though not disappeared). The real issue between the Soviets and the Chinese has been the future of South-East Asia, more particularly Indochina. Deng Xiapong said on April 17 that if the Vietnamese withdrew their troops from Kampuchea, China would not object to the Soviet military presence in Cam Ranh Bay. It was obvious that the Vietnamese would reject such a *quid pro quo* between the Soviet Union and China. But that is not the issue. What is interesting about this proposal is that Deng Xiaoping is no longer alergic to the Soviet military presence (in this case, a long-term or semi-permanent presence). The reasons are not far to seek. Asia east of India is dominated by the US or pro-US powers. The Chinese ignored this situation throughout the seventies in order to make their presence felt in world politics. They have achieved that objective now. A shift is in order. The shift, of course, would not consist of turning anti-American. Rather it would be one of looking for a countervailing presence. Only the Soviets have the wherewithal with which to establish such a presence. The Chinese, in short, would want the two 'super-powers' to balance each other. Precisely such balancing requires that China has a normal, working relationship with the Soviet Union.

It would appear that the Soviets have also perceived that the Chinese understanding of the strategic situation in South Asia and have felt the need to signal the Chinese that no problem between the two powers is insuperable. In a remarkable move, the Soviets downgraded Le Duan's visit to Moscow in the last week of June. The protocol operations in connection with the Le Duan visit must have told the Chinese quite a story. More significant than that was the joint declaration between Gorbachev and Le Duan. The declaration, signed on June 30, had this to say on the subject of China: "Normalisation of the relations of the Soviet Union and the Socialist Republic of Vietnam with the People's Republic of China" contributes to the "aim of strengthening peace in Asia and international security". The meaning of such a clause finding a place in a Soviet-Vietnamese joint declaration hardly needs elaboration.

The change in the Soviet position is quite clear. The Chinese must have seen that in the whole of Asia east of the Khyber Pass the American star is rising. Deng may not have immediately to worry about this. But in the long run the decline of the Soviet Union in the entire area south of China simply recreates a situation comparable (in strategic terms) to the one the Chinese faced throughout the fifties and the sixties. It is unlikely that Deng does not see the significance of what South-East Asia would be like in a decade or two without the Soviet presence. There is as yet no Chinese statement which will establish that beyond doubt. But that is in fact the Chinese understanding. Deng Xiaoping's tolerance of the Soviet military presence in the Cam Ranh Bay would suggest that.

Of course, this is still not final evidence of impending Sino-Soviet normalisation. There are bound to be zig-zags. What these pieces of evidence indicate is really the general direction. Our policy-makers will have to be very alive and sensitive to these shifts. We have so far treated China an exclusive preserve of the External Affairs Ministry. Anybody outside it trying to take a sober view of China has been treated with extreme hostility. We know of China experts who are anathema to the Ministry because they say things today which the Ministry will say tomorrow. It is amazing how and why a self-defeating blindness takes over our External Affairs Ministry people in the matter of writings on China. Over a period of time such an attitude can result in insensitivity to small but subtle changes in China's positions and therefore in South-East and East Asian politics. Anyway, it has become increasingly necessary to carefully monitor the shifts and changes in the Sino-Soviet relations. One must remember what Tseng Kuo-fan said at the beginning of the passage quoted above: the barbarian affairs are fundamentally difficult to manage!

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**TRIPURA**

# Tribal Areas Autonomous District Council Elections

**Malabika Das Gupta**

THE Tripura Tribal Areas Autonomous District Council (ADC) elections were held on June 30, under the Sixth Schedule of the Constitution.[1] The main contenders were the Left Democratic Front consisting of the constituent parties of the Left Front—the CPI(M), CPI, FB and RSP—and the newly-formed Tripura Hill People's Party on the one hand and the Congress(I)-Tripura Upajati Juba Samiti (TUJS) combine on the other. The CPI(M) had fielded 21 candidates, the Tripura Hill People's Party four and the CPI, FB and RSP one each while the TUJS and Congress(I) had fielded 18 and 10 candidates respectively for the 28 seats in the ADC.

The LDF has emerged victorious in the elections, winning 15 out of the 28 seats. The remaining 13 seats have gone to the Congress(I)-TUJS combine with the Congress(I) winning three and the TUJS winning 10 seats. All the seats bagged by the LDF have been captured by the CPI(M) which has emerged as the single largest party in the newly-elected ADC. Out of the 21 reserved seats for scheduled tribes, 11 have been won by the CPI(M) and 10 by the TUJS, thus giving the CPI(M) a lead over the TUJS as far as the reserved seats are concerned. The Congress(I) has failed to make a headway in any of the reserved constituencies.

The constituency-wise position of the two main contenders in the 1985 elections and in the ADC elections held under the Seventh Schedule of the Constitution in 1981 is shown in the accompanying Table. It can be seen that the LDF has won a smaller number of seats in 1985 than in 1981 when the LF fought the elction against the TUJS, the Congress(I) having boycotted the election. The TUJS had won seven seats in the last ADC election while the Congress(I)-TUJS combine has won 13 seats this time and have wrested seven seats won earlier by the Left Front. Only one seat won earlier by the TUJS has gone to the LDF in this election. The LDF has retained 14 of the 21 seats the LF had captured in 1981. Moreover, in five of these 14 constituencies, the LDF has secured a smaller number of votes than the LF did in the 1981 election and the TUJS-Congress(I) combine has increased the number of votes.[2] Again, in 11 of these 14 constituencies the LDF has won by a smaller margin over the TUJS-Congress(I) combine this year than the margin by which the LF had won in these constituencies over the TUJS in 1981.

Though the Left has retained its leading position in the newly-elected ADC almost by the skin of its teeth, it has to be remembered that it fought against tremendous odds. First of all, the combined forces of the TUJS and Congress(I) ranged against it in this election as against only the TUJS in the last one. In a bid to secure a foothold in the ADC the Congress(I) joined hands with a regional party which has often fanned the 'Swadhin Tripura' sentiments of a certain section of tribals and has tried to create divisions between the tribals and Bengalis in the state. For example, during the election campaign, the TUJS had declared that it would introduce the 'permit system' in the ADC area if it secured a majority in the ADC and also said that the Bengalis were free to leave the ADC area if they wished to do so. Not a single word was uttered by the Congress(I) against these statements of the TUJS in the hope of making narrow political gains. Just before the election, the Congress(I) and the TUJS unleashed a reign of terror in the ADC area, intimidating voters in general and supporters of the LDF in particular. They did not stop short of enlisting the support of the TNV and the TSF for their heinous activities. The killings in Raipasha and Dolubari were designed to start a communal carnage of the type witnessed in the state in 1980 and were carefully engineered by them. A lot of money reportedly flowed into the state to buy votes and a villification campaign was mounted against the Left Front by its adversaries with the help of the Congress(I) MPs and Ministers from the Centre and Assam. False hopes of jobs for all poor tribals voting for the TUJS-Congress(I) combine were also raised in a bid to woo the voters.

This carrot and stick election strategy succeeded in winning over some voters, especially in the Sadar and Udaipur subdivisions. The victory of the LDF, though narrow, despite the tremendous odds shows the faith of the majority of the tribals and non-tribals living in the ADC area in the policies and programmes of the Left Front. They have given a mandate to the LDF in recognition of the work done by the ADC constituted under the Seventh Schedule of the Constitution despite the narrowness of its scope for action and in the hope that under the provisions of the Sixth Schedule the ADC will rise to new heights with the LDF in leadership in solving the problems of the backward areas of the state inhabited mainly by the tribals.

The newly-elected ADC under the leadership of the LDF has a challenging task ahead of it. It will have to try to fulfil the expectations of the people and also set up an example for the rest of India as it is the only ADC constituted under the Sixth Schedule of the Constitution for a number of tribes taken together. It will have to secure more funds from the Centre to put its plans into action and help in maintaining com-

TABLE: WINNERS IN THE 1985 AND 1981 ADC ELECTIONS

| Constituency | 1985 | 1981 |
|---|---|---|
| 1 Damchara-Jampui (ST) | LDF | TUJS |
| 2 Machmara | Cong(I)-TUJS | LF |
| 3 Dasda-Kanchanpur | Cong(I)-TUJS | LF |
| 4 Karamcharra (ST) | Cong(I)-TUJS | LF |
| 5 Chamanu (ST) | LDF | LF |
| 6 Manu-Chailangta | Cong(I)-TUJS | LF |
| 7 Damcharra-Kachucharra | LDF | LF |
| 8 Ganganagar-Gandacharra (ST) | LDF | LF |
| 9 Halahali-Asharambari | LDF | LF |
| 10 Kulal-Champahaur (ST) | LDF | LF |
| 11 Maharani-Teliamura (ST) | LDF | LF |
| 12 Ramchandraghat (ST) | LDF | LF |
| 13 Simna-Tamakari (ST) | LDF | LF |
| 14 Bodhjungnagar-Wakkinagar | Cong(I)-TUJS | LF |
| 15 Jirania (ST) | Cong(I)-TUJS | LF |
| 16 Mandainagar-Pulinpur (ST) | LDF | LF |
| 17 Pekuarjala-Janmejoynagar (ST) | Cong(I)-TUJS | TUJS |
| 18 Takarjala-Jampuijala (ST) | Cong(I)-TUJS | TUJS |
| 19 Amtali-Golaghati (ST) | Cong(I)-TUJS | TUJS |
| 20 Killa-Bagma (ST) | Cong(I)-TUJS | TUJS |
| 21 Maharani-Chelagang (ST) | Cong(I)-TUJS | TUJS |
| 22 Kathalia-Mirza-Rajapur | LDF | LF |
| 23 Ompinagar (ST) | Cong(I)-TUJS | TUJS |
| 24 Raimavalley (ST) | LDF | LF |
| 25 Natunnagar-Malbasa | LDF | LF |
| 26 Birchandranagar-Kalshi (ST) | Cong(I)-TUJS | LF |
| 27 Purba Muhuripur (ST) | LDF | LF |
| 28 Silachari-Manubankul (ST) | LDF | LF |

munal amity between the tribals and the Bengalis without which its developmental work will be jeopardised. As the recent killings in Bagafa and Kaityabari show, the reactionary forces which have failed to secure a majority in the election will try their level best both inside and outside the ADC, through foul means and fair, to prevent the LDF majority in the newly-elected ADC from operating in a normal atmosphere to redeem its election pledges. In the final analysis, the record of performance of the newly-elected ADC will determine, to a large extent, how successful Tripura is going to be in containing extremist and secessionist tendencies in the state.

### Notes

1 For a history of the ADC and a record of its performance, see Malabika Das Gupta, 'Tribal Unrest in Tripura: An Alternative View', *EPW*, January 5, 1985, pp 38-40 and 'Left Retains Tribal, Rural Support', *EPW*, February 16, pp 263-264.

2 In one of these five constituencies the LF candidate had been unanimously elected in the 1981 elections.

## ELECTRONICS

# No Stomach for Competition

### Arun Goyal

IN spite of all talk of exposing the local computer industry to import competition, government policy on computers continues to be swayed by the short-term interests of assemblers. In November last year, the industry's cost structure was lowered significantly when customs duty on peripheral components was reduced to just six per cent (complete peripherals attract duty at 60 per cent in most cases). Since the major cost element in the manufacture of computers is peripherals, it was expected that costs would come down and the benefit would be passed on to consumers. To ensure this, it was declared that computer imports would be put on OGL so that the industry faced import competition.

The next scene in the drama was enacted with the announcement of the Budget on March 12 this year when customs duties on computers were actually raised from 155 per cent to 200 per cent and excise duty at 15 per cent was totally withdrawn. The measure was designed to curtail imports and boost domestic production. Another about-turn took place a month later when the new Import Policy was announced and computers below Rs 10 lakh were put on OGL. The wavering in official thinking was visible since the configuration eligible for OGL was kept deliberately vague. It was stipulated that the computer must have a minimum configuration with 'adequate memory' and two winchester drives (which store huge amounts of data from five megabytes onwards as compared to floppy drives, the normal storage device, where the capacity is generally below one megabyte). Pressure from domestic industry forced government to amend the import policy on April 29; 'adequate memory' was now defined as "main memory of not less than one megabyte and aggregate of basic/memory capacity of not less than 300 megabytes".

This move clearly specified a computer type which could be used only by very large organisation such as the Census Department. The normal computer user has no use for it, specially after paying 200 per cent customs duty. Obviously, the computer manufacturers can now eat their cake and have it too; customs and excise duties on peripheral components have been virtually abolished without the computer manufacturers being made to face international competition. In actual practice, the Central government, which claims to be doing so much to modernise industry and take it into the 21st century, seems to be following the path of taking the easy options. This would have been perhaps the first instance, as part of the recent import liberalisation, of a finished product available in the country being put on the OGL in order to expose domestic manufacturers to competition from imports. This has not happened.

The results of this policy are clear. The fall in computer prices to Rs 50,000 to 60,000 for an eight-bit system as against the Rs three lakh-plus levels some years back has been arrested with the back-tracking on the promised liberal imports. Numerous brands compete with one another making false claims for otherwise similar systems; marketing overheads are loaded on to products to the extent of 100 per cent or even more; and maintenance and software support suffers. There is little standardisation of equipment and compatibility between hardware and software. Software, the key to computer operations, is non-standard and its quality and variety extremely poor compared to international standards.

It is true that competing multinationals produce computers and software which are designed to be incompatible with rival brands. Nevertheless, the variety and quality of software within each brand is sufficient and cheap enough to cover most needs of consumers. What is more, independent entrepreneurs have developed software which are compatible with different brands. Unfortunately, these trends, when reflected in Indian conditions, produce queer combinations. Incompatibility between systems, when copied in the Indian environment where the scales of production are small and government policy inconsistent, produces total incompatibility between Indian systems and international ones.

The choice before decision-makers is clear. Either the industry has to be thrown open to competition from imports which will lead to availability of good quality and inexpensive computers and software. This may lead to greater use of computers and corresponding development in areas of major potential strength such as software. The other option is to develop a desirable scenario for the computer industry in which equipment and software are standardised so that the industry grows in a planned manner. The government seems to have taken the second option since the DOE has armed itself with wide powers to regulate practically every aspect of the electronics industry, including licensing of imports, fixing customs duty, industrial licensing, technology approval, purchases, marketing, and so on. Nevertheless, the industry is moving on a path of virtually free import of components which are assembled into mediocre but expensive products. The powers of DOE are only furthering this type of development. Lack of a consistent policy—licensing policy, for instance, has been through three major shifts in the last seven years—has produced opportunist 'manufacturers' instead of visionary industrialists. What is worse, the weaknesses have assumed structural dimensions. This does not seem to worry the decision-makers.

The DOE has now claimed that computer prices will come down to Rs 30,000 in the near future. It will be interesting to watch what it is able to actually achieve. Its claims to bringing colour TV prices down to Rs 5,000 have not come to much and prices currently range from Rs 7,000 to Rs 8,000, compared with the international price of $ 300. Perhaps the Prime Minister himself should evaluate the results to reward or punish DOE according to its performance. At least this would be one promise to which the government would have lived up to.

## Gwalior Strips

GWALIOR STRIPS, which came to the capital market in November 1984, has commenced commercial production in a record period of 9 months on June 29. The plant with a capacity to manufacture 10,000 tonnes per annum of cold rolled steel strips has been set up in the 'no-industry' district of Bhind in MP. According to the management, the demand in MP itself and in the other adjoining states is around one lakh tonnes per annum. The company has planned to expand its capacity to 30,000 tonnes per annum. It expects to achieve 60 per cent of the capacity in the very first year and has got substantial orders in hand. Since the government has relaxed the import of cold rolled steel strips, the company is assured of adequate supply of raw material for its use.

## WEST BENGAL

# Calcutta Corporation Election

**Biren Roy**

IN the Calcutta civic elections held on June 30, the city voters showed no decisive preference either for the Left Front or the Congress(I). Out of 141 seats, the Left Front won 68, the Congress(I) 67, the BJP 2 and Independents 4. Out of the four independents, two were supported by the Left Front, one was a dissident Congress candidate and another had defeated both the Left Front and the Congress(I) candidates. The last-mentioned was later inducted into the Left Front whose total became 71. It will thus be in a position to take over the reins of running the Calcutta Municipal Corporation. Out of the Left Front's total of 68 seats, the CPI(M) won 49 seats, the CPI 7, Revolutionary Socialist Party 6, Forward Block 5. One Marxist Forward Block candidate who contested and won on the CPI(M) symbol can be regarded as belonging to CPI(M) whose tally thus becomes 50. Out of the seven aldermen that will be elected by the councillors on the basis of proportional representation, four are likely to be won by Left Front and three by the Congress(I). The Left Front's tally in the house of 148 would thus be 75 and the Congress(I)'s strength would be 70. The Congress(I) has already claimed the dissident Congress councillor and the two BJP members, who have so far not declared publicly their role in the civic body, are likely to be more on the side of Congress(I) in the obtaining circumstances. So the Left Front's total of 75 will be poised against 73. This is a precarious majority for running the civic body effectively.

The civic election was important in many respects. It was held after 16 years, the last being held in 1969. It may be recalled that the elected body was dissolved most undemocratically by Congress(I) ministry headed by Siddhartha Sankar Ray soon after its assumption of office in 1972. The Calcutta Municipal Corporation remained superseded under the Congress(I) regime from 1972 to 1977. The Left Front rightly protested against this undemocratic act; but after it assumed office in 1977, the Corporation continued to remain superseded for almost eight years. In the meantime, a new Act, the Calcutta Municipal Corporation Act, 1980 was passed. The delay in ordering civic election by the Left Front government was ascribed to the passing of the new Act and obtaining of President's assent to it. This was only part of the truth. It was evident, especially after 1980, that the Left Front's, particularly the CPI(M)'s, influence in the Calcutta urban area was gradually waning and the Congress(I) was gaining in strength. In the 1982 Assembly elections, though the Left Front won an overwhelming majority in West Bengal, the Calcutta seats were evenly divided between the Left Front and the Congress(I). A new strategy was sought to be adopted by further amending the 1980 Act to include the neighbouring Municipalities of Jadavpore, Behala and Garden Reach in the Calcutta Municipal Corporation. So whereas under the earlier Act, the 1951 Calcutta Municipal Act, there were 100 Wards, the inclusion of these areas raised the number of Wards to 141. This strategy paid dividends as will be seen later.

However, the Calcutta Corporation Municipal Act, 1980 has some unique features. The franchise in Calcutta Corporation election was earlier limited, based on educational and property qualifications. The first election on the basis of adult franchise was held in 1965 when the Congress won; the next election held in 1969 was won by the United Front. This Corporation was dissolved by the then Congress Ministry as mentioned earlier. The 1980 Act lowered the voting age to 18. The Act provides more power to the elected representatives. A Cabinet type constitution has been envisaged by the provision of Mayor-in-Council in which has been vested the main executive power for running the civic administration. The post of Mayor which was more or less an ornamental one has been given powers under this Act analogous to that of a chief minister in a state cabinet. A Chairman's post has been created analogous to that of the Speaker in the state assembly. Provision for forming Borough Committees (15 in number in contiguous wards) has been made, thus decentralising power to a certain extent. This type of a constitution in a Municipal Act perhaps does not exist anywhere in India. Certain tax reliefs to the poor and low-income group people have also been provided in the new Act, which is no doubt far more democratic than the earlier Acts.

The erosion of influence of the Left Front and the CPI(M) in the Calcutta city area reached its climax in the 1984 December Lok Sabha elections when all the Lok Sabha seats were won by the Congress(I). In the 141 Wards of the present city area, the Congress(I) won in 114 and the Left Front got only 27. Against this, the Left Front got 70 and the Congress(I) 67 in recent civic elections. So it was a commendable achievement on the part of the Left Front and the CPI(M); and surely it was a defeat for the Congress. But if the present results are compared to the last elections held in 1969, it will be seen that the Left Front has failed to regain the position it held in 1969 when the United Front got 71 and the Congress 22 in the 100 Wards of the city proper. Moreover, this time also in the 100 Wards of city proper the Congress(I) won 56 and the Left Front only 42; but in the added 41 Wards of the neighbouring Municipalities, the Left Front got 29 and the Congress 12. Against the background of the results of the 1984 December Lok Sabha elections, the Congress(I) definitely expected to win but its expectations have been belied and this led to the resignation of the West Bengal PCC President Pranab Mukherjee, though the resignation was partly for pressurising the Congress(I) High Command.

The Left Front was not very confident of victory, though after the results were published, the Left Front Chairman, Saroj Mukherjee, told the press that they had expected better results.

In the campaign preceding the elections, the Left Front presented a more united posture. It began the campaign earlier also. The Congress(I) was ridden with factionalism and groupism over the question of nomination of candidates. Ashok Sen, Union Law Minister, issued a public statement accusing the state leadership. Even the Congress(I) state office was attacked by a rival group in the party and there were several dissident Congress candidates of whom one won. Factionalism inside the Congress(I) helped the Left Front which seemed to be in ascendancy in the earlier part of the campaign; but in the latter part groupism in the Congress(I) was patched up and it stepped up its campaign. Even Siddhartha Ray, former Congress(I) Chief Minister, was inducted into the campaign and the leadership could apparently present a united picture and was more on the offensive.

In its campaign, the Left Front stressed Rajiv Gandhi's remark about Calcutta being a 'dying city' and called upon the citizens to give a fitting reply to the insult to the people of Calcutta by the Congress(I) Prime Minister by electing Left Front candidates. It also dwelt upon the discrimination of the Centre against Calcutta and West Bengal. Civic issues were relegated to the background. In the manifesto published by the Left Front the programme for improvement of civic services was set out in very vague terms. The Congress(I) also attacked the CPI(M)-led Left Front for the deteriorating conditions of city life—the problems of load-shedding and transport and the poor conditions of civic services. The campaigns either by the Left Front or the Congress(I) did not create much enthusiasm among the citizens. Generally, they did not place much confidence either in the Left Front or in the Congress(I) for running civic administration in a better way so as to effect much improvement in civic services.

This was not fortuitous and tallied with the experience of Calcutta citizens. The Calcutta Corporation was run by the Congress Party since 1924 till Independence. After Independence, the Congress Party was responsible for running the civic administration from 1952 to 1969. During this long period of Congress rule, the Corporation earned notoriety for maladministration, nepotism and corruption. The UF administered the Corporation from 1969 to 1972 and the Corporation has been in the direct control of the Left Front government from 1977 to 1985. Though civic workers and employees earned important economic concessions during this period, civic services showed no remarkable improvement. There was, of course, marked improvement in filtered water supply and improvement in the bustees were effected by the Calcutta Metropolitan Development Authority. But conservancy services or the drainage system showed little improvement. Often the piled-up garbage is removed at the personal initiative of the minister-in-charge. The people of Calcutta have suffered from bad condition of civic services. Nepotism and corruption were not curbed during this period. Moreover, the bureaucratic set-up of the civic administration was much strengthened during this period. Even on the eve of elections, this process continued. But there was little improvement in work. All these factors harmed the cause of the Left Front. So Calcutta people did not expect either the Left Front or the Congress(I) to alleviate their sufferings by improving the civic services. As the voters in West Bengal are polarised, the people of Calcutta voted according to their political loyalty. It was thought that local issues would influence the Calcutta voters, but this was not the case in the recent civic election.

Though official figures have not yet been published, it is reported that 50 per cent of the total of 25 lakh voters cast their votes. Considering the inclement weather on the polling day and lack of any extra enthusiasm on the part of the people, the voting percentage was not insignificant. It has been reported in one daily newspaper that in the 141 Wards, the Left Front got 6,12,552 votes while the Congress(I) polled 6,31,021 votes, that is, the Congress(I) polled about 18,000 more votes than the Left Front. Another daily reported that the Congress(I) polled 5,95,410 votes while the Left Front polled 5,83,040 votes. In any case, the Congress(I) polled more votes. But in the 1984 Lok Sabha elections, the Congress(I) had polled three lakh votes more than the Left Front. The Left Front Chairman Saroj Mukherjee has claimed that as the CPI(M) took lessons from the Lok Sabha elections, it has been able to correct its mistakes and has oriented its work in the interests of poor and middle class people who have supported the Left Front in the civic elections. How far this claim is justified is yet to be seen. From the pattern of votes in different Wards, certain general conclusions can be drawn. The CPI(M) and the Left Front regained their position in the areas inhabited predominantly by the refugee population which have been a traditional stronghold of the communists. This position had been lost in the last Lok Sabha elections; but in the civic elections, the Left Front won all the 14 seats. The majority of 'bustee' people also generally voted in favour of the Left Front. In the predominantly Hindi speaking areas, the Left Front lost heavily as was expected. But in many of the predominantly Muslim areas also the Left Front lost. This feature was also seen in the last Lok Sabha elections. A considerable section of the Muslim minority has moved away from the Left Front. In the areas predominantly inhabited by traditional "Calcuttans", in central and north Calcutta and even south Calcutta, the Left Front fared badly. Many erstwhile UF councillors who were supported by the Left Front suffered defeat. Not only the upper middle class but a section of the middle class also continue to stay away from the Left Front which has to probe deeply into the causes of this. Particular attention has to be paid to the Muslims.

The prospect of better civic administration and better civic services is very bleak. The Left Front faces a tough job with such a slender majority. The Congress(I) is likely to create disturbances inside and outside the civic body. Moreover, there is the chronic problem of finances of the Calcutta Municipal Corporation.

Structural changes like the constitution of the Mayor-in-Council notwithstanding, there has been little enlargement of the powers of the Calcutta Municipal Corporation since its formation in the mid-twenties. Its powers do not extend beyond conservancy services, etc, and resources are drawn almost exclusively from the Municipal rates on houses. The Calcutta Metroplitan Development Authority is entrusted with developmental work and controls huge finances, but the elected representatives have no control over the CMDA. Besides the Calcutta Municipal Corporation, many other agencies such as CMDA, CIT (Calcutta Improvement Trust) and CMWSA (Calcutta Metropolitan Water and Sanitation Authority) work in the city area towards providing civic services. The problem of co-ordination and defining areas of work has not been solved. All these problems have to be tackled for betterment of civic services. So the civic election on the basis of 1980 Act has not opened any bright prospect for the city people. The Left Front has to ensure the active co-operation of the city people as well as of the civic workmen in order to effect any improvement in civic services.

## ANDHRA PRADESH

# Who Cares about Academic Autonomy?

**M Shatrugna**

THE promulgation of the Andhra Pradesh University Acts (Amendment) Ordinance 1985 on June 10 exposes not only the growing bureaucratic control of the university bodies by state government but also the pliant academic community in the state. The Ordinance, covering seven universities, restructures the university syndicates, doing away with the system of election of members. As per the Ordinance there will be nine members, seven directly nominated and the other two nominated according to seniority from among professors and principals of affiliated colleges in the university area. Whereas the Vice-Chancellor and the government representatives are called Class I category, the rest are called Class II. Out of the five Class II members, three will be educationists belonging to the university area. Earlier each university had its own set-up. For instance, the Osmania University had 19 members in its Syndicate—six nominated by the government and the rest elected from the Senate (4), Academic Council (4), the Legislative Assembly (3), and the Council (2).

On the face of it, the Ordinance has not significantly changed the system of 'election', as the other organs of the Universities, *viz*, the Senate and the Academic Council, have not been touched. One can still hope that while restructuring these two bodies enough provision would be made for election of members from these bodies to the Syndicate suitably amending the present Ordinance. But what is surprising is the manner in which the Ordinance was pushed through. The Education Minister while releasing copies of the Ordinance told the press that the restructuring was based after the recommendations of the Central Universities Committee under the chairmanship of Madhuri Shah and Vice-Chancellors' Conference of October 1983. The Madhuri Shah Committee's recommendations were meant for Central Universities. In any case such important decisions affecting the autonomy of the universities should not have been left to the Vice-Chancellors alone to decide. In the present case, neither the university teachers' associations nor the academic community in general was consulted. Also the Ordinance has certain peculiarities. Generally an Ordinance or a Bill is issued with certain 'aims and objects'. No such statement appears in the present case. As a former Law Secretary to the government confided, the present practice is not to mention any aims and objects as in many instances the provisions of the ordinances have been found contrary to the stated aims and objects by the law courts.

Surprisingly, there has been no concerted protest on the issue by the academic community. One possible explanation may be the highly hierarchical set-up of the universities and the pliant nature of the teachers. The universities in the state, especially after Independence, have no history of struggles to uphold democratic values and autonomy. Even the so-called 'autonomy struggle' in Osmania University under D S Reddy during the regime of K Brahmananda Reddy in the sixties was in effect meant for the autonomy of the Vice-Chancellor rather than the university as such. D S Reddy and those who followed him, barring one, were more interested in their own autonomy than in extending democratic values at all levels of the administration. In the name of autonomy, autocracy was practised in the Osmania University during the Emergency. The teaching community was no better. When a number of student political activists were arrested, detained and in some cases even murdered in so-called 'encounters' by the state, there had been no protest of any kind by the academic community. When a number of teachers were detained under MISA and kept in jails for long periods of time, there was again no protest. Even in the present case, barring some press statements condemning the Ordinance there has been no active protest from the teaching community. In fact some teachers have already become accomplices in this government-sponsored arrangements. The government has nominated nine 'educationists' to the Syndicates of the Osmania, Andhra and S V Universities under the Class II quota. All of them are senior professors, but not one of them has thought it fit to uphold academic autonomy and democratic values by rejecting the government offer. With such a track record of commitment to democratic values, not much of a fight against the undemocratic Ordinance is to be expected from the academic community.

## BANGLADESH

# Civil and Military: False Dichotomy

### Badruddin Umar

SINCE March 1, 1985 open or legal political activities have been very severely restricted in this country. In any country, this kind of political restriction is indicative of a crisis not only in the camp of the bourgeois constitutional opposition but in the entire social, economic, administrative and political relations obtaining in the country. This crisis inevitably reflects itself in all spheres of life in the form of anarchy and with the worsening of the crisis the anarchy increases with a certain ferocity and tends to go beyond the control of the powers that be. Bangladesh is no exception in this regard.

Whatever may be the type of government, there is no Chinese wall between the civil and the military in it. In running the economic system, the administration, etc, and in maintaining law and order they work hand in hand and promote the same objectives. This is clearly demonstrated when a so-called democracy succumbs and is replaced by a military government.

In order to create a smokescreen and hoodwink the people, bourgeois theoreticians, bourgeois political propagandists and the bourgeois propaganda media, including the press, try to portray the changeover from the civil to the military administration as a qualitative change in the existing system. The constitutional opposition sheds tears for the 'good old days' when an exploitative system could be smoothly run with the 'consent' of the working people themselves. They are not really against the basic system itself, not against the ruthless exploitation of the workers, peasants and other working people. Their objections are against the methods employed and their bourgeois sensibility is averse to its nakedness. So they pine for constitutional clothing and for the sweet satisfaction of doing what they do with the so-called consent of the people.

The military—the army, the navy and the air force—does not constitute a class by itself. But that does not mean that it is classless. It simply means that the class character of the military in a certain country is most decisively determined by the socio-economic system obtaining in that country. And being a part and parcel of the system itself it always protects and promotes the same kind of basic interests which are protected and promoted by the civilians, the elected 'representatives of the people'.

Thus the military is called by civilian governments whenever they face a serious crisis, a crisis which cannot be met with civilian instruments of control. This is just the beginning of the military's role as the saviour. The role gradually enlarges and covers new areas with the development of the bourgeois crisis and finally leads to the military takeover of the administration and the government. In developed and well-organised capitalist countries the process develops slowly and imperceptibly until the crisis becomes acute. But in the less developed and backward countries this movement is rather fast. Thus, in the latter countries, the transition from civilian to military rule takes place within a comparatively short span of time.

If we remember this basic law of development then it will be clear to us that the civilian government in Bangladesh was overthrown and replaced by a military government not just because one evil-doing general or the other chose to overthrow the legally constituted government and assume control of the reins of power. In fact, owing to various reasons, into which we cannot enter here, a very serious economic and political crisis began to develop and mature in this country after 1972 and finally it reached a stage where, in order to save the system, a military takeover became a necessity. To meet this necessity the bourgeois system threw up its own instruments and the military leaders made their appearance openly on the political scene.

Being thus installed in power the military rulers recited the usual formula of returning power to the civilians as soon as it was possible and undertook all the measures which they considered necessary in order to save the system and protect the basic interests of the civilian 'lovers of freedom' and democracy. In Bangladesh this is more true than in most other countries similarly placed and that is the reason why, even today, the bond between the bourgeois constitutional political opposition and the armed forces is quite strong.

Two consequences follow from this. First, in a situation like this the bourgeois opposition fails to place before the people any kind of concrete economic and political programme which can really enthuse and arouse them for any decisive political action. Secondly, in order to hoodwink the people both the civilian and military elements enter into secret negotiations with each other and come to conspiratorial agreements, the exact nature of which is determined by the situation actually obtaining at various stages.

Those who really want a radical transformation of the whole society operate outside the constitutional framework. But those who are basically committed to the present system either by self or class interest or ideologically, have practically nothing else to do than what has been mentioned above. Thus the political climate in which the bourgeoisie in Bangladesh find themselves is determined by their class character and their activities, both of the right and the so-called left, lead them fast towards the destruction of their political position and create conditions for the growth and development of new and other forces.

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## Larsen and Toubro

LARSEN AND TOUBRO has declared an interim dividend of 12 per cent for the year ending September 1985 to equity shareholders whose names are registered in the books of the company on August 17, 1985. The shares allotted during the year on a 'rights' basis will be entitled to proportionate dividend. The company's register of members will be closed from August 6 to 17, both days inclusive, for this purpose. The dividend will be payable on or after August 31, 1985.

# Piloting a Nation into the Twenty-First Century

## Changing Political Context of State Power and Class Contradictions in India

### T V Sathyamurthy

## I

INDIRA GANDHI's assassination, the eighth Lok Sabha election, the March 1985 elections to the Legislative Assemblies of States* covering well over half of the total population of the country, and the budget—taken together—provide interesting clues to an understanding of the dynamic forces at play during an important phase in the development of state power in post-colonial India. The six-month period between November 1984 and April 1985—like the Emergency and the 1964-66 interregnum between the end of the Nehru era and the beginning of Indira Gandhi's Prime Ministership—represents a watershed in Indian politics, and points to the emergence of new conflicts involving dominant classes.

Under Nehru, a comparatively new state structure which underwent a slow process of elaboration nevertheless acquired the capacity to overcome instability caused by communal strife, suppress the Telengana insurrection, and cope with (or contain by the application of brute force, as the case may be) the demands of different nationalities based on claims of linguistic, cultural, regional or ethnic identities. Along the frontier (and especially in the Punjab, Jammu and Kashmir, and the Nagaland area) popular forces laying claim to a certain measure of local autonomy and democracy were firmly lidded down. In doing so, the Indian state laboured under the assumption that such local assertions of identity could only be regarded as being fuelled by centrifugal tendencies which, unless firmly put down, would eventually lead to demands for self-determination and pose a threat to the integrity and security of India.

The left wing parties, for their part, were of little help because they wavered between the two extremes of support for a centrist orientation to nationalism *a la* the Congress on the one hand, and on the other, the nationality based demands of certain regions of the country. However, the main political point to make about the Indian state under the aegis of Nehru's Prime Ministership is that its resilience bore no systematic relationship to its actual power.

On the economic front, ample opportunity was provided through planning for the creation of conditions favourable to a guided growth of agriculture which would eventually provide the surplus needed for rapid industrialisation and the establishment of an essentially capitalist economy, drawing material support from an expanding and highly ramified state sector.

In the process, a class of rich peasantry and middle peasantry representing economic interests of a specific nature emerged with its *loci* of power and political bases spread out in the various States or regions, especially in the north, the north-west and the west. In course of time, divergences of class interests between the industrial and agricultural segments of the national bourgeoisie came to be expressed increasingly in the form of radical differences in outlook (in secular terms) on crucial issues between the Central government and the State governments. This was often dramatised by the fact of the two sides being ruled by parties (or coalitions) in opposition.

Shastri's rule represented the first interlude during which the Centre appeared to take the political role and significance of Indian agriculture (i e, the rural class of 'haves') rather more seriously than had been the case during the initial phases of the Green Revolution. Quite how the Central government would have shaped and controlled the power of the Indian state, had Shastri lived long enough to consolidate his position and pursue policies consonant with the ideological strands in the Congress party which he represented, is difficult to guess. But there can be little doubt that, during his brief regime, the potential power of a rising agricultural bourgeoisie in India as a political and economic force in its own right was recognised for the first time. The fact that India was still far from being self-sufficient in food production, however, ran counter to any effective role that this rising class could play *sui generis* in determining the overall balance of class forces which underpinned state power at that particular stage of India's post-colonial history.

It was under Indira Gandhi's Prime Ministership that the physical apparatus of state power was developed to an unprecedented extent. The might of the state as a centralising force and as an instrument for reflecting the interests of the ruling classes was consciously developed. On the one hand, India witnessed the elaboration of the state and the fashioning of a basically chauvinist ideology which saw threats to Indian sovereignty, and national integrity and autonomy, in almost all demands of a popular character for local autonomy and a better deal from the Central government. On the other, Indira Gandhi and her supporters developed populist slogans (especially after the nationalisation of the fourteen banks in 1969 which, given its precise political context, should be regarded as an accidental happening rather than as part of a seriously conceived pro-people policy in the economic sphere) which further reduced the 'socialist pattern of society' to a series of cruel shibboleths.

In the face of the stout resistance offered by the newly emergent classes in the agricultural sector to any constriction of their interests by the state, lip service to socialism became a convenient facade behind which a vigorous policy running counter to the interests of the working classes (in industry as well as in agriculture) could be mounted in order to squeeze more and more surplus from labour. The ruthless manner in which the railway general strike was suppressed and the general anti-worker orientation of the 1975-1977 Emergency represented the crucial features of the dynamic of state power as it was developed during Indira Gandhi's first term of office (1966-1977).

## II

In unveiling the Indian state with its enormous power to suppress dissent, oppress 'subaltern' classes, and generally repress the population as a whole, with the declaration of Emergency in 1975, the ruling classes and their political representatives had completely underestimated the powerful roots that popular consciousness of basic democratic and civil rights had sunk in the country as a whole, and the widespread awareness of the advantages of a genuinely parliamentary system of government.

No wonder then that the Indian electorate seized the earliest opportunity to throw the Congress party out of power, and elect, in its place, a more polyglot conglomeration of political forces representing (though in unequal and irregular measure) divergent class forces. That the Janata broke up and degenerated into a shambles within a very short period is far less important than the fact that it was during the post-Emergency period and not during the Emergency that parliamentary democracy (of a kind) was indeed 'put back on its rails'.

Furthermore, puissant as the Indian state continued to be after the Emergency, its vulnerabilities in three areas stood exposed under the Janata. First, in the arena of Centre-State relations, a perceptible shift began to develop in the balance of power between the class interests represented in the main by the party in control of the power of the Indian state on the one hand, and, on the other, the interests of the locally dominant classes (the petit-bourgeoisie which may or may not be a producing class; the regional industrial bourgeoisie consisting of medium and small scale industrialists engaged in production exclusively with local capital; or/and the rich and middle peasantry and their allies, as the case may be).

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* The term 'State' is used in this essay to refer to States of the Indian Union. The term 'state' is used to refer to the Indian state.

The intimations of such re-alignments of class power were originally manifested as early as 1967, but the anti-Congress coalitions which came to power that year in eight states (including the two United Front coalitions led by CPI-M) were extremely vulnerable to de-stabilisation by the Centre. In 1977, however, despite the strongly 'centralist' ideological orientation of the new Prime Minister where Centre-State relations were concerned, opposition political parties in power (including, ironically, the Congress party which continued to dominate Andhra Pradesh and Karnataka) in the various States were, politically speaking, no longer on the defensive.

The assertiveness with which the ruling parties or coalitions in the States raised demands for a greater devolution of economic (i e, financial) and political power reflected the tensions and contradictions, that had been in the process of unfolding for well over a decade, between the Indian national bourgeoisie (representing the interests or claiming to represent the interests of all segments of the Indian ruling class) as a whole on the one hand, and, on the other, the dominant segments within it centred in the regions and providing the political support needed by established parties in executive control of the various State governments.

By adopting a flexible approach to problems posed by the calculus of class power within their jurisdiction, even the Left Front governments in the eastern part of the country have demonstrated a remarkable degree of resilience and adaptability to parliamentary government essential for their continued survival in power. That this expertise in the art of juggling contradictory interests has had to be gained at the expense of at least some of the main pro-people commitments which, in the first place, impelled them to seek parliamentary power before ploughing the revolutionary furrow is another matter which merits a separate discussion. In the context of this discussion, however, it would be useful to note that even although the case for relative autonomy of the State *vis-a-vis* the Centre was originally voiced in a forceful manner by populist and left parties (DMK since 1967; and CPI-M, especially since 1977), the scope and compass within which they located their main demands turned out to be somewhat narrow and specific.

Thus, the main elements in their campaign for autonomy related to a more equitable distribution of power between the Centre and the States which would enable the latter to acquire greater access to financial and other resources for development. Conflict between the Centre and the States became tame enough and tended to cover familiar ground. Neither side had any need to fear the other, even though a war of attrition was resumed once Indira Gandhi returned to power.

Much more complex than these divergences between the Centre and the States were the problems that came to the fore during the Janata phase specifically relating to Assam and the Punjab. Though neither of these assumed serious proportions until after Indira Gandhi took power in 1980, the issues exemplified in these two cases are not without more general relevance extending to other regions (especially on the periphery—e g, Jammu and Kashmir; Sikkim; and the North-eastern States in general).

In both cases, it was not a political party at the State level that was at odds with the Centre (in the Punjab the Akali Dal was actually in power until it was dismissed by Indira Gandhi in 1980); but rather, a popular multi-class movement based in the mass of the people and led by powerful local classes (the producing Sikh peasantry in the case of the Punjab, and the non-producing Assamese petit-bourgeois elite in the case of the Assam student agitation against 'the foreigners'). These movements were poised to capture executive power from hitherto dominant political parties which represented the interests of other classes and were subservient to the Centre.

Thus, to an ever greater extent than the DMK agitation of the late 50s and mid-60s, the Assam agitation touched upon issues of a fundamental nature, regarded as sacrosanct by the Centre, such as, for example, whether the State or the Centre (in view of the fact that the Assam movement was not in power, this should be read as 'whether a democratic movement in the State or the Centre') had the competence to define the criteria to be applied in determining who may or may not be included in the electoral rolls of the State.

The 'mass democratic' aspect of the movement as evidenced in its capacity to sustain committed support throughout Assam for over three years served two purposes—*viz*, a sharpening of the line of cleavage between the Centre and the State by bringing into dispute matters which had hitherto been universally assumed to be within the domain of the Centre; and an ungulfing of the entire State in demands raised by a mass movement, rather than the usual pattern of political parties opposed to the party in power at the Centre challenging the latter's interpretation of different provisions of the Constitution which adversely affect the development of the State.

Furthermore, in the case of Assam, the introduction of explicitly 'nationality' based demands of the Assamese people (as distinguished from the dominant Bengali *bhadralok* interloper class, the new influx of poor Bangladeshi immigrants occupying and exercising individual tenancy or even proprietary rights over 'Assamese' land, and the tribal population of the State) has evoked the predictable response from the Centre to the effect that it would not yield to such threats to 'national integrity' (allegedly 'foreign inspired', for good measure!).

In fact, however, national integrity as perceived by the Indian ruling class has not in any way been threatened either in the Punjab or in the Assam agitation because the 'mass' character of both movements is superficial by comparison with their 'class' character. In both cases, a restive locally powerful class began, during the Janata regime, a political process by which it hoped to seek an accommodation with the Centre which would permit it to exercise greater power at the State level.

Second, during the Janata regime, for the first time at the national level since independence, those specifically representing the interests of the rising agricultural bourgeois class exercised state power alongside the representatives of the other (and, of course, particularly the industrial bourgeois) segments of the ruling class. In fact, behind the ugly scenes that led to the toppling of the fragile Janata coalition in 1979 lay much more than the political amibition of an ageing *neta*.

The rich peasant interests which had obtained a recognised status in the grid fuelling the power of the Indian state sought, *albeit* prematurely as it turned out, to stage a sort of 'internal coup' by which it was hoped that they would assume a position of dominance within the ruling class as a whole. Indira Gandhi's brilliant manoeuvres, first to prop up a coalition led by rich peasant interests and then to smash it unceremoniously in Parliament within a fortnight of its assuming power, constitute the beginning and end of a brief but dramatic chapter—one with a portent for the future—in the history of Independent India.

The terms of trade between agriculture and industry had indeed shifted considerably during the 70s; but the shift was by no means of such a magnitude as to signal the dominance of agriculture over industry, Indira Gandhi's return to power was, therefore, marked by the emergence of the agricultural bourgeoisie as a political force of no inconsiderable importance, as yet still in no position to control the commanding heights of state power, but which it would be sheer folly for whichever political party was actually in control of state power to ignore. The increased political restiveness, throughout Indira Gandhi's second stint in power, of a number of State governments [not limited only to those governed by parties of the opposition, but also including such important Congress(I) ruled States as Maharashtra] should be viewed as a reminder that the agricultural bourgeoisie of India—whatever their national future in the short run—have come to stay at the State level as a dominant class force.

Third, by virtue of its very disparateness, the Janata coalition was well placed to make a substantial departure in the field of industrial policy crucial to the interests of the Indian national bourgeoisie. During the period 1972-77, Indira Gandhi had already initiated a significant move away from the pattern of thinking about development generally accepted in India. The Indian state had made substantial progress in the field of heavy industry which was placed at the disposal of the Indian capitalist class for the development of private enterprise. There was not much more that the state could do for the national bourgeoisie.

Yet, there were limits to the extent to which a populist Prime Minister, nurtured in the rhetoric of shibboleth socialism, could afford to be seen to break the mould of 'mixed enterprise' thinking in which Indian planning and development had become enmeshed. The Janata regime, however, was relatively free of the burden of commitment to some form of 'socialism'. Characteristically, it took the initiative to open up Indian industry to powerful thrusts of foreign capital under the guidance of George Fernandes, the 'socialist' Industries Minister.

The underlying logic of this new approach was fairly straightforward. The Indian national bourgeoisie, relative to its size and capacity, was starved of the capital necessary for the full development of productive forces appropriate for establishing, on a secure footing, capitalist relations of production in the Indian economy. A good proportion of its economic activity was still located in the commercial sector which was thriving with the expansion of the internal market and the purchasing capacity of the topmost layer consisting roughly of 15 to 20 per cent of the total population which itself has undergone a rapid process of internal differentiation.

Even although this represented a robust picture of the emerging profile of the economy in one sense, an expanding commercial or market economy could be no substitute for a fully developed capitalist economy that produced (both for internal consumption and competitive export) enough, while at the same time expanding its base. To be sure, a rising proportion of savings in the agricultural sector was finding its way into investment in some parts of the industrial sector, but, by and large, the agricultural bourgeoisie could not be prevailed upon by the state, against their will (so to say), to part with any of their surplus for industrial development.

Industrial and rural labour of course continued to be squeezed through draconian legislation as well as by other means of coercion including the pressure generated by the feudal practices that have persisted in certain sectors of the agricultural economy. In other words, the task of firing the engines of capitalism of the gigantic but nevertheless dependent Indian economy would inevitably require a substantial participation of foreign capital.

Janata was in a good position to prepare the way precisely for such a development. Just as in the sphere of restoring parliamentary democracy and bourgeois civil liberties, so too in the sphere of opening Indian enterprise to foreign collaboration in a number of fields, the Janata government played a notable role. But, whereas Janata's contribution in the political sphere was on the whole positive, its policies in the economic sphere led to a stoking of the inherent contradictions of the Indian economy.

When Indira Gandhi took re-possession in 1980 of what she had always regarded as her legacy, she was quite happy to continue and develop India's economic policy along the trail that the Janata government had blazed before her. At the same time, she felt powerless to reverse the democratic political trends set in the country as a consequence of the re-emergence of self-confidence among different (and especially the relatively deprived) segments of the ruling class and its supporters among the petit-bourgeoisie and the intelligentsia (as well as organised labour) during the 1977-1980 interregnum.

Thus it was that during her second whack in office, Indira Gandhi could do little to stifle the democratic aspirations of the people despite the government's attempts to reintroduce the Emergency by the back-door. But, in her capacity as the chief political representative of the Indian national industrial bourgeoisie, she was well placed to build on Janata's policy of encouraging the process of furthering the integration of Indian capital and Indian industry into the world capitalist system. The Indian government's dramatic decision in 1981 to go to the IMF with the aim of securing Special Drawing Rights to the tune of over US dollars 5 million represented a Great Leap Forward in this direction.

When Indira Gandhi's regime came to an end, the Indian state had already begun to achieve notable success in its efforts to open the door of the Indian economy, to a substantial degree, for penetration by foreign capital. At the same time, the contradiction between the industrial bourgeoisie on the one hand, and on the other, not only the agricultural bourgeoisie but also regional bourgeois forces with their base in small and medium industry fuelled by indigenous capital, had further intensified. The difficulties that Indira Gandhi's government experienced in the field of Centre-State relations in different parts of the country were in good part traceable to the political manifestations of these contradictions.

## III

The events of the last few months, viewed in the light of this general perspective, would appear to have imparted fresh momentum to the changes discussed in the previous section. The fact that Indira Gandhi's assassins were Sikhs was used as a pretext by the ruling party to step up a propaganda campaign in which the threat to 'national integrity and security' stemming from the Punjab issue was exaggerated to the point of provoking a flood of mass hysteria. Seizing the opportunity provided by a recrudescence of Hindu communalism which, thanks to the stratagems of the ruling party, had already been under way for sometime (as witness the substance of the Congress(I) campaigns leading up to the Haryana State Assembly election of 1982, the Delhi Municipal election of 1983, and the constituencies of Jammu in the Jammu and Kashmir State Assembly election of 1983; as well as in the methods adopted to counter the Akali Dal agitation in the Punjab itself since 1982), ambitious and ruthless Congress(I) leaders provoked frenzy among lumpen elements which led to an orgy of orchestrated violence which was focused upon the poor and exposed sections of the Sikh community in Delhi as well as other cities.

While the tough elements in the ruling party indulged their thirst for communal blood in this fashion, the party as a whole decided to go to the country amid the unsettled conditions following the assassination. Under the circumstances, the electorate was called upon to exercise its choice not on the basis of alternative policies placed before it, but rather on the ground that only the ruling party with a massive mandate could save India from disintegration and Balkanisation.

By any criteria, it was an extraordinary election campaign in which opposition parties were indiscriminately attacked as traitorous to the cause of India's unity and national integrity and the electorate subjected to high pressure media and advertisement tactics unsurpassed in the history of parliamentary democracy. That the opposition was confused and out-manoeuvred from the outset of the campaign and produced no credible or convincing alternative policy did of course result in the jingoism and chauvinism of the ruling party going unchecked.

In the event, the Indian electorate delivered a verdict in the Eighth Lok Sabha election which, digital gymnastics of psephologists notwithstanding, represented on balance a total rejection of an Opposition which insisted on being in an almost terminal condition of chaos and disorganisation rather than an enthusiastic endorsement of the new regime. Once again the electorate had acted with prudence and intelligence, *albeit* in the opposite direction, nearly eight years after it had taught the ruling party an unforgettable lesson.

The main significance of the victory of Congress(I) in the Lok Sabha elections under Rajiv Gandhi's leadership lies in the fact that the rhetoric of forging ahead into the twenty-first century will be increasingly used to justify inegalitarian policies and repression of popular democratic forces. It also means that, even within the general mandate of delivering the political and economic goods to the ruling class, priority will be given to expanding the capacity and increasing the resilience of industrial capital, while at the same time creating conditions for its uninterrupted reproduction in order to achieve—as far as practicable—*fully* capitalist relations of production.

Conditions are already being created for increasing the dependence of Indian capital on international and multinational capital. At the same time, the needs of the agricultural bourgeoisie, which is committed to a general policy of modernisation, expansion of its productive base, and a more rapid reproduction of capital in its sphere—all with the continued aid of the state—will not (and indeed cannot) be given the same amount of importance as those of the industrial bourgeoisie.

It is a characteristic feature of the Indian ruling class that in the long run agricultural and industrial capital cannot expand simultaneously (within an indigenous framework). Each segment of the ruling class would inevitably view the preponderent development of the other as taking place at its own expense. In recent years, this trend has been increasingly discernible as has already been pointed out in a previous section.

Dependent capitalist development in a climate characterised by acutely uneven conditions of development of production relations cannot, in the long run, take place without eventually provoking conflicts within the ruling class or transforming already existing intra-ruling class conflicts from a non-antagonistic to an antagonistic state. Thus, the exultation with which all sections of industry (except, it must be noted, small scale industries which are not adjuncts of or ancillary to big industries, and some medium scale industries) have hailed the Indian government's recent Budget should come as no surprise. But, in adopting Rajiv Gandhi as its most favourite candidate to date for piloting the ship of state into the future, the industrial bourgeoisie of India may have been prematurely confident of the potential for growth inherent in Indian capital and its own capacity to withstand, even with the help of state power, the vigorous onslaught of the rural rich that is bound to follow sooner than might now be anticipated.

This trend is nowhere better exemplified than in the results of the recent elections to 10 State Assemblies comprising well over 50 per cent of the Indian electorate. In Karnataka, the Prime Minister conducted an election campaign no less sweeping in its condemnation of the Opposition than in the Lok Sabha election, in the course of which he even stooped so low as to declare that the electorates of Karnataka and Andhra Pradesh should remember that it was only at their own peril that they would envisage returning an Opposition government to power in the State when Congress(I) was in power at the Centre.

Rajiv Gandhi's strategy backfired to a degree far in excess of Janata's hopes. Both in Andhra Pradesh and Karnataka, the disgruntlement of local elites (predominantly rural in character), laced with popular support for 'democratic' values (in the given context), led to an election result well worth pondering over for its wider significance.

In Uttar Pradesh and Bihar, the Dalit Mazdoor Kisan Party (DMKP)—with its leadership split in the two States between Chowdhury Charan Singh and Karpoori Thakur—emerged as a substantial force on the opposition benches. Given the fact that for various exigential reasons, rich and middle peasant voters also supported several Congress(I) candidates, it would be reasonable to suggest that in these two State Legislative Assemblies there exists a real potential for splits from Congress(I) if a sufficient number of legislatures of both the ruling and the opposition parties were to feel aggrieved and see in specific policies put forward by the State government a threat to the interests of the agricultural bourgoisie as a whole.

In UP in particular, it would be reasonable to assume that each of the 92 MLAs belonging to DMKP (once again re-named Lok Dal or LD) is matched by his or her counterpart on the ruling party benches representing more or less identical economic interests. In the more complicated cases of Rajasthan and Madhya Pradesh, the same general reasoning would apply, despite the comparatively less secure position of Congress(I) in the former and its apparently more secure position in the latter.

In contrast to the 'heartland' States, where the alignments in the new State Assemblies are subject to conjecture and not yet entirely clear, Maharashtra offers itself as an example of a State in which the conflict between powerful agrarian interests present in the State Assembly on the one hand, and on the other the State government either in conjunction with the Central government (or even beleagured as a consequence of opposing certain policies of the latter inimical to the interests of the rich and middle peasantry in Maharashtra) or by itself, could come to a head in a year or two.

Here the People's Democratic Front (PDF) coalition has already focused on specific issues on which it intends to keep up pressure on the government. Its ominous campaign for crop protection insurance by the State and better procurement prices for jowar and cotton has already acquired sufficient momentum to force Chief Minister Vasantdada Patil to placate the opposition to the extent of prevailing upon the Central government to go back on its declared intention of withdrawing subsidies for insurance. In so doing, Patil has even recalled a precedent by which Antulay, as Chief Minister, yielded to similar pressure from the opposition in 1980/1981 by going against the policy of the Central government when he decided to write off certain categories of loans outstanding to cultivators to the tune of over Rs 62 crore.

Torn in its loyalities between the class on which it has so far depended for electoral support in the formation of the State government on the one hand, and on the other the Central government under the control of Congress(I), the ruling party in Maharashtra might well be subjected to a tightening squeeze between an increasingly strident PDF and a less and less accommodating Central government. Such a prospect is all the more likely given the fact that the Central government, in view of its overall class direction under Rajiv Gandhi's Prime Ministership, might well prove to be less and less in a mood to go back on its general policies in order to rescue its own party in the State. Thus, despite anti-defection laws and transparent threats to potential political defectors from the ruling party, there is every possibility that, within the life of the present Assembly, PDF might well engineer a successful coup by provoking group defections from the Congress(I) government to an extent sufficient to bring it down. The time limit of one year that Sharad Pawar has set his coalition for achieving such a result may seem optimistic but, given the emerging configuration of class forces in Maharashtra as reflected in the State Assembly, the aim itself can hardly be regarded as unrealistic.

These developments, despite specific differences of manifestation pertaining to individual States, are sufficient in themselves for those in control of state power to want to pause. Add to these the far more complicated questions posed by such sensitive States as the Punjab and Assam where the economic logic of protest is overlaid, at least for the time being, by a clearly augmented consciousness of cultural, communal, linguistic, jurisprudential and other forms of neglect on the part of the Indian state.

Such social and cultural aspects of their role accrue to these peoples as minorities or separate *nationalities* (not to be confused with 'nations'), and they can only be brought into the mainstream by taking cognisance of their susceptibilities which have been trampled upon by a stepping up of coercion on the part of the state apparatus.

The interim between the recent State Assembly elections and the Ninth Lok Sabha elections is thus going to be crucial to the unfolding of certain basic class contradictions in Indian society. It is pertinent to point out that, in the absence of a clear analysis of the class contradictions that are developing in our society, the left (and in particular the communist) parties have shown themselves to be increasingly unable to grasp the significance of the crisis in which India is being engulfed.

As a conclusion to this general perspective, one further aspect of potential class contradiction must be explored even if only in a tentative manner. Rajiv Gandhi is the only Prime Minister who may be said to be an anointed head of the government in the eyes of the Indian industrial bourgeoisie. The developing symbiotic relationship between the two is predicated upon the confidence reposed by the industrial bourgeoisie in the ruling party's capacity, under Rajiv Gandhi's leadership, to pilot it through rough weather (internationally in relation to world capital, and domestically in relation to agricultural and regionally located capital), and the Prime Minister's assessment that the Indian industrial bourgeoisie is ready for a breakthrough and take-off into the twenty-first century.

However, there is a real possibility that the mutual expections of the two sides, given the objective conditions, might well prove to profoundly misconceived. Even though Rajiv Gandhi is a faithful representative of the interests of the industrial bourgeoisie, his policies are not informed either by a familiarity with the Indian masses (all his predecessors, unlike him, had the advantage of some kind of populist relationship with the Indian masses) or by an analysis of the overall Indian situation of which the industrial bourgeoisie is but a part. This may mean that if the going gets rough, Rajiv Gandhi may well feel compelled to apply the emergency brakes on his time machine carrying us into the twenty-first century. Such an abrupt shift in policy would inevitably damage the interests of the industrial bourgeoisie.

At the same time, judging from his public statements, Rajiv Gandhi does not seem to have a grasp of how international capital operates. His policy of encouraging foreign investment is based on the assumption that it can be guided into new (e g, hi-tech) areas and prevented from coming into conflict with or dominating Indian private capital as a whole. He also seems to be under the misapprehension that different sections of foreign capital (which he seems to conceive as 'belonging' to different advanced capitalist countries!) can be played off one against the other, and the Indian state can indulge in a bit of 'dividing and controlling' in such a game. This has been clearly conveyed in recent statements to the effect that European (and especially Italian) capital would be more acceptable than American capital which is generally believed to be viewed with some degree of suspicion and mistrust! Needless to add, there could be no more profound misunderstanding of the international and multinational character of capital.

The consequences of such an economic world view on the part of the Prime Minister could be disastrous even for the hallowed relationship between the Indian state (as it is presently structured) and Indian industrial capital. The industrial bourgeoisie might well find it difficult to exercise a decisive say in the determination of the quantum and level of penetration of foreign capital in different segments of the industrial economy, mainly for the reason that it may not possess the clout that would be needed for imposing the necessary restrictions.

Under such circumstances, it would naturally expect the state to use its regulating power (which would have to be re-constituted at least in part after a period of phased decontrol and open invitation to foreign capital to enter different spheres of the Indian economy) to beat back an indiscriminate invasion of Indian industry b foreign capital in contradiction with the interests of Indian capital.

If, in the case of such an eventuality arising, the Indian state proves to be too weak to control, direct, and limit the penetration of foreign capital into Indian industry as a whole as well as in particular segments of it, a real crisis will emerge both for the state and for the prevailing pattern of class control of its still redoubtable power. Thus, even without the interposition of a full-scale intra-ruling class conflict between industrial and agricultural capital, there exists a real possibility that a powerful state such as that of India could be engulfed by the accumulated pressures of uneven and dependent development of capitalist relations of production.

Such a scenario may at first sight appear to be a foreboding of bleak prospects for the Indian masses and especially the working class in both the urban and rural areas. But, in actual fact, it is in the interstices of the conflicts among different segments of the ruling classes that we should look for opportunities for popular democratic movements to spread from one part of the country to another until they acquire a single subcontinental sweep. The failure of the ageing leaderships of the main communist parties of India to prepare for such a development constitutes a disappointing section of an otherwise intriguing chapter of contemporary Indian history that is now in the process of unfolding.

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# Farewell to Modernisation?

**Krishna Kumar**

**Schooling and Modernity** by B L Jindal; Inter-India Publications, New Delhi; 1984, pp xii + 151; Rs 140.

THE 'modernisation' paradigm is still alive if not kicking. B L Jindal has used it to prove that schooling contributes to students' modernity, that the English-medium urban private school produces more modern students than does the government village school. By modern, he means the usual admixture of secular, scientific, achievement and independence-oriented, civic attitudes. After reading Jindal's elaborate analysis of students' scores on the modernity scale that he prepared to compare the students of two urban and one rural school in Hissar, Haryana, one is supposed to conclude that being modern in the prevailing social structure has to do with being born in a class whose children have access to locally prestigious, expensive, English-medium schooling. Put differently, modernity is a function of belonging to the local elite, and further that it has nothing to do with interest in changing the power distribution prevailing in society. But these are not the words which believers in the modernisation paradigm use. Nor does Jinal. He merely concludes that to spread modernity we should have more schools that are known to spread modernity—and these are 'quality' schools, invariably English-medium. To quote him, "the English medium has been found as a powerful predictor of student modernity".

It is a sad commentary on the modernisation paradigm that it has come full circle from being the mouthpiece of social change to becoming the legitimiser of elite style and power within less than thirty years. As Jindal's review of literature shows, the theoretical basis of modernisation was laid down in the sixties in the United States, and much of the empirical work, that is research aimed at showing the impact of education on modernisation, was done during the seventies, and in the 'developing' Third World. Thus, modernisation was the child of the 'development decade', born at a time when economic relationships brought about by colonialisation and modern imperialism had begun to be researched and needed something to be stopped from becoming a part of valid knowledge of the newly independent nations. Modernisation served this role. It persuasively insisted that being modern had to do with certain attitudes and values, rather than one's place in the social hierarchy, that education could bring about the desired change of attitudes, and finally, that the revolution of attitudes was what social change in the ex-colonies was all about. Thus, the concept of modernisation discouraged the young educated citizenry of the ex-colonies from perceiving social change as a process of redistribution of power and resources among different socio-economic strata. Modernity became, under the influence of the flying gurus of the sixties such as McLelland, Lerner and Weiner, synonymous with secular, scientific, achievement-oriented behaviour, a bag of virtues too pure to be defiled by political awareness of dirty things like power and oppression.

It is unfortunate that as a reviewer I should criticise Jindal's paradigm rather than review his work within it. One does this because the modernisation paradigm is far too politically allegorical to be taken at its face value. But once its message is clarified, which I had to do since Jindal didn't, one can 'accept' it as the proper context for commenting on a piece of research. Even if I do this, I fail to get excited with the data and interpretation presented in this study. There are far too many objectives and hypotheses—something that has become the trademark of Indian educational studies. What is worse, the data have been overexerted. After all, the kind of data Jindal is dealing with are hypothetical value-choices, not facts; not even opinions. For example, students are asked to respond to this statement: "man should live for today and his tomorrow takes care of itself". Whether one agrees, disagrees, or chooses to stay undecided about this proposition has to do with the way one relates to the meaning it conveys. Attitude questionnaires, unless very sensitively designed, take off from the shaky springboard of an assumed common interpretation on the part of the respondents. Once the researcher has made such a take off, he may find it impossible to remember the limited value of the data, especially in the midst of exciting statistical possibilities.

These possibilities Jindal fully exploits and one is not surprised that the over-analysed data bring him across odd fish that he must ignore. For example, his attempt to arrange urban students' score on the different dimensions of modernity according to their class-level at school shows that from Class 8 to 9 there is a decline in the scores on four out of the six dimensions of modernity. Table 4.12 shows that students of Class 9 are less—rather than more—secular, scientific universalistic, and achievement-oriented than students of Class 8. Jindal doesn't explain why more education causes reduction in modernity; he merely says that "Table 4.12 shows that the level of urban schooling was also positively associated with all the dimensions of modernity, except the secular orientation" (p 47). This reporting is clearly not accurate. One wishes the researcher had more respect for the data—whatever the kind and quality of the data he chooses to work with.

Jindal insists that his study has implications for policy. One implication he draws is that "there should be a ban on the haphazard growth of schools, and the high-ranking schools should get preference over the low-ranking schools". Obviously Jindal believes that no education is better than the meagre, poor-quality education that the less resourceful private schools or government schools can provide. Further, he believes that English-medium education available in urban areas is fine. Now if these are to be taken as conclusions arrived at on the basis of his study rather than his personal views, then we must once again see these conclusions in the context of modernisation as a paradigm of research in education. Here is a way of looking at the world that taught us all in our undergraduate days that literacy and education for everybody are essential in a democracy. Today, the same perspective allows one to conclude that since so much of educational effort (i e, village schools, Hindi-medium urban schools) does not lead to adequate modernisation of students' personality, we should now restrict education to the few who are capable of becoming modernised. The question that Jindal's study raises in one's mind is whether we should continue to see education in the context of modernisation, even now when the early promises of the paradigm have become irrelevant and the crises that modernisation-thinkers wanted to postpone have nearly engulfed us. Or, we should bury it with respect for what it was worth.

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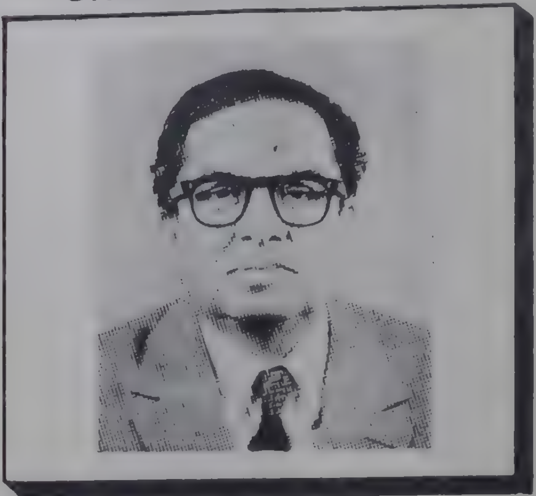
## Hero Honda Motors

HERO HONDA MOTORS released its first CD 100 motorcycle to its lucky recipient together with more than 100 others at a function in Bombay recently. The company takes pride that it has kept its promise to bring the latest technology to India within a record period of time. According to Brijmohan Lall, Chairman, CD 100 is technologically the most advanced motorcycle now available in the country. It is the only 4-stroke 100 CC motorcycle and is highly fuel-efficient capable of giving 80 kms per litre (40 kms per hour with 130 kgs pay load). The vehicle has been specially designed and developed to suit Indian roads and operating conditions. It is designed to give maximum rider comfort and safety and conforms to the highest international emission standards. The motorcycle is being produced at the modern factory complex set up by the company at Dharuhera in Haryana, a centrally notified backward area. While the company has a licensed capacity of 200,000 motorcycles per annum, the management has planned to produce 40,000 units in the first year and gradually increase the production to 120,000 units by the third year

# CHAIRMAN'S SPEECH.



**SHRI R.D. SHAH**

**Gentlemen,**

We pay our respectful homage to the late Prime Minister, Smt. Indira Gandhi whose tragic assassination was a great blow to the nation. Under the young and energetic leadership of the new Prime Minister, Shri Rajiv Gandhi,the country can look forward to achieving new peaks of economic progress.

The National economy recorded an impressive performance with a rise of 7% in industrial production during the first eight months of the year 1984-85 mainly due to growth in infra-structural industries which ensure basic inputs and services to the economy. Recent policy announcements by the Government of India relating to Import-Export policy, development of electronics industry, deregulation of licences for certain industries, raising of limit for MRTP companies and the reliefs in taxation would all go to accelerate the investment in industry. The new textile policy of Government of India is also expected to revive the textile industry, especially in the mills sector. This will have vital impact on the economy of Gujarat State which has a wide textile base.

The State of Gujarat, in its Silver Jubilee Year, fully utilised the Sixth Plan outlay of Rs. 3760 crores. The State was well on its way of achieving the growth rate of 5% during the Sixth Plan Period. The number of small scale units rose to 6,553 in the year 1984 as compared with 5,313 in 1983. Units registered in the large and medium scale sectors under DGTD were 148 in 1984 as against 96 in 1983.

The Silver Jubilee Year of the Corp
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Sixth Plan Period amounted to Rs.
crores, indicating a rapid growth
Corporation's business during the past five years. Likewise, disbursements during the Sixth Plan Period were to the tune of Rs. 182.23 crores.

The Corporation has laid emphasis on achieving balanced regional development by extending greater financial assistance to industries coming up in backward and rural areas of the State. Total assistance in backward areas is to the tune of Rs. 245 crores to 9,893 units during 25 years, which is 47.8% of the total assistance.

The sanctions of the Corporation amounting to Rs. 65.42 crores in the year 1984-85 show a rise of 12.6% over the previous year. Disbursement (Rs.41.25 crores) also registered a rise of 7.6% over the previous year.The recovery amounted to Rs. 36.72 crores.

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(Excerpts from the Speech of Chairman, delivered at the 25th Annual General Meeting of the Shareholde
the Corporation held on 28-6-85 at Ahmedabad)

lected taluka places having good potential development of small scale industries.

e Corporation organised a workshop-m-guidance programme on moderni-tion of industries. IDBI has also provided centives for modernisation and come out th a scheme for providing financial assistance on concessional terms which is adopted by the Corporation for implementation. It is hoped that entrepreneurs will take full advantage of this scheme for modernisation.

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I am happy to report that a bill for amendment of the SFCs Act was introduced in the recently concluded session of Parliament proposing to enhance the limit of assistance from Rs. 30 lakhs to Rs. 60 lakhs and we expect to see a revised SFCs Act emerging in the next session of Parliament.

IDBI which contributes to a large extent to our resources appointed a Committee to examine the resource mix in the SFCs. The Committee has recommended certain vital changes whereby 55% of the disbursement will be met by refinance from IDBI; 25% from issue of bonds; and 20% through plough back and increased share capital.

**Computerisation.**

It is proposed to make the maximum use of the computer for providing all types of management information service. It is heartening to note that IDBI has also agreed to provide necessary support and financial assistance upto Rs. 5 lakhs to all SFCs and has also decided to appoint a Committee to evolve a standard package for computer hardware and software. I hope, as a result of these developments, the Corporation will have its own In-House Computer facility by the end of 1985-86.

**Seventh Five Year Plan**

In the light of far reaching changes made in the National economic and fiscal policies and emphasis placed on computerisation and utilisation of advanced technology, the country expects to make rapid industrial development. Gujarat will also go alongwith the mainstream of industrial progress and the Corporation has plans for acceleration of the process of development of industries in a significant manner in the Seventh Five Year Plan (1985-90).

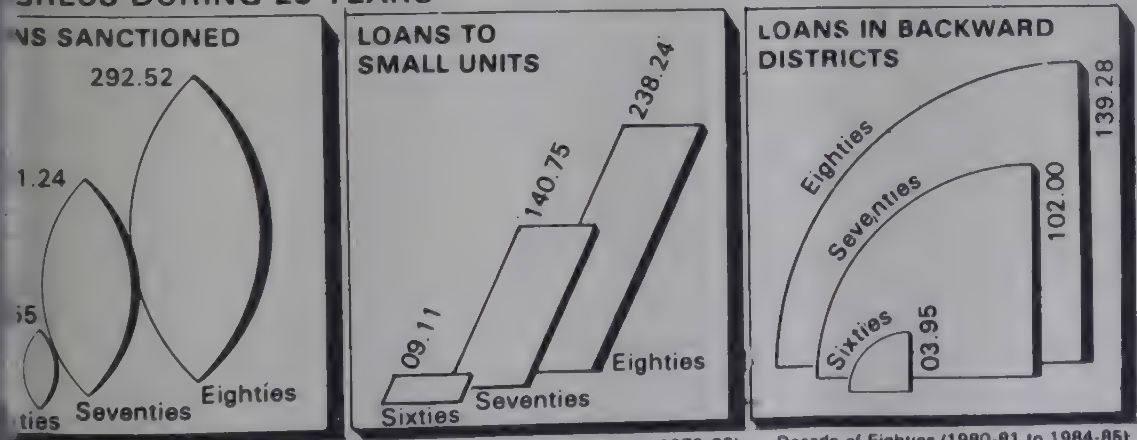
On the occasion of the Silver Jubilee Year of the Corporation, when we have crossed sanction of loans of Rs. 500 crores, I acknowledge with a sense of gratitude the valuable contribution made by my predecessors, the former Directors and the Managing Directors whose able guidance and sustained efforts have helped the Corporation to achieve this position.

**GUJARAT STATE FINANCIAL CORPORATION**

Jaldarshan Bldg., Ashram Road
Ahmedabad - 380 009

Navnit/155/85

GRESS DURING 25 YEARS (Rs. in crores)



e of Sixties (1960-61 to 1969-70) ● Decade of Seventies (1970-71 to 1979-80) ● Decade of Eighties (1980-81 to 1984-85)

# The Making of Constitutional History

### Arun K Banerji

**Readings in the Constitutional History of India, 1757-1947** edited by S V Desika Char; Oxford University Press, Delhi, 1983; pp xcii + 789, including bibliography, notes and index; Rs 250.

DESIKA CHAR deserves our thanks for contributing this valuable addition to the historical material covering almost two centuries of constitutional development. For the benefit of graduate and post-graduate students and the general reader, he has presented in this book about 400 extracts from original records, official and unofficial, which in themselves are vast by any standards. According to the editor, the picture we have of the establishment of the British Empire in India is of an administrative structure developed to meet the needs of oceanic trade being gradually modified to suit the task of governing a big, growing empire; the creation and perfecting of a bureaucratic system based on absolutist principles and engrafting it on the democratic framework of the Government of England; the challenge posed after a time by the spread of democratic ideas and the nationalist upsurge resulting from British contact and the changes effected or sought to be effected to satisfy nationalist aspirations without loosening the imperial grip; and finally the bowing out when the task was found to be too hazardous and unrewarding. Since the documents (including also extracts from non-official sources) do not furnish an integrated picture, the introduction written by the editor is meant to help the reader to view the documents in the proper setting. In short, the volume is aimed at illustrating "the different facets of constitutional growth as a political scientist would view the problems". This objective is certainly met to a considerable degree in this book, covering almost 800 pages, with extensive notes, glossary, bibliography, etc. But political scientists of different hues are bound to find some omissions here and there, especially beginning with the late 19th century, the selection of readings from non-official sources. No selection of this nature can possibly satisfy everyone. Given this limitation, the volume succeeds in presenting a kaleidoscopic view of the chequered pace of constitutional developments. The more serious reader will obviously want to go deeper, for which he will be initially greatly helped by the bibliography which the editor has provided.

The selections are presented in seven parts, chronologically divided—1600-1757, 1757-1793, 1794-1833, 1833-1858, 1858-1917, 1917-1947 and 1939-1947. Four of these, the second to the fifth, have broadly comparable sections. Parts VI and VII deal respectively with 'Towards Responsible Government, 1917-47', and 'War, Pakistan Movement and Independence'. It is in these two, especially the latter, that one would have expected to see more material, covering not just public statements, plans, memoranda, etc, but extracts from unpublished sources, in particular, from the extensive two-way exchanges between the Viceroy and the Secretary of State. It is not that such material is not available. To have included it would have lent the work another dimension.

It is not easy to review a work of this nature encompassing development over a long period in many sectors, without unduly lengthening the review. A few items may be picked out. In the section dealing with the Home Government during the period 1794-1833, the dominant role of that government has been stressed unequivocally, as indeed has been done by the editor in his Introduction. But in the following section there is an extract from Macaulay, in which, mainly due to the time taken for a despatch from India to reach London and then for the response of the Board of Control to reach India, he stated emphatically that "it is utterly impossible that India can be really governed except in India . . . every measure of which history will hereafter make mention was taken without any authority whatever from home. I believe that every one of those measures or acts was regarded with disapprobation at home; yet none of them was rescinded or annulled, but every one of them was allowed to stand" (p 233). Only the mature student would be able to shift statements of this nature and those professing the contrary viewpoint and arrive at the 'truth'.

In Parts II, V and VI there are separate sections on the Indian States. Nevertheless their position is not very clear, as indeed is the case with the entire gamut of social, political and economic development in the States. Their history still waits to be written, except for the larger ones, and there too, during particular historical conjunctures. In the recent "Cambridge Economic History of India", Vol II, references to these States are only few, and no attempt has been made to link developments in British India with those in the States. Neither by population nor by geographical area do the States merit such neglect. In the book under review, one of the more useful pieces is an extract from Henry Prinsep's book ("Political and Military Transactions in India during the Administrations of the Marquess of Hastings, 1813-1825", Vol II) in which Prinsep conveys some of the essential features of the nature and extent of control exercised over the Princely States.

It does not appear that the editor has drawn on A U Aitchison's "A Collection of Treaties, Engagements and Sanads Relating to India and Neighbouring Countries" although the book finds a place in the bibliography. The omission is perhaps explained by his objective as mentioned in the Preface, *viz*, to illustrate the different facets of constitutional growth, "as a political scientist would view the problems". But the boundaries that would limit what a political scientist would look for are fast moving outward to cover other aspects of the life of a people. In Part V the editor has included three small extracts dealing with exploitation and un-British rule, one being from the pen of Dadabhai Naoroji. It is indeed time a serious attempt was made to compile first of all a volume of documents on economic-financial matters during two centuries of British rule. Tracing, for example, the stages through which the discussions which ultimately ended with the Sea Customs Act, 1878, would make interesting, if not revealing, reading.

Before ending this review, may we make a small suggestion? In this book the editor has chosen to give the source for each extract at the end of the volume. This is, to say the least, very inconvenient to the reader. In a subsequent edition the reference for each entry may be given on that page itself, abbreviating it if necessary, as has been done quite successfully by Appadorai in his "Documents on Political Thought in Modern India".

## DCM Toyota

DCM TOYOTA has come out with an issue of 15 lakh secured redeemable non-convertible debentures of Rs 100 each aggregating Rs 15 crore. The debentures are being offered on a 'rights' basis to its Indian resident equity shareholders. The issue will close on August 9, 1985. The debentures remaining unsubscribed, if any, will be disposed of on private placement basis at the discretion of the board of directors. The object of the issue is to partly finance the company's Rs 45.8 crore project for the manufacture of light commercial vehicles in technical and financial collaboration with Toyota Motor Corporation, Japan's largest automobile manufacturer. By virtue of the technical assistance agreement, DCM Toyota has the exclusive manufacturing licence in India for the 'DYNA' model, one of Toyota's proven LCVs. The company has set up manufacturing facilities at Surajpur Industrial Area, a backward district in UP. The first LCV 'DYNA', manufactured by the company, rolled out in a record time of 14 months. Given the impeccable parentage of DCM Toyota, there is little doubt that the company shall be the forerunner in the Indian automobile industry. The issue is managed by Grindlays Banks' Merchant Banking Division. J M Financial and Investment Consultancy Services is the advisor and Amritlal Bajaj and Company consultant to the issue.

# Import of Donated Commodities, Export of Feed, and New Technology of Milk Production

**Surendar Singh**
**Kamaljit Singh**

*Operation Flood relies heavily on donated commodities. These donations make India the largest recipient of food aid from the EEC. The inflow of donated commodities is likely to have a contracting effect on the dairy sector of the Indian economy.*

*India, on the other hand, is a major exporter of oilcake meals. A significantly large quantity of it is being exported to the EEC. The domestic supply of this protein meal is otherwise inelastic. This has serious implications for the cross-breeding technology of Operation Flood II, the success of which depends, to a large extent, on the availability of readily digestible sources of energy.*

*The main argument of this paper is that the import of donated commodities and the export of oilcakes are bound to slow down the rate of expansion of the Indian dairy industry and a continuation of such a policy would weaken the position of the Indian farmers* vis-a-vis *the European farmers.*

## I

## Background

THE imported-donated commodities have been assigned an important role in Operation Flood II (OF II). During the programme years (1980-85), a total of 186 thousand tonnes of skimmed milk powder (SMP) and 114 thousand tonnes of butter oil (BO) will be imported from the EEC to supplement the domestic procurement of the Cluster Federations.[1] The funds generated by the imported-donated commodities (Rs 2,352 million) are meant for investment in the dairy industry of India by the Indian Dairy Corporation (IDC). For Operation Flood I also, the World Food Programme channelled 126 thousand tonnes of SMP and 42 thousand tonnes of BO to India, valued at Rs 1,164 million.[2] This makes India by far the largest recipient of EEC food aid, and Operation Flood the biggest dairy development project of the world.

The objectives of OF II are multi-dimensional. One of the objectives is to increase the milk output in the country by introducing cross-bred cattle. The replacement of non-descript milch animals by cross-bred varieties is an essential concomitant of the new technology in milk production because the milk yield rate of the latter is considerably higher. According to the project authorities, the number of cross-bred and upgraded milch animals to be reared by the participating families during the programme period would increase from 1.4 million to 10.2 million.[3]

The introduction of cross-bred cattle, with genetic potential for higher output of milk, will demand extra feed with high digestibility. However, India is an important exporter of protein rich meals of high digestibility. On the other hand, the unloading of donated SMP and BO in the form of reconstituted milk will enhance the market supply of milk. Since this part of the supply is not production-based, it has important implications for the dairy industry of India which have been apparently overlooked. The export of oilcakes and the import of ingredients like SMP and BO are inconsistent with the objectives of the new technology included in OF II. The purpose of this paper is to draw attention to this neglected aspect.

The analysis in sections II and III is concerned with the use-pattern and implications of the donated commodities for the dairy sector and that in sections IV and V with the magnitude and the pattern of export of oilcakes as also with its implications in the light of the new technology. The concluding section is a brief enumeration of the main findings.

## II

## Donated Commodities

The OF II authorities hold the view that a buffer stock of SMP and BO is needed for recombining into liquid milk to overcome any shortfalls in milk production and procurement caused by erratic climatic conditions during the programme period. In the initial years, a large part of the buffer stock is to be maintained with the help of donated SMP and BO but in the final year of OF II it will be made up entirely of indigenously produced commodities. In addition to the buffer pool, a significant proportion of the donated commodities is meant for manufacturing food for infants and also for direct sale.

### USE-PATTERN

The use-pattern of donated commodities is given in Table 1. The data shows that 77.42 per cent of the donated SMP is to be used as buffer pool during OF II. The remaining 22.58 per cent is to be processed for producing food for infants. Of the total imported BO, 21.05 per cent is to be utilised for the buffer pool and 12.28 per cent for manufacturing food for infants. The remaining 66.67 per cent is to be retailed directly as a cooking medium.

There is a slight variation in the use-pattern of imported commodities in the different years of the programme. During 1981-82 and 1982-83, more than 80 per cent of the donated SMP was to be used for the buffer pool. However, during 1983-84, 40 per cent of it was meant for manufacturing food for infants, leaving only 60 per cent for the buffer pool. Similarly, while the proportion of donated BO in the buffer stock was the highest during 1981-82 and 1982-83 (25 per cent in each year), its use for manufacturing food for infants is the highest during 1983-84 (22.22 per cent). The import of donated SMP and BO, according to the project proposal, is to be nil during the final year of the programme.[4]

### BUFFER STOCK *VIS-A-VIS* DONATED COMMODITIES

It is apparent from the use-pattern of the donated commodities that the SMP is primarily meant for building a buffer stock and BO for direct sale. The first question that arises is, why build a buffer stock of SMP? The project authorities envisage that the projected increase in milk output in the OF II areas may not materialise in certain years because of failure of monsoons, floods and such like factors. The provision of a buffer stock will provide a cushion when milk output and prices fluctuate. It is a protective measure aimed at meeting contingencies arising from adverse climatic conditions.

The usefulness of the buffer stock as such cannot be questioned. However, the problems posed by interruptions in milk production are not as alarming as are suggested if we look at the geographical coverage of OF II. The Cluster Federations consist of districts which are dispersed nearly over all the states of the Indian Union.[5] Experience shows that not all the regions suffer losses in milk output at the same time when there are unfavourable climatic conditions. Nevertheless, the project authorities have contemplated the need for buffer stocks even to neutralise localised and temporary shortfalls in milk output. This being so, the main question that arises is whether there is any compatibility between the required level of buffer stocks and the intended imported ingredients.

Table 2 contains data about the projected level of buffer stocks and the magnitude of donated commodities. The projected level of buffer stocks, as in the project proposal, consists of donated as well as home-produced SMP and BO.[6] However, it appears that during the first four years of OF II, the desired level of buffer stocks is to be maintained exclusively with the imported ingredients. The need for indigenous production of SMP for maintaining buffer stocks will thus arise only during 1982-83 and 1983-84. In the case of BO, only one-third of the imports is sufficient for maintaining the stipulated level of buffer stock which clearly indicates that the proposed flow of the donated commodities is considerably higher than the requirements of the buffer stock. It seems that under the pretext of buffer pool much more than what is required is being imported. This is particularly so in the light of the fact that some production of SMP and BO is inevitable in the country during the flush seasons. The main issue here is that the import of SMP and BO is going to influence the supply side in an unpredictable manner which has serious implications for the dairy sector.

Before going into these implications, it is necessary to clear some points. In the first place, it has to be borne in mind that there is no perceptible difference between the imported-donated SMP and BO and the indigenous varieties of these commodities. Together, they constitute a part of the total supply available to the country. The only difference is that the imported-commodities are available to the IDC free of cost and it can use the sale proceeds in whatsoever manner in likes. In the second place, it hardly matters to what use the imported commodities are put; they are a cheaper source of readily available supply at the disposal of the IDC. Thirdly, our own dairy industry is bound to convert a part of the liquid milk into SMP and butter fat in the flush seasons to be used as reconstituted milk in the lean period.

## III

## Implications

Some major implications of import of donated commodities are easy to perceive and are highlighted below.

### PRODUCER'S PRICE

The unloading of imported commodities in the form of liquid milk in the market through Cluster Federations will add to the milk supply in the country. Given the fact that such an increase in supply is not production-based, it would artificially suppress the market price of milk. In case the milk production in the country stagnates for a long time, the import of SMP and BO would become necessary to maintain the required level of supply. This would further suppress the producer's price. Ultimately, a mechanism similar to that of a negative price policy may become operative in the dairy sector.

Lack of price incentives for the producers in a developing dairy sector is likely to result in decreasing the marginal product of factors engaged in production. In such a situation, the factors engaged in the dairy sector would normally shift to other remunerative lines of production. However, in a developing economy like India, such alternatives are not readily available and cannot be created within a reasonable period of time.[7] The persistence of low marginal products in the dairy sector in comparison with the other sectors of the economy, caused by artificially suppressed producer's price, would ultimately lead to a loss in an important line of production. The problem of resource immobility in the dairy sector has been widely noticed even in many a developed country.[8]

One can argue that the quantity of imported commodities is rather limited and imports are confined to OF II years only. At first sight, this appears to be so. However, a careful look into the total volume of imported SMP and BO and its comparison with the buffer stock's milk equivalent makes the position clear (Table 3). If we add the milk equivalent of consumer products to the total liquid milk that is marketed by the Cluster Federations and then deduct the share of the buffer stock, we arrive at the approximate quantity of milk procured each year. Assuming that the entire buffer stock consists of imported SMP and BO, we can work out the share of imported commodities in the total milk procured under OF II.[9] This is shown in the last column of Table 3.

The share of imported commodities in the total procurement ranged between 18.65 and 24.48 per cent during the first four years of OF II. It came down in the subsequent years. Strictly speaking, there is an underestimation of the supply generated by imported commodities. The use of BO in the buffer pool in around 33 per cent (average) in the first three years of the programme. Nothing prevents the project authorities from diverting the imported SMP and BO from other uses to their use as recombined milk. Moreover, a part of the indigenously produced SMP can be recombined with imported BO (meant for direct sale) and marketed as liquid milk. In such a situation, the imported commodities are likely to form an even higher share in the total supply by the Federations. In that case the impact on the producer's price may turn out to be even more adverse. The issue that the import of commodities is confined only to OF II period is taken up for discussion in a subsequent section.

### SUBSTITUTION OF LIQUID MILK

The imported SMP and BO are available to the IDC as food aid from the EEC. This is to be channelled through the Federations for a price and the sale proceeds are to be used by the IDC for investment in the dairy sector of the economy. Our main concern here is to find out what kind of price policy will be followed by the IDC in the case of donated commodities. The relevant provision in the project proposal reads as follows:

> ... a large part of this buffer stock will come

TABLE 1: USE PATTERN OF DONATED COMMODITIES

*(Quantity in 000' tonnes)*

| Years | Total Donated Commodities (Quantity) | | Entering Buffer Stock | | | | Use as Infant Feed | | | | Retailed as Cooking Medium (BO) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | SMP | | BO | | SMP | | BO | | | |
| | SMP | BO | Quantity | Per Cent | Quantity | Per Cent | Quantity | Per Cent | Quantity | Per Cent | Quantity | Per Cent |
| 1978-79 | 12 | 11 | 9 | 75.00 | 2 | 18.18 | 3 | 25.00 | 1 | 9.09 | 8 | 72.73 |
| 1979-80 | 24 | 18 | 18 | 75.00 | 3 | 16.67 | 6 | 25.00 | 2 | 11.11 | 13 | 72.22 |
| 1980-81 | 48 | 28 | 36 | 75.00 | 6 | 21.42 | 12 | 25.00 | 4 | 14.29 | 18 | 64.29 |
| 1981-82 | 54 | 28 | 45 | 83.33 | 7 | 25.00 | 9 | 16.67 | 3 | 10.71 | 18 | 64.29 |
| 1982-83 | 33 | 20 | 27 | 81.82 | 5 | 25.00 | 6 | 18.18 | 2 | 10.00 | 13 | 65.00 |
| 1983-84 | 15 | 9 | 9 | 60.00 | 1 | 11.11 | 6 | 40.00 | 2 | 22.22 | 6 | 66.67 |
| Total | 186 | 114 | 144 | 77.42 | 24 | 21.05 | 42 | 22.58 | 14 | 12.28 | 76 | 66.67 |

*Source:* NDDB, Operation Flood II: A Proposal of NDDB, Anand, Table IV 7, p 46.

> from imported-donated commodities. These will be priced into the pool at Rs 8 per kg of SMP and Rs 12 per kg of butter annually. ... The Indian Dairy Corporation will offer to add to its buffer stock the stocks of milk powder and conserved milk fat that Cluster Federations wish to market through pool, at prices calculated to offer a reasonable return to producers (Rs 13.75 per kg of SMP and Rs 18 per kg of frozen white butter in 1976-77).[10]

It appears that what is envisaged is a subsidised price policy which means that imported SMP and BO will be cheaper than the liquid milk as also than the SMP and BO produced by the Indian dairy sector. This policy has serious implications. When the organised dairy sector has an access to cheap imported SMP and BO, it will be reluctant to procure costly Indian liquid milk. Left to the authorities controlling the affairs of metropolitan and cluster dairies, there is every likelihood that cheap imported SMP and BO will substitute milk produced by our own farmers either to achieve higher profit margins or to attain the break-even target. Consequently, the procurement and production enhancement programmes in OF II may be relegated to the background.

India's experience during OF I supports the above view-point. A look into the physical performance of OF I (Table 4) suggests that the gap between achievement and target remained considerably high in the case of throughput of milk in the metropolitan as well as the rural milk processing plants. Further, the shortfall was significantly higher in the case of the rural milk plants. For example, while milk throughput in the case of metropolitan dairies was 65.45 per cent of the targeted throughput, it was only 54 per cent in the case of rural plants. The only possible explanation for this is that the metropolitan dairies relied more on imported and cheap SMP and BO and made no serious effort to increase milk output and procurement in the milkshed areas. This is admitted even by the project authorities. The view taken here is that the inflow of food aid in the form of SMP and BO is likely to have a disincentive effect on the domestic dairy production in the country. In the long-run this can threaten the livelihood of many million farmers rearing milch animals for the purpose.

## EXCESS CAPACITY

Investment of funds generated by the sale of donated commodities amounts to incorporating food aid into dairy development. When food aid is used both for financing the purchase of processing plants and for providing inputs (SMP and BO), it may lead to the formation of excess capacity of milk processing. The main reason for this is that there is often a strong tendency for funds to be allocated to easier targets, such as expansion of processing capacity, and may not lead to any quick and sustained increases in the indigenous production of milk.[11] In the long-run a vicious circle may develop: the creation of processing capacity, itself financed through food aid, will call for more aid in the form of inputs, which in turn would lead to an even higher capacity.[12]

TABLE 2: DONATED COMMODITIES AND POOLED BUFFER STOCK

| Years | Donated Commodities 000' Tonnes | | Pooled Buffer Stock 000' Tonnes | | Buffer Pool as Per Cent of Donated Commodities | |
|---|---|---|---|---|---|---|
| | SMP | BO | SMP | BO | SMP | BO |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1978-79 | 12 | 11 | 12 (3) | 4(2) | 100.00 | 36.36 |
| 1979-80 | 24 | 18 | 23 (5) | 6(3) | 95.83 | 33.33 |
| 1980-81 | 48 | 28 | 43 (7) | 10(4) | 89.58 | 35.71 |
| 1981-82 | 54 | 28 | 54 (9) | 12(5) | 100.00 | 42.86 |
| 1982-83 | 33 | 20 | 38(11) | 10(5) | 115.15 | 50.00 |
| 1983-84 | 15 | 9 | 22(13) | 7(6) | 146.67 | 77.77 |
| 1984-85 | — | — | —(15) | —(7) | — | — |

*Notes:* 1 Values in brackets are domestic products of SMP and BO.
2 Zero import of SMP and BO in 1984-85.

Source: NDDB, Operation Floood II: A Proposal of NDDB, derived from Table IV 7, p 46.

TABLE 3: MILK MARKETED AND PROCURED BY CLUSTER FEDERATIONS

*(Millon litres/day)*

| Years | Total Liquid Milk Marketed | Milk Equivalents of Consumer Products | Total Milk Marketed | Milk Equivalent of Buffer Stock | Milk Procured | Buffer Stock as Per Cent Procurement |
|---|---|---|---|---|---|---|
| 1978-79 | 2.04 | 0.25 | 2.29 | 0.36 | 1.93 | 18.65 |
| 1979-80 | 3.44 | 0.53 | 3.97 | 0.69 | 3.28 | 21.03 |
| 1980-81 | 5.74 | 0.82 | 6.56 | 1.29 | 5.27 | 24.48 |
| 1981-82 | 7.64 | 1.19 | 8.83 | 1.62 | 7.21 | 22.47 |
| 1982-83 | 9.75 | 1.65 | 11.40 | 1.14 | 10.26 | 11.11 |
| 1983-84 | 11.55 | 2.02 | 13.57 | 0.66 | 12.91 | 5.11 |
| 1984-85 | 13.51 | 2.24 | 15.75 | 0.45 | 15.30 | 2.94 |

*Source:* NDDB, op cit, and NDDB, 'Operation Flood: Techno-Economic Feasibility', Anand, January 1978.

India's experience during OF I exhibits a somewhat similar tendency. The pattern that emerged during the period clearly shows that the milk processing capacity, both in the urban and the rural milk plants, was out of all proportion to the actual throughput (Table 4). There were two main reasons behind this occurrence. First, because of stagnation in milk output in the milkshed areas of OF I, the level of procurement remained low throughout the period. Second, a relatively higher proportion of funds generated by the donated commodities was ploughed into processing capacity at the cost of production-stimulating action items.[13] The combined effect of this was that the milk plants' dependence on imported SMP and BO continually increased to achieve the processing targets that were initially envisaged. A brief review of the pattern of allocation of funds during the OF II programme years will make the situation clear (Table 5).

The data in Table 5 reveal that the progress has been altogether unsatisfactory in respect of some core items. Out of the total budgeted expenditure, 54.8 per cent was allocated to building up the milk processing and marketing capacity through establishing new urban processing plants; the production enhancement and the organisation of procurement activities got only 36 per cent; and the share of project planning and long-distance transport activities was 9.20 per cent.[14]

The actual expenditure pattern, however, deviated from the one that was planned in many ways. The share of processing and marketing activities turned out to be higher than budgeted. Consequently, the action items relating to production enhancement, such as improved milch cattle, supply of technical inputs, and organisation of rural procurement, received low priorities. The actual expenditure on production programme was as much as 10.30 per cent less than the original allocation.

A further scrutiny of data (Appendix) reveals that low priority was accorded to such action items as resettlement of city milch cattle and provision of inputs. This is apparent from the fact that while 7.52 per cent of the total expenditure was meant for resettlement of city milch cattle and 23.12 per cent for technical inputs, in actual practice only 0.31 per cent of the total expenditure was incurred on the former and 14.08 per cent on the latter.

Implied in the above line of thought is the contention that excess processing capacity was created initially to accommodate cheap donated SMP and BO. Since the indigenous output of milk did not increase, the procurement targets remained largely unaccomplished. The throughput of milk plants stagnated and the need for more SMP and BO became apparent. For want of donated commodities, the processing capacity created during OF I thus remained under-utilised. The aid that flowed in during this period positively acted as a disincentive to milk producers in our own country as it exceeded the absorptive capacity of processing facilities without stimulating indigenous production. There is no reason to believe that the problem will not recur during OF II.

### UNCERTAINTY

The availability of donated commodities cannot be taken for granted in the long run. Their flow in future will depend on the surpluses in EEC, export subsidies in the surplus regions, export prices, commercial exports to less developed countries, and similar factors.[15] An increase in the general export prices of dairy products and access to the markets of developing countries would naturally mean less aid and more commercial trade. This means a reduced level of investible funds originating from donated commodities for the aid-receiving countries. By the same logic, an irregular supply of aid commodities would create fluctuations in the throughput as well as funds available for investment. All this would ultimately retard the implementation of dairy development programmes funded primarily through food aid.

India's past experience is noteworthy in this respect. A number of reasons have been adduced for the slow progress of OF I which had to be extended by about four years. The National Commission on Agriculture has, on the basis of a report by IDC,[16] observed that in the initial years of OF I the limited expansion of processing facilities made it difficult to make full use of the available donated commodities. As a result, the donated SMP and BO could not generate the expected funds in time thus causing delays in investment. In subsequent years, the processing capacity remained under-utilised for want of donated SMP and BO. Not only was the supply irregular, the available supply did not match the processing capacity at times. This reduced the throughput of metropolitan dairies and the flow of funds became uncertain. Consequently, the targets set for the programme remained unfulfilled and the extension of OF I became inevitable.[17]

A brief reference to the future course of EEC dairy exports will help us in understanding the viewpoint developed here.[18] The EAAP and FAO projection studies clearly indicate that the export volume of EEC dairy produce to less developed countries (LDCs) is likely to increase in the years to come. On the supply side, such an expansion is based on the growing export potential of developed countries. The export potential, particularly in the EEC, is generated by technological pressures, inelasticity of demand, and immobility of farm resources. The influence of a Common Agricultural Policy on export subsidies is also an important factor as these subsidies provide stimuli to exporting firms to expand their markets.[19] Hence the share of EEC's net exports is expected to rise to the level of about two-thirds of total world exports. On the demand side, imports are linked to such factors as increases in consumption resulting from a rising level of incomes, growth of urbanisation and balance of payment conditions in the LDCs. It is estimated that, in these countries the demand will outstrip production in course of time.

TABLE 4: PHYSICAL PERFORMANCE OF OF I

| Particulars | Pre-Project 1970 | By June 1977 | Targets |
|---|---|---|---|
| 1 Building up of processing capacity in 4 metropolitan cities (lakh litres/day) | 10.00 | 25.00 | 27.50 |
| 2 Average daily throughput of metropolitan dairies (lakh litres/day) | 9.20 | 18.00 | 27.50 |
| 3 Rural milk processing capacity (lakh litres/day) | 6.55 | 30.00 | 29.80 |
| 4 Average throughput in rural plants (lakh litres/day) | 4.60 | 14.85 | 27.50 |

*Source:* Planning Commission (PAD) Report No PAD/i/1(9)77, April 1978.

TABLE 5: ALLOCATION AND USE PATTERN OF FUNDS DURING OF I

*(Percentages)*

| Particulars | Original Allocation | Final Disbursement |
|---|---|---|
| 1 Increase in milk processing and marketing capacities (new urban plants) | 54.80 | 64.30 |
| 2 Increase in milk supply (production enhancement, organisation of procurement) | 36.00 | 25.70 |
| 3 Supplementary items (storage, long distance transport, planning, etc) | 9.20 | 10.00 |

*Source:* Terminal Evaluation Report on Project India 618, UN/FAO (W/P 4590).

TABLE 6: SHARE IN WORLD MILK PRODUCTION (VOLUME OF FRESH MILK PRODUCTION) AND SHARE IN WORLD DAIRY EXPORTS (TOTAL MILK EQUIVALENTS) OF A FEW EXPORTING AREAS, 1980 (EEC INTRA TRADE EXCLUDED)

| Particulars | EEC-I | USA | USSR | New Zealand |
|---|---|---|---|---|
| 1 Share in the total milk production (per cent) | 26.0 | 14.0 | 21.0 | 1.5 |
| 2 Share in the total world exports (per cent) | 59.7 | 2.9 | — | 16.0 |

*Source:* Meester and Oskam (original), adopted from Gert van Disk, Jerrie de Hoogh and Jacqueline Vel, op cit, Table 1.

It may be added here that only a small proportion (6 per cent) of the total milk output in the world (430 mt) is traded internationally.[20] Most of the output is consumed domestically by the producer countries. The share of total exports is not proportional to the share of world production. Further, the share of the EEC in world exports is the highest (Table 6). On the other hand, the three principal groups of dairy importing countries are: the developing countries, the OPEC member countries, and the USSR and Eastern Europe. Since the size of imports by the USSR and Eastern Europe depends largely on ad hoc policy decisions of the concerned governments, it is not possible for the EEC-based exporters to actively create a steady market in these countries. It is widely known that the international trade in dairy products is dominated by a few large firms. The thrust of their expansion and consolidation actions is towards the developing and OPEC countries, particularly the latter as they consume almost one-third of the world commercial dairy exports.[21]

The main conclusion to be drawn from the foregoing analysis is that there is a strong possibility of a growing dairy surplus developing in the EEC. The need for a further expansion of its export markets in the LDCs will therefore persist. So long as the surpluses in the EEC exceed the demand of the OPEC and other countries, a part of the surpluses will be disposed of in the form of aid, particularly to those countries which are unable to purchase the required imports. Once the demand picks up and the surpluses fall to the desired level, the donated SMP and BO are bound to become commercial items. This may not happen in the next few years, but in the absence of an assured supply of donated commodities like SMP and BO, projects like Operation Flood which have high dependence on imported ingredients are ultimately likely to introduce an element of uncertainty in the livestock development strategy of a country like India. Efforts by the EEC are already afoot to expand commercial markets for their dairy produce since retaining of surpluses of these commodities has for them an economic as well as a political cost which can be quite high.[22] Countries like India have therefore to be on their guard if they have to protect the long-range interest of their dairy sector.

### OTHER IMPLICATIONS

The mechanics of dairy aid make it clear that it will help the country's food industry to create new tastes and enable the urban rich to adopt European food habits. Once this is accomplished, there will be no going back on it. In many developing countries which are experiencing a relatively higher economic growth the demand for modern dairy produce has already increased spectacularly. The two main factors which have assisted the process are rising incomes of the urban population and locally produced milk being relatively costlier. The latter is due to the fact that the traditional production systems are often not well adapted to the needs of modern processing industries. Thus, the demand generated in the urban centres of developing countries tends to be met by trade and not by aid. Japan's example clearly indicates that a country accepting food aid begins to purchase commercially when such aid is stopped. Although India is not Japan and the aid to India is of a different nature, such a possibility cannot be ruled out.

The direct sale of BO as a cooking medium will affect the market price of the traditional dairy produce like ghee (clarified butter). The traditional dairy products are usually sold without being processed industrially by the farmers (or intermediaries). Most of the products are already part of the common diet of the people in the areas in which they are produced, although a part of the produce also finds its way to the urban markets.

Although adequate information is not available about the trend relationship between the price of ghee and that of BO, the latter is certainly cheaper. Since BO is meant for sale only in the cities, it will compete with ghee in the urban markets and the price of ghee is likely to remain suppressed. Another trend in the city markets, reported in a national daily, is also quite disturbing. Here is an excerpt from the report:

> Unscrupulous traders are indulging in large scale adulteration of *desi* ghee with imported butter oil in the Union Territory of Delhi. The capital experienced an unprecedented shortage of *desi* ghee this summer. It is likely to continue till September-October. Reports indicate that a purchaser visiting ... the neighbouring ghee mandis finds it difficult to collect even 100 tins of ghee.
>
> Super Bazar in Delhi ... sells to the consumer only two kg of butter oil, loose, at one time. The ban on five kg packs came following reports that traders were lifting the tins in bulk and using butter oil for mixing with *desi* ghee.[23]

The above report refers to a particular market and hasty generalisations may not be in order. But the report is indicative of the fact that market distortions become inevitable in the case of direct sale of cheap donated commodities. A part of the donated SMP and BO imported during OF II finding place in the private dairies is a possibility that cannot be ruled out.[24]

Another important implication of the programme is that the processing of SMP and BO into different kinds of convenience and luxury products requires a large investment in high technology equipment required for the purpose. Hitherto we have been depending on multinationals for the supply of equipment. But it is being claimed now that our dependence for high technology equipment has come down to 10 per cent and, overall, we are exporting rather than importing dairy equipment.[25] This is a healthy development by all accounts. But the possibility of import of some specialised equipment in future cannot be altogether ruled out. The import of equipment as such may not be necessary but the import of components will continue. Since the international trade situation in dairy is controlled by large firms, there is enough margin for manoeuvring by these firms to advance their own interests within the broad governmental policy framework. The international trade structure is such that it has always room for multinationals to take advantage of every disequilibrium situation.

TABLE 7: INPUTS ELASTICITY COEFFICIENTS FOR MILK PRODUCTION

| Particulars | Delhi: 1966-67 | | Mehsana: 1967-68 | | Surendarnagar: 1975-76 | |
|---|---|---|---|---|---|---|
| | Cow | Buffalo | Cow | Buffalo | Cow | Buffalo |
| i) Green fodder (kg) | −0.009 | 0.044 | −0.015 | 0.159* | 0.002 | 0.001 |
| | (0.022) | (0.088) | (0.040) | (0.059) | (0.004) | (0.004) |
| ii) Dry fodder (kg) | −0.046** | −0.126** | −0.061 | 0.006 | −0.009 | −0.008 |
| | (0.084) | (0.064) | (0.042) | (0.090) | (0.008) | (0.006) |
| iii) Concentrates (kg) | 0.059* | 0.343* | 0.078 | 0.259 | 0.021* | 0.107* |
| | (0.022) | (0.072) | (0.044) | (0.168) | (0.008) | (0.006) |
| iv) Number of observations | 26 | 31 | 26 | 12 | 90 | 108 |
| v) Constant | 0.471 | 0.741 | 1.134 | 0.438 | 0.567 | 0.766 |
| vi) $R^2$ | 0.261 | 0.432 | 0.206 | 0.610 | 0.772 | 0.440 |
| vii) Nature of information | Grouped | Grouped | Grouped | Grouped | Disaggregated | Disaggregated |

*Notes:* Figures in brackets are coefficients of standard errors.
* Significant at 5 per cent level of significance.
** Significant at 10 per cent level of significance.

*Source:* Baldev Singh, "Economics of Milk Production and Bovine Live-Stock Composition in Growing Economy", *Indian Journal of Agricultural Economics*, Vol XXXIV, No 2, 1978, Table II, p 65.

It is an established fact that foreign influence on modern forms of milk production has continued even after Independence.[26] Between 1953 and 1962, UNICEF invested large sums of money on constructing and equipping dairy plants in India. From 1951 onwards the Government of Denmark has been supporting, through FAO, training courses for middle-level management personnel engaged in the dairy industry in the country. The launching of Operation Flood has vastly facilitated penetration and continuance of this foreign influence.

In relation to plan priorities, the programmes of training management experts and foreign investment in dairy equipment and machinery have had a strong influence on the pattern of allocation of resources within the livestock sector of the Indian economy. Between 1947 and 1972, India received aid in the form of dairy equipment and products equivalent to 133 million US dollars. This amount is almost the same as the outlay under the five-year plans during the same period.[28] The view taken here is that aid exercises a significant influence on developmental priorities of a sector through planned allocation of resources. This is what exactly happened to the agricultural sector when India relied more on imports under PL-480 than on tapping the domestic potential. There is an old saying, "He who pays the piper calls the tune." This is particularly true of the donor countries when they offer aid. The future course of the Indian dairy development is unlikely to remain immune from this influence.

## IV

## Export of Oilcake

### THE FEED

The feed is the weakest link in the chain of measures included in the new strategy of livestock development in India. The scarcity of feed for animals is so apparent that it has attracted attention of almost all the observers in this area. Although the planners and policy-makers have also expressed their concern for this in the light of cross-breeding strategy, yet very little conscious effort has been made to improve the feed situation.[29]

Livestock feeding is a major issue because the success of the new technology depends on the availability of quality feed in the country. Apart from requiring specialised services and better management, cross-bred animals with genetic potential for high milk output also require feed which is highly and readily digestible.[30] The basic reason for this is that a higher input of energy per unit of time is needed to produce a higher level of energy per unit of time in terms of milk. In the case of readily digestible source of energy, the process of conversion will also be faster. Further, the intake of highly digestible feed is normally greater than the feed having low digestibility.[31]

The cross-breeding technology adopted in OF II impinges heavily upon the limited supply of concentrate feeds available in the country. Although cross-bred animals are capable of digesting cell-wall rich feed, typical of crop residues, their production efficiency declines to a very low level because cellulose has a low protein content.[32] In common parlance, the rearing of exotic breeds means feeding them on a typical diet of protein rich meals and green fodder, which are inelastic in supply.

### THE CASE OF CONCENTRATES

Although green fodder too is a highly nutritive feed with an inelastic supply in the short run,[33] concentrates have a special importance for cross-breeding technology. This is so for several reasons. First, as a feed, they are more nutritive and readily digestible. As such, they have no substitutes. Secondly, the supply of concentrates is a function of the cropping pattern in the country which is highly rigid. They are, therefore, likely to remain inelastic for a comparatively long time. Thirdly, concentrates are the only feed that is at present being exported by India to the developed countries of the world.

TABLE 8: EFFECT OF PROTEIN IMPORTS ON YIELD

| Year | Consumption of Oilcake as Feed 000' kg | Yield of Milk in kg Per Cow Annually |
|---|---|---|
| 1939 | 8,77,413 | 2996 |
| 1940 | 2,77,339 | 2895 |
| 1941 | 8,888 | 2289 |
| 1942 | 11,461 | 2123 |
| 1943 | 16,231 | 2309 |
| 1944 | 15,548 | 2484 |
| 1949/50 | 6,12,000 | 2794 |

*Source:* Frands Dolberg, "Livestock Strategies in India", Chapter VIII, Table 7, p 82.

Whereas the first two factors hold in the case of green fodder also, the third one applies only to concentrates. That is why the line of reasoning developed here focuses primarily on the contribution of oilcakes in the new milk production technology. In what follows an attempt has been made to show that the success of cross-breeding technology in India depends on the availability of protein rich meals and the export of concentrates will have a contracting effect on the livestock economy of the country. We have incorporated the findings of other researchers in the field to buttress the argument where possible.

While discussing the possible return of milk to concentrates, the NCA assumed a return of 2.5 kg of milk per kg of concentrates fed over and above the maintenance requirement of milking animal.[34] However, such a simple assumption is not valid because feeds are not always additive. Due to preferential digestion of starch in the concentrates by the rumen microbes, the digestion of cellulose in the roughage may be depressed once the quantity of starch exceeds 20 per cent of rationed dry matter. On the other hand, the inclusion of concentrates upto the 20 per cent limit is likely to yield a high return in terms of milk.[35] This means that a balanced use of concentrates will result in an increase in milk output.

Referring to the findings of Kaasschieter and Perdock, Dolberg observes that the Indian Surti buffaloes in Sri Lanka gave 62 per cent more profit (*sic*) when coconut concentrate was fed at the rate of 8 per cent of the total diet dry matter, instead of zero per cent. This suggests that irrespective of the type of milch animal, concentrate feeds contribute to a higher level of milk yield. Another dimension of the matter is equally important. Quoting from trials conducted by Khan and Davis, Dolberg has pointed out that a higher level of animal biomass can be extracted from the same quantity of straw when the diet is supplemented by concentrates. Cattle on a basal diet of rice straw treated with ammonia reduced their requirement of feed from 48 to 11 kg, and increased their requirement of feed when they received a supplement of 200 gms of oilcakes. This implies that four-times more animal biomass can be available from the available quantity of stalks and straws when supplemented by oilcakes. Concentrates can help in augmenting the use of cell-wall rich feeds in India. It needs to be mentioned here that a typical feed for animals in India is straw and there exists considerable potential for biomass production in the tropical countries.

Nair, while discussing the trends and prospects of milk production in Kerala, has highlighted the importance of concentrates.[36] Referring to the NSS survey of 1975-76, he has pointed out that about 2.1 lakh tonnes of concentrates were used to produce 3.5 lakh tonnes of milk in Kerala. This means that 1.7 kg of milk were produced by using one kg of concentrate. It is further observed that 76 per cent of the total quantity of concentrates used for milk production in Kerala in 1975-76 was imported from other states of the Union. His estimates of demand and supply in the years to come are interesting. According to him, the total demand for concentrates needed to produce the expected level of milk output in Kerala by 1985 will be 3.65 lakh tonnes and by 1990, 4.75 lakh tonnes. The total availability of concentrates from domestic sources in Kerala, even when they are fully tapped, will be only around 1.5 to 2 lakh tonnes. It may be added that as at present Kerala is estimated to have no more than one kg of straw per head of cattle per day. It is obvious that the success of cross-breeding technology in Kerala lies, to a large extent, in the availability of concentrates. The future course of new technology in Kerala, therefore, depends on

TABLE 9: EXPORT OF OILCAKES BY INDIA[1] (PERCENTAGE SHARE OF EEC-9 IN THE TOTAL EXPORTS TO EEC-9)

| Years | Belgium | Denmark | France | West Germany | Ireland | Italy | Luxemburg | Netherlands | UK | Total EEC (Qty 000' Tonnes) | Total World (Qty 000' Tonnes) | EEC as Per Cent of World[2] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1969-70 | 0.52 | 0.07 | — | 4.19 | — | — | 0.48 | 0.65 | 94.09 | 164 | 585 | 28.04 |
| 1970-71 | 2.20 | 1.09 | — | 3.73 | 0.67 | — | — | 0.32 | 91.99 | 155 | 879 | 17.67 |
| 1971-72 | — | 1.19 | — | 13.47 | — | — | — | 0.02 | 85.32 | 75 | 742 | 10.17 |
| 1972-73 | 1.10 | 0.67 | 8.27 | 14.35 | — | 0.05 | — | 25.82 | 49.74 | 206 | 1001 | 20.55 |
| 1973-74 | 0.02 | 3.08 | 3.18 | 16.00 | 1.01 | 19.45 | — | 32.53 | 24.73 | 472 | 1224 | 38.51 |
| 1974-75 | — | 5.64 | 17.94 | 9.13 | — | — | — | 50.58 | 16.71 | 36 | 832 | 4.35 |
| 1975-76 | 6.02 | 3.09 | 0.03 | 10.22 | 1.59 | 5.30 | — | 49.05 | 24.70 | 376 | 985 | 38.21 |
| 1976-77 | — | — | 8.06 | 8.45 | 2.06 | 9.28 | — | 58.78 | 13.37 | 764 | 2585 | 29.56 |
| 1977-78 | — | 1.28 | 18.85 | 3.09 | 2.54 | 11.69 | — | 58.49 | 4.06 | 356 | 854 | 41.68 |

*Notes:* 1 All types of oilcakes.
2 Worked out on the basis of total quantity exported.

*Source:* Various issues of Monthly Statistics of Foreign Trade of India, Vol I.

the supply of protein rich meals from other areas of the country.

In this context, an important observation has been made by the official team of experts also.[37] Commenting on the achievements of OF I, the Committee observes in its Terminal Report that in 1980, 5 kg of milk was obtained per kg of balanced cattle feed sold to the milk producers. Assuming that the relationship between the output of milk and its procurement is linear, a higher level of concentrate feed can provide a higher level of milk output and procurement. The significance of concentrates for the dairy economy of the country is obvious.

Concentrates have a special significance for milk producers in cities.[38] It represents the variable cost of milk production. The city milk producers have a high fixed cost since they hire sheds and labour and also purchase fodder from the market. In addition, they invest in milch animals also. In order to earn a higher level of profits they need to feed large quantities of concentrates.[39] Although the principle of diminishing returns becomes operative leading to a lower milk output per unit of concentrates when the feeding level reaches a certain high, it remains a fact that concentrates are the mainstay of city milk producers in India.

Another way of looking into the contribution of concentrates is to compare input elasticities. Although we have not gone into this aspect independently, some available estimates support our contention that concentrates are the key input in the production process. Baldev Singh has worked out input elasticities for three different regions of India using the Cobb-Douglas type of production function.[40] The results obtained are reproduced in Table 7.

A perusal of the data in the Table shows that green fodder and dry fodder have a negligible impact on milk yield. In fact, the dry fodder has a negative effect on the yield in the case of both cows and buffaloes in almost all the regions. It is particularly so in the Delhi region where negative coefficients are satistically also significant. A similar trend is obvious when we look at the coefficients of given fodder for the cow milk production function fitted for Delhi and Mehsana.

The contribution of concentrates is positive and statistically significant in four out of six cases in the Table. Although the coefficients are not significant in the case of buffaloes and cows in Mehsana, they have a positive sign. The technical relationship expressed by the production function suggests that, irrespective of the type of milch animal, concentrates have a positive contribution to increasing the productivity of milk.

Although it is not intended to suggest an alternative method to estimate elasticities, a few aspects of Baldev Singh's exercise need to be taken note of. For example, he has not provided any explanation for the negative coefficients. However, a part of the explanation lies in the fact that the functional form specified by him has certain inbuilt biases. Similarly, using the quantities of green and dry fodder as explanatory variables, irrespective of their quality, has only a limited validity. Further, what matters most is the dry matter content of green fodder and not its quantity as such. Also, the number of observations, the type of milch cattle (breed-wise), and the left out socio-economic variables can also have an influence on the elasticities and explained variations ($R^2$).

The historical experience of Denmark has a special relevance to India because India is looking forward to a technological breakthrough experienced by Europe a long time ago. Analysing the performance of Danish cows during the Second World War, in comparison to their performance before and after the War, Dolberg has worked out the relationship between the milk yield and protein rich meals which is given in Table 8.[41]

The supply of protein from outside Denmark was interrupted during the War. As a consequence, the milk yield fell drastically during the War years. The yield picked up again only when import of protein was restored after the end of the War. Dolberg has cited this as a case to show that socio-economic factors do influence the productivity of livestock. The fall in milk yield cannot be assigned only to decreases in oilcake imports. One can easily argue that War not only forced the stoppage of oilcake imports but also unsettled the entire economic organisation of the country and dislocated all processes of production by generating an atmosphere of uncertainty. However, what cannot be doubted is that a key input has also affected the milk yield. The main point that is being made here is that protein rich meals have a crucial role to play in the cross-breeding technology being pursued in India as a part of OF II.

Technically, the requirements of concentrates in the feed of cross-bred cattle are much higher than in the feed of their local counterparts. Its practical implication is that a cross-bred cattle in itself is not a guarantee of higher milk production. Its genetic superiority for higher milk output can only be utilised by a superior diet and better management. In the present context, concentrates are a pre-requisite because they are a readily digestible source of energy.

### EXPORT OF OILCAKES

India is a major exporter of oilcake meals and ranks fourth in the world, next only to USA, Brazil and Argentina.[42] The available estimates suggest that at present around 20 per cent of India's total output of oilcakes is being exported. This should be a very high proportion of the total marketed surplus.

The data in Table 9 give a brief account of India's export of oilcakes during the period 1969-70 to 1977-78.[43] The data reveal that there are considerable yearly fluctuations although the trend is upward. A large proportion of export has invariably gone to EEC except during 1971-72 and 1974-75 underlining the fact that India is a major exporter of oilcakes to the EEC countries.

The changes in the pattern of export of oilcakes are interesting. UK was the major importer of Indian oilcakes till the year 1972-73 when its share in India's total export to the EEC stood at more than 85 per cent. In recent years, Netherland has emerged as the main importer. For example, during 1974-75 and 1977-78 Netherland's share in India's export of oilcakes ranged between 49 and 58 per cent. Another significant development in recent years is that West Germany, France and Italy have also turned up as important customers for Indian oilcakes.

The foregoing analysis of trends suggests that protein rich meals, representing readily digestible source of high energy, are being exported by India. We have analysed information pertaining to the OF I years but the interpretations would hold equally for the OF II years as the basic relationships and arrangements have not changed. Export of oilcakes amounts, in a way, to exporting raw material which is otherwise basic for the development of the dairy industry in India. The point cannot be stressed too much.

## V

## Implications

What export of oilcakes means to a developing country like India, in the light of the new technology, is the central issue. One aspect of it has already been discussed while highlighting the contribution of concentrate feeds in the new milk production technology. However, it is necessary to extend the scope of the discussion to reinforce the view developed here. This has been done by considering what import of oilcakes means to a developed country like Denmark.[44]

Deliberating the issue, Dolberg has revealed that Denmark does not feed its livestock from its own resources in excess of 60 per cent, as it imports considerable livestock feed. Quoting the argument developed by Gad, he states that the import of protein rich feedstuff creates a self-promoting positive growth reaction in Denmark agriculture. The essence of the argument put forward by Gad is that, due to imports, a large part of the Danish agricultural land can be transferred to roughage production and this gives a greater total biomass than grain production. The availability of feed, therefore, increases due to import of feed on the one hand and a higher domestic output of fodder on the other. Since animal husbandry on the farms is labour-intensive and also provides additional employment in the other sectors of the economy, the import of feed promotes economic growth in the case of Denmark.

Some implications become obvious if we extend the same logic to the export of protein rich feeds from India. First, the export of oilcakes from India results in reducing the total availability of feed. Second, it leads to a decline in the availability of readily digestible sources of energy which has an inelastic supply but is crucial for cross-bred cattle. Third, the export of oilcake meals would bring in inefficiency in the use of cellulose based materials which are otherwise typical feed for animals in India but are a low energy feed. An efficient use of stalks and straws requires a minimum supplement of protein rich meals.

It appears from the above analysis that the export of oilcakes by India has had a self-accentuating negative growth reaction in Indian agriculture. The dairy sector is much more labour-intensive in India than in Denmark. The export of oilcakes from India would positively have a heightened contracting effect in the light of the new technology adopted under OF II. This may be an important reason for the low productivity of Indian milch animals. Although the majority of Indian milch animals are non-descript and have a digestive system which is adapted to low digestibility feed, their production efficiency depends also on the high quality feed.

It is often argued that the export of cattle feed from India is inevitable because the Indian farmer is unable to pay the price which is obtainable in the world market. There are many ways to counter such an argument. Foremost, the inability of the Indian farmer to pay a higher price may be due to the fact that the price paid by the consumer for his produce is low. Second, a higher price of concentrates in the domestic market may be a direct consequence of a decrease in supply caused by exports. Third, the milch animals owned by the Indian farmer may have been less productive because of shortage of quality feed. The animals owned by the European farmer have a lower unit cost of production and outbeat the Indian farmer because the key inputs are available to him at subsidised rates.

Further, what is crucial is not the international price. If we go by the logic of price alone, then one can argue that all that fetches a higher international price should be sold in the international market. Or, for that matter, nothing should be sold in the international market if the international price is lower than the domestic price.

The feed available for the average milch animal is of low digestibility. The concentrate feed is, technically, a key input only for cross-bred animals. But, considering that 50 per cent of the total concentrate feed is consumed by non-milch animals, the export of one-fifth of the total produce should clearly be a matter of concern for the policy-makers.[45] The fact of the matter is that the continuation of oilcake exports and the adoption of new technology in milk production do not go together.

## VI

## Conclusions

The main findings of the study may now be briefly stated.

The analysis of data shows that a large quantity of donated SMP and BO is being imported into India for building up buffer stocks planned under OF II. However, the proposed level of imports is shown to be considerably higher than that required for the purpose.

The unloading of donated commodities in the form of liquid milk is likely to suppress the producer's price in the domestic market because the additional supply thus created is not based on production within the country. The lack of price incentives would further decrease the marginal product of factors of production engaged in milk production. Ultimately, all of this may lead to a diminished supply of milk in the Indian economy.

The use of donated commodities may mean their substituting some of the liquid milk produced by the Indian farmers. Since the IDC is likely to adopt a subsidised price policy to dispose of the donated commodities for use by the Cluster Federations, the imported ingredients may be cheaper than the home produced liquid milk, as also SMP and BO. The organised sector of the Indian dairy will prefer to use cheap SMP and BO to earn a higher level of profits. It will thus have very little enthusiasm to procure the costly liquid milk produced by our own farmers.

Excessive dependence on donated commodities is likely to create idle capacity in the milk processing plants. The funds generated by the donated commodities are meant for financing the processing plants and for providing the inputs (SMP and BO). In case there is a lack of quick and sustained increase in indigenous milk output, a strong bias in the allocation of funds towards easier targets like expansion of processing capacity cannot be ruled out. The creation of processing capacity through finances raised by the sale of donated commodities will call for more aid in the form of inputs (SMP and BO) to ensure optimal utilisation of capacity. Thus a vicious circle may come into being in the long run.

The future flow of donated commodities is uncertain. It would depend on the surpluses in the EEC, export subsidies, export prices, and commercial exports of LDCs. Efforts are under way in the EEC to increase commercial exports of dairy produce to OPEC and other countries. Once the demand in these countries picks up, the donated commodities will become commercial items. Since the new milk production technology, envisaged in OF II, is strongly linked to the funds generated by aid commodities, it may receive a serious setback as investible funds decline.

Food aid is likely to help the dairy industry to create new tastes. The induced changes in consumer tastes would increase the demand for modern dairy produce. Since the traditional production system is often not well adapted to the needs of the modern processing industries, the demand generated in the urban areas in a transitory stage is likely to be met by import of dairy produce

## Appendix

PROGRESS OF EXPENDITURE UNDER OF I UPTO 1977

*(Rs lakh)*

| Items | Allocations | | Actual Expenditure | | Expenditure as Per Cent of Allocation |
|---|---|---|---|---|---|
| | Rs | Relative Share | Rs | Relative Share | |
| 1 Expansion of four city dairies | 266.00 | 2.28 | 223.53 | 3.41 | 84.03 |
| 2 Establishment of new city milk plants | 2387.00 | 20.51 | 1653.64 | 25.19 | 69.28 |
| 3 & 4 Milk collection, chilling centres and feeder balancing milk plants | 3638.00 | 31.25 | 2565.02 | 39.07 | 70.50 |
| 5 Resettlement of city milch cattle | 875.00 | 7.52 | 20.52 | 0.31 | 2.35 |
| 6 Increasing rural milk production through provision of technical inputs | 2691.00 | 23.12 | 924.54 | 14.08 | 34.36 |
| 7 Development of imported milch cattle | 400.00 | 3.44 | 201.86 | 3.08 | 50.41 |
| 8 Organisation of rural milk procurement | 260.00 | 2.23 | 119.03 | 1.81 | 45.78 |
| 9 Project planning, implementation and manpower | 358.00 | 3.08 | 223.47 | 3.40 | 62.42 |
| 10 Storage and long distance transportation | 377.00 | 3.24 | 236.02 | 3.60 | 62.60 |
| 11 Miscellaneous, including storing and inland transportation of commodities | 388.00 | 3.33 | 396.90 | 6.05 | 102.29 |
| * Central pool of dairy equipment | | | 44.93 | | |
| Total | 11640.00 | 100.00 | 6609.46 | 100.00 | 56.78 |

*Source:* Planning Commission (PAD), Report No PAD/i/1(9)77, April 1978.

from outside.

The direct sale of BO would adversely affect the price of ghee. This would create distortions in the market for ghee in those areas which are the sources of supply to the urban centres. Ultimately a situation may develop where production of traditional dairy products will be discouraged because of cheaper imported ingredients like BO.

Highly and readily digestible feed is scarce in India and its supply is also inelastic. However, India exports oilcakes on a large scale. This policy is inconsistent with the new technology adopted in OF programmes.

The typical feed available to the milch animals in India is cell-wall rich. The efficient use of cellulose requires a supplement of protein rich meal. Since protein rich meal is being exported, it does not encourage the optimal use of low quality feed. The available evidence suggests that a considerable volume of animal biomass can be made available if export of oilcakes is abandoned and the same is diverted for use by the domestic products.

The return of milk to concentrates is significant. Technically, the requirement of concentrate feeds in the cross-bred cattle is higher than in the case of their local counterparts. The rearing of cross-bred cattle itself is not a guarantee of higher milk output. Their genetic potential cannot be maintained without quality feed. The success of crossbreeding technology of OF II is doubtful in the face of export of quality feed.

Import of donated commodities and export of oilcakes will continue to weaken the position of the Indian farmers *vis-a-vis* the European farmers. Considering the fact that animals in India are the suppliers of energy in various forms, there is need to take a more practical view in policy formulation. The adoption of new technology as such may create more problems than it will solve or it may not make much headway because of inbuilt contradictions in the overall policy. The combined effect of the import of SMP and BO and the export of oilcakes will be contracting on the Indian dairy sector and may inhibit its growth.

## Notes

1 National Dairy Development Board (NDDB), 'Operation Flood II: A Proposal by the NDDB (Revised)', Anand, June 1978, pp 45-7.

2 Government of India, National Commission on Agriculture, Part VII, 'Animal Husbandry', pp 126-7, New Delhi, 1976. The funds refer to the revised estimate, see note 13 for details.

3 For details, see, NDDB, op cit, p V, Table I.

4 The project authorities intend to make up the entire buffer pool by using indigenously produced SMP and BO in 1984-85.

5 There are 25 Cluster Federations, covering 151 districts of OF II. The districts are widely spread over all the states of India.

6 The information in Table 2 is generated from the project proposal on Operation Flood II. See, NDDB, op cit, Table IV 7, p 46.

7 The general rate of expansion of the economy primarily determines the expansion rate of sub-sectors *via* investment.

8 For example, the persistence of restrictive trade policies may be partly ascribed to the resource immobility phenomenon. The growing milk surplus in the EEC and the continuation of export subsidies is the outcome of resource immobility.

9 This procedure is followed because nothing is mentioned in the Project Proposal or the Techno-Economic Feasibility Report about the milk equivalents of total imported commodities. Only milk equivalents of buffer stock are given.

10 According to the project proposal, the imported BO to be retailed as cooking media in the urban markets will be sold at prices consistent with market condition.

11 Piet Terhal and Martin Doornbos, 'Operation Flood—Development and Commercialization', *Food Policy*, August 1983, p 239.

12 See, Food Aid for Development, Commission Communication to the Council, COM (p 3), 141 Final, Brussels, 1983, p 8 (quoted by Piet Terhal and Martin Doornbos, op cit).

13 The sale proceeds of donated commodities during Operation Flood I were estimated at Rs 960 million. The estimate was later on revised to Rs 1,160 million. See, Bharat Dogra, Operation Flood or Trickle, *Kurukshetra*, June 1, 1980, p 4.

14 Table 5 is taken from Piet Terhal and Martin Doornbos, op cit, who in turn have derived it from UN/FAO World Food Programme, 'Terminal Evaluation Report on Project India 618—Milk Marketing and Dairy Development (Operation Flood I)', WFP, September 1981.

15 These are not the only determinants. Factors which determine the rate of technological progress and the resource mobility in the dairy sector of developed and developing countries also have a decisive role.

16 1973-74, 'Fourth Annual Report of IDC', pp 3-4, IDC, Baroda, Gujarat, in National Commission on Agriculture, see, NCA, op cit, p 128.

17 See, B Dogra, N Rajagopal, 'And the Rejoinder', *Kurukshetra*, June 1, 1980, p 6.

18 The discussion on this point heavily draws upon the paper by Gert van Dijk, Jarrie de Hoogh and Jacqueline Vel, 'The Future of EEC Dairy Exports to the Less Developed Countries—Agricultural Economics of Long Range Projections and Model Studies', *Journal of Agricultural Economics*, Volume XXXIV, No 3, September 1983, pp 279-92.

19 International trade in dairy is dominated by a few large firms and it may be assumed that price formation is influenced by oligopolic competition.

20 This does not include intra-EEC trade. The estimates relate to the year 1981. See, FAO, *Production Yearbook*, 1981, Rome.

21 See, Gert van Dijk, Jarrie de Hoogh and Jacqueline Vel, op cit, p 286.

22 The financial cost in 1982 is estimated at US $ 3150 million, which was 18 per cent of the entire EEC budget. The cost of disposing of dairy surpluses is the greatest single cause of friction within EEC, according to the European Communities Commission's Official Journal of the European Communities, C357, Volume 26, 1983; (quoted by Raymond Croitty). See, Raymond Croitty, 'Operation Flood: Another View', *The Illustrated Weekly of India*, February 19, 1984, p 40.

23 See, *Patriot*, July 15, 1981, New Delhi.

24 Claude Alvares, 'Operation Flood: The White Lie', *The Illustrated Weekly of India*, October 30, 1983.

25 R P Aneja, *Indian Express*, September 5, 1982.

26 Frands Dolberg, "Livestock Strategies in India", Institute of Political Science, University Aarhus, Denmark, September 1982, p 75.

27 D N Khurody, "Dairying in India—A Review", Asia Publishing House, 1974.

28 See, Frands Dolberg, op cit.

29 Draft Five-Year Plan 1978-83, Chapter 6, Planning Commission, Government of India.

30 National Commission on Agriculture, op cit.

31 Frands Dolberg, op cit, p 34.

32 M G Jackson, 'Treating Straw for Animal Feeding—An Assessment of Its Technical and Economic Feasibility', FAO, Animal Production and Health, Paper No 10.

33 The supply of green fodder and concentrates is assumed to be inelastic because the cropping pattern in India is rigid.

34 Govt of India, National Commission on Agriculture, op cit, p 424.

35 Frands Dolberg, op cit, p 138.

36 K N Nair, 'Milk Production in Kerala—Trends and Prospects', *Economic and Political Weekly*, Vol XIV, Nos 12-13, 1979.

37 See, 'Terminal Evaluation Report on Project India—618', op cit.

38 M G Jackson, 'A New Livestock Development Strategy for India', *World Animal Review*, FAO, No 37.

39 M G Jackson, op cit.

40 Baldev Singh, 'Economics of Milk Production and Bovine Livestock Composition in Growing Economy', *Indian Journal of Agricultural Economics*, April-June, Vol XXXIV, No 2, 1979, pp 61-70.

41 See, Frands Dolberg, op cit, p 82.

42 FAO, "Trade Year Book 1980", Volume 1, Rome 1981, p 299.

43 Oilcakes included here are all types of oilcakes.

44 Frands Dolberg, op cit, pp 81-83.

45 Frands Dolberg, op cit.

COMPANY MEETING

# The Tata Iron and Steel Company Limited

## Chairman's Statement

THE following is the statement of Mr. R. H. Mody, Chairman of the Tata Iron and Steel Company Limited, for the year 1984-85.

I think it can be safely said that there has not been another 12-month period in the history of our Company which has witnessed such momentous events. During this period, we have lost our great Prime Minister, Shrimati Indira Gandhi, at the hands of assassins. A woman of outstanding political sagacity and indomitable courage, she had held India together in the face of all difficulties and had dominated the Indian political scene for nearly two decades. A modern and highly civilized person, she more than held her own in dealing with other nations, and there was no facet of Indian life that she did not touch and adorn. She will be deeply missed and mourned.

### Senseless Violence

2. The passing away of Indira Gandhi is sad, but the cause of her death is even sadder. There has emerged in the land of Mahatma Gandhi a cult of violence which is both aimless and senseless. Those who indulge in these acts do not seem to know what they are seeking and, because of their pursuits, hundreds of innocent lives of men, women and children are sacrificed for no apparent purpose. Irrespective of everything else, every citizen of India should give his support, at this grave moment, to our brave new leader and his Government who are facing this most severe ordeal.

3. Although the clouds on the Indian horizon seem dark, they are not without a ray of sunshine. The people of India have elected Rajiv Gandhi as their leader, and India is truly fortunate in having him as Prime Minister. We now have a leadership of youth, burning with a desire to take India into the modern age with all that it implies in efficiency and progress. Beset as he is with enormous problems, both political and economic, we must pledge our full support to him at this juncture.

### Momentous Event

4. For us, another momentous event was the stepping down, after 46 years, of Mr. J. R. D. Tata, in the pink of all his faculties, from the Chairmanship of our Company. He could have continued for several more years but, thinking as he always does about the Company rather than himself, he felt that the time had come for someone to succeed him while he was still around to help. It would be futile for me even to attempt to enumerate the great services that Mr. J. R. D. Tata has rendered to our Company. He has towered over other industrialists and the greatness of our Company is his monument. He has entrenched himself in the hearts of each and every one of us by his staunch championship of the shareholder as well as the worker. In his own person, he has set the highest standards of integrity and is, without doubt, the most respected and loved head of a business organisation in India. No one will ever really succeed him, and I, who have been selected by the Board of Directors to be the Chairman after him, can only assure you that I will try and do my best for the Company in which I have also spent 46 years. I crave your indulgence.

### New Life

5. The pronouncements of the Prime Minister and other Ministers in the last six months have infused a new life into the world of business and industry. Pragmatism has displaced political dogma and many an economic shibboleth which had so far failed to produce results has been cast away. To me the economic concessions announced so far, both through the Budget and otherwise, are not as important as the change of attitude which underlies these pronouncements. For the last three decades, business and industry have been, not entirely without reason, regarded with a certain sense of suspicion. Our new Prime Minister now invites and exhorts us to play our part once again in the mainstream of national life. If we fail to set a high standard of ethics and do not plough back the additional funds made available to us in nation-building activities, we shall have only ourselves to blame, if in the future we once again find ourselves in the wilderness.

### High Performance

6. During the year under review, our Company has received price rises—one in June 1984 and the other in February 1985—and the results of the year reflect these. There are many who feel that we have been the recipient of a bonanza due to a price rise necessitated by the difficulties faced by other steel plants in the country. Whilst there is some substance in this, I would like to assure you that our present prosperity is also due to our high performance which enables us to take full advantage of these price rises. Had we operated our plant at the same level of capacity utilisation as the other plants, we too would have made a marginal loss and, therefore, it is correct to say that the present profitability achieved by our Company, is the result of high performance as much as of price.

7. Much is being made of the precipitous increase in steel prices and its effect on other industries. Let me repeat what I have recently said elsewhere, that the increase in the price of steel in the last fifteen years, including the recent one, is lower than in those of oil, coal, cement and power—all of which are important inputs in the build-up of steel costs.

8. Our Company is the first in the private corporate sector to cross the Rs. 1,000-crore mark in turnover. Our production at 1.71 million tonnes of saleable steel was the highest in the Company's history, and the quantum of bonus to be paid to our workers will

also be the highest. Both our pre-tax and post-tax profits are the best we have ever seen. Let no one be ashamed of high profits, honestly secured and re-employed in strengthening the Company, and the national economy.

### Interminable Delay

9. Our dealings with the Government continue to be cordial, but I must confess to a certain sense of disappointment at the interminable delay that still takes place in obtaining a decision even where the case for it is incontrovertible. A case in point is the proposal we made to the Government in August last year to allow us to import 150,000 tonnes of sponge iron which, with the addition of scrap, would enable us to produce an additional 300,000 tonnes of steel of which about 265,000 tonnes would be billets which are in short supply in the country and would have to be imported at far greater cost than sponge iron. Everybody in Delhi has welcomed the proposal in view of the saving in foreign exchange but, in spite of several follow-ups, no decision has yet been conveyed to us.

10. On two occasions during the year under review, there was a shortage of coking coal at our Works due to a Government decision not to supply coking coal to Tata Steel. Subsequently, the Government was good enough to revoke this decisión, but made it clear that we must rely on our own collieries or on imports in future. We have, therefore, planned a massive investment in our collieries during the next five years to enable us to attain 100% self-sufficiency. Coal of the right quality and quantity has become the paramount need for maintaining production at the high level to which we are accustomed.

11. We are now engaged in a continuous programme of modernisation to upgrade our technology not only in iron and steel making, but also in steel rolling. The Company has drawn up a five-year plan of about Rs. 1,000 crores of capital expenditure, a major part of which will be devoted to new facilities to maintain and improve our steel-making capability. This will enable us, after many years of neglect due to paucity of funds, to rectify some major deficiencies in our plant, such as the absence of a raw material yard and handling facilities, an additional sinter plant, more power generation, etc. With the addition of the Bar & Rod Mill and certain modifications to our existing mills, we hope to maintain our production for some years to come at the highest levels of plant utilisation.

### Korf

12. We are constantly on the lookout for new technologies in steelmaking. For some time now, I have felt that the production of steel in India by the traditional coke oven/blast furnace route is not a viable proposition. In this connection, I have recently signed an agreement with Korf KG of West Germany to set up a new company, subject to Government approval, for the import of steelmaking technology which eliminates the use of coking coal and substantially reduces the necessity for power. At this moment, the size of such a production unit is restricted to about 300,000 tonnes per annum, but it is hoped that higher tonnages might be possible in the near future. This will be a revolution in steelmaking in India and the future growth of the steel industry can be assured on a more viable basis.

13. I am one who believes that there is a great future in India for the steel industry. The per capita steel consumption in our country is only 15 kg. whereas in the developed countries it is as high as 700 kg. Committed as we are to the rapid industrialisation of this country, it is inconceivable that there will not be a higher demand for steel. However, if this demand is to be met from indigenous sources, then we must develop newer technologies which will enable us to produce steel at a reasonable cost.

14. The task is an exciting one as it has to be accompanied by changes in skills and attitudes. We have to create an atmosphere for proper absorption and assimilation of new methods and technologies. Our methodology in all our offices is also under review, ultimately leading, I am sure, to greater efficiencies in all directions.

15. For some time now, we have been considering the setting up of a cement plant based on our slag. The Government is sympathetic to the project, and we are negotiating with the Madhya Pradesh Government to give us the necessary permission to mine the limestone in that State for the production of clinker.

16. An event of some significance has been the permission granted to the Company by the Department of Company Affairs to merge the Indian Tube Company with the Tata Iron and Steel Company. Some procedures which have to be gone through before the merger finally takes effect, should be completed in the next few months.

17. After long-drawn-out negotiations with the Bihar Government, an agreement on the ownership and management of our lands at Jamshedpur was signed. However, I regret to say that the lease between the Bihar Government and the Company has not yet been signed although it is now one year since the agreement was reached.

### Truly Blessed

18. I have always maintained that our technical competence and managerial skills avail us nothing unless our workers are with us. In this regard Tata Steel is truly blessed. A rapport has been established between the Management and the workers of the Tata Steel Works, in the Mines and Collieries, and in the various offices and stockyards throughout the country which it would be difficult to find elsewhere in the world. Our workers are very ably and responsibly led by their respective Unions, and the industrial relations that we have maintained with them is the primary cause of the high level of our performance. Our workers, supervisors and officers are our greatest asset and I would like to assure them of my total commitment to their welfare and happiness consistent with the prosperity of our Company. I would also like to thank our shareholders for the consistent support that they have given to this Company over the past many decades.

Note: *This does not purport to be a record of the proceedings of the Annual General Meeting.*

Chairman

Bombay, 1st July, 1985.

# Scheduled Caste and Tribe Students in Higher Education

## A Study of an IIT

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*This paper presents the results of a study, the third in a series, of academic and social adjustment of Scheduled Caste and Scheduled Tribe students in the Indian Institute of Technology, Bombay. Section I of the paper traces the relationship between the backgrounds of SC/ST students and their academic performance, while section II focuses on the two main problem areas for these students. The recommendations of the study are set out in the final section.*

IT was in 1973 that the scheme of reservation of seats for Scheduled Caste/Scheduled Tribe (SC/ST) students in the Indian Institutes of Technology (IITs) was implemented for the first time. 15 SC/ST students were selected in IIT Bombay in keeping with the recommendations of the Chandy Commitee Report.[1] Since then SC/ST students have regularly been taken in through the concessionary entry scheme. And in all, 220 SC/ST students have been taken in since 1973.

Two studies on the problems of SC/ST students in IIT Bombay have so far been made. The first was undertaken in 1976 when its investigator was a faculty adviser for SC/ST students. It was published in February 1978.[2] It highlighted the failure of SC/ST students to survive in the competitive IIT set-up and the need for additional facilities, extra tutorials so that SC/ST students admitted into IIT Bombay would not leave the Institute after a stay of two to three years for failure of fulfilling the academic requirements. This was suggested in view of the high drop-out rate among SC/ST students admitted to IIT Bombay.

The second study[3] was undertaken by a Committee appointed by the Senate of IIT Bombay in July 1976 to go into the academic problems of SC/ST students and brought out in November 1977. It recommended that the Joint Entrance Examinations (JEE) with two-third marks of the last general category student on the merit list be treated as the cut-off point for SC/ST entrants and that direct admissions (i e, admissions made only on the basis of marks obtained by SC/ST students in Higher Secondary or any other equivalent qualifying examination) resorted to in 1975, 1976, 1977 (in an attempt to fill up the seats reserved for SC/ST students, not filled up by SC/ST entrants through JEE) be discontinued as it was proving counterproductive to the interest of the students.

The present study is the third in the series. It was begun in April 1982 and completed in August 1984. The study addresses itself both to the academic and social adjustment of these students.

48 SC/ST students[4] and 44 non-SC/ST students at different stages of the B Tech programme were interviewed for this project. Non-SC/ST students were interviewed in order to first identify those problems which could be common to all students in IIT Bombay since it is a highly competitive set-up and then to concentrate on problems peculiar to SC/ST students.

SC/ST and non-SC/ST students were chosen from similarly varying backgrounds—rich, poor, academically good, average and weak.

Non-SC/ST students were brought in also to get a feedback on what they felt were the problems faced by SC/ST students. By contrast, SC/ST students spoke of their own problems. The target group of the study was the SC/ST category. The method of study was the unstructured interview aided by a questionnaire partially open-ended.

Two faculty advisers for SC/ST students were also interviewed.

The following are the details of materials and methods used by the present study.

In the present study, the main object was to capture the experience of adjustment of SC/STs in IIT Bombay as a whole, than in statistical categories which would necessarily fragment it. A questionnaire was designed[5] in which some of the items were kept open-ended. The answers expected to these items were qualitative. The subject could write in whatever way he wanted to and upto whatever length he wished to. The questionnaire was individually administered through the interview method. If it was felt that the respondent was trying to conceal some fact, more questions were asked and he was brought around to sharing the required information and the details recorded.

Our method has been more the humanist's and sociologist's method—to get to the experience of the individual and of the group.

Other than some demographic variables, none of the responses were quantifiable. In fact, some of them could not even be categorised. The responses were qualitative. Besides, the range of responses was wide so that the possible number of categories were, if not as many as the subjects, large enough. However, for the sake of convenience in interpreting results, the responses were put into a few manageable number of categories. We have generalised on the basis of general tendencies.

The different categories and classifications of some of the items are:

(1) City/Village: The criteria for this categorisation were the usual ones—urban facilities which included roads, electricity, water, educational institutions, public transport, marketing, etc.

(2) Family Income: Students were classified as belonging to upper, middle and lower income groups on the basis of the following scale.[6]

Below Rs 900 per month = Poor
Below Rs 900-1,500 per month = Middle
Above Rs 1,500 per month = Rich

(3) Familial Education: Three sub-categories were created on the basis of only the father's education:

(a) Post-Graduate, Graduate
(b) High School, Matric, Intermediate
(c) Nil.

(4) Medium of Instruction: The medium of instruction was taken to be English if the student had received his education in English in school; otherwise it was categorised as vernacular.

(5) Preparation for Joint Entrance Examination: This was divided into four sections:

(a) Agarwal Coaching Classes (ACC)
(b) Any other Coaching Centre (AOC)
(c) Self Study
(d) No preparation.

The reason for ACC being identified as a separate category was that many students had mentioned it as the mode of preparation for entrance into IIT.

(6) Ambition: Students were categorised as being (a) highly ambitious, (b) low on ambition, and (c) averagely ambitious. Those students who gave responses like 'I want to reach the top', 'I want to do research in Computer Science', etc, were put in the first category. Those who gave responses like "I just want to pass", "I want to get B Tech degree" were put in the second category. Responses like "I want to get a decent job after my studies", "I want to support my family after B Tech" were put in the average category.

(7) Academic Performance in IIT[7]: This was classified into four sub-categories on the basis of the cumulative performance index (CPI):

(a) Beyond 8 - Very good
(b) 6.5 to 8.0 - Good
(c) 5.0 to 6.5 - Average
(d) Below 5 - Poor, Bad.

(8) Visiting Home or Local Guardians: This

item was divided into two sub-categories—visiting and non-visiting—on the basis of the frequencies of visits made. If visiting was monthly or more frequent, it was put into the visiting category, otherwise into the non-visiting category.

(9) Improvements in Home/Hometown: These responses were put into four types:
(a) General Improvements: If the response indicated general improvements such as additional facilities for the hometown or if the improvement needed was of a socio-psychological type i e, improvements that did not directly affect the individual, they were placed in the general category.
(b) Specific Improvements: If the respondent showed that lots of specific improvements often with a socio-economic thrust were needed (for example, 'we live in a chawl', 'my brother studies with a 60 watt bulb', etc) i e, they were improvements that would affect the individual intimately and directly, they were put in this category.
(c) No Improvements: When no improvement was needed the response was put in this category.
(d) No Response: This formed the fourth category.

(10) Social Life at IIT: The five sub-categories were
(a) Satisfactory: If the answer gave the impression that the student was satisfied with the social life, it was put in this category.
(b) Unsatisfactory: If dissatisfaction was revealed in the response, it was put in the 'unsatisfactory' category.
(c) Tolerable: When the answer revealed that the social life was neither too bad nor was it extraordinarily good, it was put in this category.
(d) Social interaction between faculty and students.
(e) No Response: Sometimes students responded to more than one of these sub-categories.

(11) Social Problems: Item No 19 in the questionnaire was designed for assessing social problems. But it alone did not give us sufficient insight; therefore, items meant to assess 'discriminatory' attitudes, social life at IIT Bombay, problems faced by SC/ST students were also examined to give a fuller picture.

(12) Benefits from special concessions: These responses were classified into 'individual', 'familial' and 'communal' with respect to social and economic upliftment.

The ensuing sections present the major findings and recommendations of the study. Section I traces the relationship between the background of SC/ST students and their academic performance in IIT Bombay. Section II focuses on the two main problem areas for SC/ST students in IIT Bombay. Section III lists the recommendations.

## I

## Background of SC/ST Students and Academic Performance

This Section focuses on the impact of different background variables such as rural/urban origin, financial status, familial education, medium of instruction prior to IIT, preparation for IIT, student ambitions, on the academic performance of SC/ST students admitted through the reserved quota.

Academic performance has been classified into four categories on the basis of a scale given in the preceding Section: Very good, good, average and bad. The results are as follows.

None of the SC/ST students has very good performance and none of the non-SC/ST students has bad performance. The CPI of the majority of SC/ST students ranges from 4 to 6.5. Three of them have CPIs of 6.69, 7.29 and 7.5.[8] The CPI of non-SC/ST students ranges from 5 to 9.73.

Three SC/ST students have good performance. 33 of them have average performance and 12 have performed badly. 10 non-SC/ST students have very good performance. 13 have good performance and 21 have average performance. On an average the academic performance of SC/ST students is poorer than that of non-SC/ST students.

The impression that most IIT students belong to the urban class seem to be true. Out of 44 general category students interviewed, only nine belong to villages. Similarly, only 14 SC/ST students come from villages. A real picture could be obtained by studying more subjects in the general category. Though this observation may not change, it needs to be confirmed.

The cumulative point index (CPI) of the majority of SC/ST students ranges from 4.0 to 6.5. Only three students with CPI of 6.69, 7.29 and 7.5 go above it.

Out of 48 SC/ST students, 24 seem to be reflecting the favourable effects of the fact that they come from cities. However, this also warrants caution since 10 SC/ST students coming from cities have done badly and 12 SC/ST students who belong to villages have performed as well as those 21 SC/STs who belonged to cities. Only two of the respondents who come from a village background performed badly (Table 2).

Similarly, most non-SC/ST students—35 out of a total of 44—belong to cities. So making any absolute statement about favourable effects of an urban background on academic performance may be biased. 16 out of 35 students have average performance, 11 have good performance and eight have very good performance. Of the remaining nine students who belong to villages, two have very good performance, two have good performance and five students have average performance.

Since the majority of non-SC/ST students who have very good performance are from cities and the majority of rural background students have just average performance, it appears that urban background affects academic performance to some extent (i e, at least in helping some students give above average performance). This seems to hold true of SC/ST and non-SC/ST students.

### *Family Income and Academic Performance*

Out of 44 non-SC/ST students, 18 belong to the upper income group, 16 belong to the middle income group and 10 to the lower income group.[9] Out of a total of 48 SC/ST students, nine belong to the upper income group, 18 belong to the middle income group and 21 to the lower income group. Comparatively speaking, the percentage of poor SC/ST students admitted to IIT is higher than in the general category students. It is evident from Table 3 that none of the general category students has bad academic performance and none of the SC/ST had very good performance regardless of financial

TABLE 1: FREQUENCY OF STUDENTS FALLING IN EACH CATEGORY OF ACADEMIC PERFORMANCE

| Category | Academic Performance | | | |
|---|---|---|---|---|
| | V Good | Good | Average | Bad |
| Non-SC/ST | 10 | 13 | 21 | — |
| SC/ST | — | 3 | 33 | 12 |

TABLE 2: EFFECT OF BACKGROUND (RURAL/URBAN) ON ACADEMIC PERFORMANCE

| Category | | Academic Performance | | | |
|---|---|---|---|---|---|
| | Background | V Good | Good | Average | Bad |
| Non-SC/ST | Rural | 2 | 2 | 5 | — |
| | Urban | 8 | 11 | 16 | — |
| SC/ST | Rural | — | — | 12 | 2 |
| | Urban | — | 3 | 21 | 10 |

TABLE 3: NUMBER OF STUDENTS IN EACH INCOME CATEGORY WITH REFERENCE TO ACADEMIC PERFORMANCE

| Category | | Academic Performance | | | |
|---|---|---|---|---|---|
| | Income Level | V Good | Good | Average | Bad |
| SC/ST | Upper | — | 3 | 5 | 1 |
| | Middle | — | — | 14 | 4 |
| | Lower | — | — | 14 | 7 |
| Non-SC/ST | Upper | 5 | 4 | 9 | — |
| | Middle | 4 | 5 | 7 | — |
| | Lower | 1 | 4 | 5 | — |

status. Most SC/ST students have average performance. The number of those who have bad performance (in SC/ST group) is highest in the poor income category.

In the non-SC/ST category, the number of those who have very good academic performance is comparable in the rich and medium income category. Even students from the low income group have good and very good performance, though the number of such students is very small (5). However, as the Table indicates, the frequency of very good performance is on the decline with the decline in income level. The frequency of students in the poor income category increases from left to right of the Table indicating the gradual deterioration in academic performance. Therefore, there are some indications that income forms one of the determinants of academic performance. But it should be interpreted with caution because most rich students have a good educational background also. So it is not high income *per se* which ensures a student's good academic performance but the quality of educational background and training made available because of high income that prepares a student for a certain kind of performance.[10]

### Family Education

Out of 44 general category students, 21 have parents with graduate level and postgraduate level education. Only five of these students have very good CPIs, five have good CPIs and the rest (11 students) have only average CPIs. In the SC/ST category, among the 15 students, whose parents have had graduate/postgraduate level education, none has a very good CPI, two have good CPIs, 11 have average CPIs and two of them low CPIs.

At the same time, students whose parents have not had any education have done comparably well. Out of nine such SC/ST students, six have average CPIs and only three have low CPIs. In the general category, out of five such students, two have good CPIs and three have average CPIs. Also, out of 18 (general category) students whose parents have had high school level education, five have very good CPIs, six have good CPIs and seven have average CPIs. In the SC/ST category, out of 24 such students, one has a good CPI, 16 average CPIs and seven have low CPIs (Table 4).

From the above it appears that though the educational background of parents does prepare the students for IIT,[11] good performance by the students is not ensured by the level of parental education. Alternatively, it is not necessary that a low level of educational background or no educational background of parents automatically leads to the ward's poor performance.

### *Impact of Medium of Instruction on Academic Performance*

The present study indicates that a majority (35 out of 44) of general category students have studied in English medium schools whereas most SC/ST students (32 out of 48) have come from vernacular language medium schools (Table 5).

When an attempt was made to link academic performance with the medium of instruction, the following were the findings:

All very good performers (10) of non-SC/ST category and two (out of three) good performers of SC/ST category come from English medium schools.

Out of 35 non-SC/ST students, who come from English medium schools, 10 gave very good performance, 10 good performance and 15 students performed averagely. Of the nine vernacular medium general category students, five have good performance and four have average performance.

Out of 16 English medium SC/ST students, four have performed poorly, 10 averagely and two students have good performance. Among 32 vernacular medium SC/ST students, seven do very badly, 24 have average performance and one has good performance.

It appears that medium of instruction in school is not always a parameter that positively determines academic performance in IIT though it may in some cases affect the comprehension level and expression and performance ability, particularly in subjects of a descriptive and analytical nature.

### *Preparation for IIT and Its Impact on Academic Performance*

To prepare for JEE, many more non-SC/ST students joined either Agarwal Coaching Class (ACC) or some other coaching centre (AOC) than did SC/ST students. 26 out of a total of 44 non-SC/ST (Table 6) joined such classes. The percentage of students who do well after attending coaching classes is higher than those who do not.

Students who relied on self-study have mostly average performances. In the SC/ST category, those students who did not prepare for JEE at all either did badly or again gave an average performance; none performed well. Those with no preparation whatsoever are fewer in number (3) in the non-SC/ST category as compared to the SC/ST category (11).

It is seen that most of the very good performers in the non-SC/ST category have attended ACC. Even in the SC/ST category, two out of three good performers have attended ACC. However, it is necessary to

TABLE 4: PARENTAL EDUCATION AND ACADEMIC PERFORMANCE

| Category | Parental Education | Academic Performance | | | |
|---|---|---|---|---|---|
| | | V Good | Good | Average | Bad |
| Non-SC/ST | Graduate<br>Post-Graduate | 5 | 5 | 11 | — |
| | High School<br>Inter | 5 | 6 | 7 | — |
| | Nil | — | 2 | 3 | — |
| SC/ST | Graduate<br>Post-Graduate | — | 2 | 11 | 2 |
| | High School<br>Inter | — | 1 | 16 | 7 |
| | Nil | — | — | 6 | 3 |

TABLE 5: EFFECT OF MEDIUM OF INSTRUCTION ON ACADEMIC PERFORMANCE

| Category | Medium | Academic Performance | | | |
|---|---|---|---|---|---|
| | | V Good | Good | Average | Bad |
| Non SC/ST | English | 10 | 10 | 15 | — |
| | Vernacular | — | 5 | 4 | — |
| SC/ST | Vernacular | — | 1 | 24 | 7 |
| | English | — | 2 | 10 | 4 |

TABLE 6: IMPACT OF PREPARATION FOR IIT ON ACADEMIC PERFORMANCE

| Category | Preparation Category | Academic Performance | | | |
|---|---|---|---|---|---|
| | | V Good | Good | Average | Bad |
| SC/ST* | ACC | — | 2 | 2 | 1 |
| | AOC | — | 1 | 7 | 2 |
| | Self Study | — | — | 9 | 3 |
| | None | — | — | 5 | 6 |
| Non-SC/ST | ACC | 7 | 6 | 4 | — |
| | AOC | 1 | 5 | 3 | — |
| | Self Study | 1 | 2 | 12 | — |
| | None | 1 | — | 2 | — |

*Notes*: ACC = Agarwal Coaching Centre
AOC = Any Other Centre
*10 SC/ST interviewees did not take the JEE. They entered IIT Bombay through the Direct Admission System in operation during 1975-1977.

regard with caution the impact of ACC on later academic performance of students since ACC select only very good students for training and coaching for JEE. Besides, not all good performers have attended ACC.

Some SC/ST students disclosed that they were aware of the existence of coaching classes but could not afford to avail themselves of this facility. Some, though, were not aware of the existence of such coaching. Yet another section of SC/ST students did not prepare at all knowing full well that they would be admitted through the reservation scheme.

'No Preparation' keeps the students completely alien to IIT's expectations, its standards, also to the amount of hard work and capacity for comprehension required here. Not preparing for IIT later affects negatively the level of motivation to face this absolutely meritocratic set-up.[12] At least this seems to be true of SC/ST students.

### *Ambition and Its Impact on Academic Performance in IIT*

Surprisingly, the number of highly ambitious students is greater in SC/ST category (18) than in non-SC/ST category (13) whereas the number of averagely ambitious students is comparable (SC/ST = 22; non-SC/ST = 22) in both groups. Again, those who are low on ambition are more in number in SC/ST group (8) than in the non-SC/ST group (1). Five of the general category students talk of aims best categorised as miscellaneous.[13] Three of them did not respond (Table 7).

It is observed that not a very good correlationship holds between ambition and academic performance in case of SC/ST students. Those highly ambitious (14) are able to achieve only average CPI; they even perform badly (3). Only one of them has good performance. By contrast those low on ambition perform both averagely (4) and badly (4). Those neither very high nor very low on ambition gave average performance (15), good performance (2) and bad performance (5) (Table 8).

On the other hand, there seems to be some positive relationship between ambition and academic performance among the general category students. Most very good performers fall in the upper two categories of ambition. Only one student with high ambition performs poorly. None in the middle category performs badly. However, more of very good performers are in the middle category of ambition than in the upper category. And one student who is low on ambition performs averagely. In spite of the latter two statements a correlationship is clear in this category.

Our results, on the whole, about ambition do not lead to any conclusive finding, though one observes that non-SC/ST students generally appear to be comparatively more realistic in their ambitions whereas ambition and academic performance do not match in the case of SC/ST students. They tend to dream and to fantasise. However, some SC/ST students (though few) are very realistic. One states: "I never think of cracking A's. My aim is only to pass." Another has observed: "Our academic performance is poor." A third says: "I feel I can't get A or B but I can pass all courses with C or D."

## II

## Problem Areas for SC/ST Students

This section has been sub-divided into two parts. This first part examines the academic problems of SC/ST students. An attempt has been made to relate academic problems to some variables like

(a) Competition in IIT
(b) Difficulty with the core programme
(c) Non-attendance of special tutorials

In the second part, the social problems of SC/ST students have been examined through several socio-psychological parameters in order to present a complete picture. These parameters are

(a) Differences in the background (home *versus* IIT set-up)
(b) Inability to visit home
(c) Social life at IIT
(d) Opinion of students about faculty members of IIT
(e) Criteria for friendship
(f) 'Discriminatory' attitudes towards SC/ST students
(g) General problems created by special provisions for SC/ST students.

### ACADEMIC PROBLEMS

That SC/ST students admitted into IIT through reserved seats experience severe academic problems is a well-known fact.[14] Table 9 confirms this.

Between 1973 and 1979, 174 students were admitted. (The paper reflects data obtained for the study upto June 1984 only.) Of these 68 left on their own or were asked to leave at different stages of the B Tech programme. The majority (58) passed in the second class. The average period of passing out for 1974, 1975, 1976, 1977, 1978 and 1979 batches admitted through JEE has been 7.4 years, 5.33, 5.83, 5.6, 5 and 5 years respectively. Direct admissions were made in 1975, 1976, 1977 and the average number of years taken for passing out has been 7.6, 5.5 and 5.8 respectively[15] (Table 10).

One student admitted in 1974 completed the programme in May 1984. Four students admitted in 1975 have a backlog of 13 to 25 courses. Four students admitted in 1976 have a backlog of 2, 7, 23 and 27 courses respectively. Three students from the 1977 batch have a backlog of 6, 7 and 21 courses respectively. Four students admitted in 1978 have to clear 5, 7, 10 and 18 courses respectively. Eight out of 13 students admitted in 1979 have yet to clear their courses. One student was to have passed out in July 1984 and two in August 1984. The remaining five students have a backlog of 29, 25, 19, 13 and 13 courses respectively. Only one student has passed out with the general category students. Four students had to leave the in-

TABLE 7: NUMBER OF STUDENTS HAVING VARIOUS LEVELS OF AMBITION

| Category | Ambition Levels | | | | |
|---|---|---|---|---|---|
| | High | Middle | Low | Miscellaneous | No response |
| SC/ST | 18 | 22 | 8 | — | — |
| Non-SC/ST | 13 | 22 | 1 | 5 | 3 |

TABLE 8: AMBITION AND ACADEMIC PERFORMANCE

| Category | Level of Ambition | Academic Performance | | | |
|---|---|---|---|---|---|
| | | V Good | Good | Average | Bad |
| SC/ST | High | — | 1 | 14 | 3 |
| | Middle | — | 2 | 15 | 5 |
| | Low | — | — | 4 | 4 |
| Non-SC/ST* | High | 4 | 3 | 6 | — |
| | Middle | 6 | 5 | 11 | — |
| | Low | — | — | 1 | — |

*Note*: * The table excludes 8 respondents whose answers were categorised under 'Miscellaneous' and 'No Response'. See Table 7 for details.

TABLE 9: FREQUENCY OF STUDENTS HAVING/NOT HAVING ACADEMIC/SOCIAL PROBLEMS

| Problem | Category | Type of response | | | | |
|---|---|---|---|---|---|---|
| | | Yes | No | No response | Academic Leading to Social | Academic Leading to Psychological |
| Academic | SC/ST | 32 | 12 | 4 | 6 | — |
| | Non-SC/ST | 17 | 22 | 5 | — | 6 |
| Social | SC/ST | 21 | 20 | 7 | — | — |
| | Non-SC/ST | 9 | 19 | 16 | — | — |

stitute mid-way, i e, without completing their B Tech programme (Table 10).

The fact that these students come from a weaker academic background than the non-SC/ST students has already been suggested in the previous section. In addition to the handicap of language, the majority have also had no preparation for the IIT system. As a result, they fare badly. Over and above these very special reasons for their adademic failure, there are some others which are peculiar to the IIT set-up and it was felt that these needed to be gone into. The first of them is the highly competitive nature of IITs.

(1) *Competition in IIT:*

Most SC/ST students feel that IIT has cut-throat competition. Though to some extent this meritocratic set-up might mean a far more intensely competitive set-up to them, one needs to offset their impressions with those of non-SC/ST students to find out if they too feel the same way about competition here.

All the non-SC/ST respondents were asked how they viewed competition in IIT (Bombay) to see if competitiveness was a problem area for all students calling for a lot of adjustment on their part. A question was included in the questionnaire specifically to examine this possibility.

The responses indicate that most non-SC/ST students (36 out of 44) find competition in IIT very stiff. Only one of them finds it "just OK". They report competition to be "murderous", "stiff", "intense", "fierce", etc. "It is carried into extra-curricular spheres",[16] they comment. An interesting suggestion is to lessen institutionalised stress on competition and to lessen the emphasis on evaluation as against teaching/learning. They comment that IIT is a place where competition is promoted.

The point is that toughness of competition is not peculiar to SC/ST students but is common to both categories.

Our SC/ST respondents are students who have so far survived in the IIT system. Further, though some of them had backlog courses and other related academic problems none of the respondents has been asked so far to leave. So the conclusions/observations are based on the responses of the more successful SC/STs in IIT.

32 out of 48 SC/ST students said they had academic problems. By contrast, 17 out of 44 non-SC/ST students had or had had academic problems. The highly meritocratic set-up of IIT with its system of continuous evaluation and relative grading is a problem area with all students but more so with SC/ST students. While none of the SC/ST students interviewed for this study continued to be poor performers over a long period, the same could not generally be held of SC/ST interviewees.[18] Once an SC/ST student falls academically, he finds it very difficult to keep up with the class and to make up the difference at the same time. However, there are SC/STs in the present sample who did overcome their academic problems. The effort put in must have been stupendous.

(2) *Difficulty with the core programme:*

A second problem area with all the students appears to be the core programme.[19] Students had been asked to enlist the subjects they found difficult. Though a number of courses were listed by different respondents, there appeared to be an agreement about difficulty with the core subjects.

The frequency of SC/ST students reporting difficulties in various subjects is comparatively higher than non-SC/ST students. However, the subjects that have been found by both groups to be difficult are the core courses—Physics, Mathematics, Humanities and Social Science subjects and Chemistry.[20] A few students found Electrical Engineering subjects also tough. A still smaller number reported drawing workshop and laboratory courses as being difficult.

The reasons given by students for various subjects being difficult were the following:

Physics: "Wide differences in content between school/college physics and IIT physics", "irregular study of the subject", "lack of clarity of fundamental principles".

TABLE 10

| Year | Total Admitted | Mode of Admissions | Left on their Own | Asked to Leave | Passed | Migrated | Still Continuing Class | Re-Admitted | Period for Passing Out | | | | | | Performance | | | Average No of Years Taken |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | 5 yrs | 6 yrs | 7 yrs | 8 yrs | 9 yrs | 10 yrs | I Cl | II Cl | Pass | |
| 1973 | 15 | JEE | 5 | 6 | 4 | — | — | — | — | 3 | — | — | 1 | — | — | 4 | — | JEE = *<br>Direct = Nil |
| 1974 | 37 | JEE | 6 | 6 | 25 | — | — | — | 1 | 9 | 9 | 4 | 1 | 1 | 6 | 17 | 1 | JEE=7.4<br>Direct = Nil |
| 1975 | 27 | Direct (24)<br>JEE (3) | 2 | 9 | 11 | 1 | 4<br>BL=13, 25 | — | 2 | 2 | 4 | 2 | 1 | — | 1 | 10 | — | JEE=5.3<br>Direct = 7.6 |
| 1976 | 20 | Direct (12)<br>JEE (8) | 2 | 4 | 10 | — | NCC/NSO/PT<br>4<br>BL=2, 7, 23, 27 | — | 5 | 4 | 0 | 1 | — | — | 2 | 8 | — | JEE=5.83<br>Direct = 5.5 |
| 1977 | 42** | Direct (33)<br>JEE (9) | 14 | 3 | 21 | — | 3<br>BL=6, 7, 21 | — | 14 | 6 | 1 | — | — | — | 6 | 15 | — | JEE=5.6<br>Direct = 5.8 |
| 1978 | 20 | JEE | 3 | 4 | 8 | 1 | 4<br>BL=5, 7, 10<br>18 | 1 through JEE | 6<br>2 in 5½ Yrs | 0 | — | — | — | — | 4 | 4 | — | JEE=5<br>Direct = Nil |
| 1979 | 13 | JEE | — | 4 | 1<br>3 are about to pass out | — | 5<br>BL=29, 25, 19, 13, 13 | — | 1 | — | — | — | — | — | — | | | |

*Notes:* ** No information about one case. B L = Backlog * All students through JEE but down to 0 per cent level.

"lack of liking for the subject", "absence of good grasping power" and "fast pace of teaching".

Mathematics: "Absence of clarity of basic concepts", "poor grasping power", "all applications are not understandable", "highly theoretical and abstract nature of the subject".

Humanities and Social Sciences: "Absence of competence in English and expression", "the descriptive nature of questions", "lack of effort and interest".

Chemistry: "Its emphasis on cramming", "absence of liking for the subject", "its uninteresting nature".

The majority of the students report I year and II year subjects to be uninteresting, irrelevant. These years create a backlog, they say. However another student comments: "No subject is difficult; the difficulty lies in the very nature of competition here. It matters who registers with one, i e, with whom one competes." Students mention that it is after they enter the departments that courses become more interesting, more relevant and more manageable. Some students even claim that their performance improved after they joined the departments.

A scrutiny was made of their semester-wise SPI (Semester Performance Index) to see if their SPIs were on the increase after they had joined their departments. It was found that there was no such thing as a definite increase in SPI after their entering their particular departments. Rather the increase in SPI, if at all, was erratic. Even if it went up in a few cases one semester, it also very often came down in another.

It appears that students have made the above observations about improvements in their performance in the latter half of the B Tech programme on the basis of some extra academic reasons. This impression on their part may possibly be due to the reduction in the number of students they are competing with resulting in a feeling of reduced pressure. It could also be due to their having got used to IIT as a place, to hostel life, to the IIT system. It could further have been caused by their having developed more regular study habits and due to their attending lectures more regularly. (In the first year, the absence of mandatory attendance of classes often works against the students. Once they perform badly, it is difficult for them to better their performance.)

It is also possible that though they may have experienced an occasional increase in SPI during the core programme as their SPI records show, they seem to remember more the occasional spurt in SPI after entering their department. The data reveal no relationship as such between department level courses and enhanced academic performance.

(3) *Non-attendance of special tutorials*:

To help SC/ST students taken in through the reservation scheme, there are some special facilities (only for SC/ST students) such as (a) permission to drop two courses per semester in the first year, and (b) an additional tutorial in English and other first year subjects so that they do not fall back in their studies because of the IIT pace of work and so that they can also make good their deficiencies.

Almost all teachers have complained that SC/ST students do not come to these special tutorials. SC/ST students say that this is so because the time table for these special classes is very inconvenient and though useful the work load gets doubled.

Since 1982, special tutorial hours in all first year subjects are offered to SC/ST students. Initially, the students used to come to the classes. Then they dropped out. The pattern was repeated last year. This is a matter of concern, especially, if SC/ST students think that they can ignore extra classes knowing full well how important it is that they make up their deficiencies.[21] One wonders, therefore, if classes for SC/ST students should not be made compulsory especially when it appears that they cannot judge what is good for them at that age.

Measures such as special classes for SC/ST students and the facility of dropping courses also tend, say SC/ST students, to set them apart from the general category of students thus creating social problems for them. Perhaps, there is validity in this observation and efforts have to be made to offer special facilities in ways which do not create social problems for SC/ST students.[22]

Proper counselling also is necessary for SC/ST students right from the point of entry so that they can be prepared for the kind of work expected of them in IIT and so that they can be helped to choose those branches for which their academic background is more suited rather than their opting for branches such as Electrical Engineering and Computer Science which even non-SC/ST students find "tough".

### SOCIAL PROBLEMS

Most students, when they join IIT, are quite young. Pressures of academic requirements and adjustments to the new and often unfamiliar set-up of hostel life necessitate that students have diversions from IIT life. Do they, for example, visit their parents/local guardians? What kind of background do they come from? Does that affect their adjustment in IIT? These were some of the questions taken up. Further, what is the quality of social life at IIT? What are the bases of friendship? Is there a healthy faculty-student interaction? How do students view faculty? Do students have social problems? These questions were posed to all respondents.

In addition, there were some questions that were also posed to all students but with SC/STs as the target group. These questions pertained to problems of prejudice and discrimination, problems created by reservation and other special facilities.

(1) *Problems of adjustment due to difference in background:*

Question No 23 in the questionnaire was designed to explore whether there are vast differences in home/hometown atmosphere and the atmosphere at IIT, in case of SC/ST students. If so, they could lead to poor and slower adjustments on the part of SC/ST students.

The results indicate that among non-SC/ST students, 20 felt that not many im-

TABLE 11: IMPROVEMENTS REQUIRED IN HOME/HOMETOWN

| Category | Types of Responses | | | |
|---|---|---|---|---|
| | General Improvements | Speicfic Improvements | No Improvements | No response |
| SC/ST | 9 | 19 | 13 | 7 |
| Non-SC/ST | 12 | 5 | 20 | 7 |

TABLE 12: NUMBER OF STUDENTS WHO VISIT PARENTS (HOMETOWN)/LOCAL GUARDIANS

| Category | Whether Visit Is Made to Parents/Local Guardians | | | |
|---|---|---|---|---|
| | Visiting Parents | Visiting Local Guardians | Having Local Guardians but Not Visiting | Not Visiting Anybody |
| SC/ST | 10 | 13 | 3 | 21 |
| Non-SC/ST | 24 | 9 | 1 | 10 |

TABLE 13: RESPONSES ON SOCIAL SCENE AT IIT

| Category | Types of Response | | | | |
|---|---|---|---|---|---|
| | Satisfactory | Unsatisfactory | Tolerable | No/Non Response | Social Interaction between Students and Teachers |
| SC/ST | 5 | 16 | 6 | 21 | — |
| Non-SC/ST* | 6 | 20 | 8 | 5 | 21 |

*Note*: * Some students have marked more than one type of response. Hence the increase in the total number of responses in the Non SC/ST category.

provements in their homes were needed, 12 of them said that their hometowns needed general improvements, seven of them did not respond and only five (i e, 11.3 per cent) of them have reported that a lot of improvements were needed in their homes.

By contrast, the responses of SC/ST students suggest that at least about 39 per cent of them come from a very different background. Nine of them feel that they need general improvements in their hometowns, 13 of them feel that they do not need any improvements, seven have not responded and 19 of them (38.9 per cent) have indicated that they need lots of improvements in their homes (Table 11).

The data suggest that a good number of SC/ST students feel that the conditions in their home/hometown are not upto the mark. Whether they began to get this feeling after joining IIT is another question. But certainly their adjustment to the IIT set-up could be affected if they felt that there were vast disparities in the conditions at home and in IIT.

(2) *Does inability to visit home or local guardian create social problems?*

24 non-SC/ST students have homes in Bombay or nearby and they visit their parents at short intervals. Nine of them have local guardians and they visit them regularly. One of them, in spite of having a local guardian does not visit him. 10 non-SC/ST students have neither parents living nearby nor local guardians.

Among the 48 SC/ST students who responded, 10 visit their homes regularly, 13 visit local guardians, three of them have local guardians but they don't visit them. 21 students have neither parents living nearby nor local guardians to make visits to. One student has not responded (Table 12).

It is observed that the number of SC/ST students who have no place to go to, or they themselves don't go, is larger (24) as compared to the number of non-SC/ST students (10).

Though it is not always true that whenever students visit parents/local guardians, they will share their feelings, failures and experiences with the people they visit, but surely such visits provide a diversion. And in a situation of extreme distress, home is the best place to turn to. Not visiting home could lead to feelings of loneliness and lack of belonging. Problems arising in the lives of SC/ST students are surely in part contributed by their inability to visit parents at short, regular intervals.

(3) *Social scene at IIT:*

Item no 13 was designed to obtain views on the social scene at IIT. The general impression is that the IIT social scene is very poor. Nevertheless, there are some favourable responses also. The responses pertaining to personal relationships and friendships have been treated as non-answers. The breakdown of the responses follows.

16 students in SC/ST category and 20 students in the general category have opined that social life in IIT is rather dull/poor or is absent. Six SC/ST students and eight non-SC/ST students find social life in IIT just tolerable. A few (five in SC/ST and six in non-SC/ST category) have qualified it as satisfactory. In total, 21 SC/ST responses were non-answers. Five non-SC/ST students have not responded (Table 13).

Most SC/ST students further mention that because of being labelled and identified as SC/ST they can't mix freely with others. It follows that they don't enjoy their stay in the IIT socially.

Another reason for the absence of socialisation given by students of both the groups is academic pressure and tough competition.[23]

One peculiar observation about the SC/ST group is that many of them tend to talk of their own friendships, relationships, experiences, fears, etc, in response to this item. To them, coming out of their shells and achieving friendships is a big thing. Only after they have reached this stage can they really comment objectively about social life.

On the other hand, non-SC/ST students have very well understood the meaning of social life. However, both SC/ST and non-SC/ST students have said that life in IIT is monotonous. During the semester, the regular grind of tests, quizzes, lectures, labs, leaves little time for social interaction.

Many students feel social activity is limited to 'cack' sessions in the hostel wing. Students comment that Mood Indigo and entertainment programmes and films are stereotyped entertainment and are of no social relevance; IIT life is not reflected in them. But some responses suggest that there is a large amount of social activity.[24] Perhaps one's involvement in the social scene depends upon how much one tries to get out of it.

Hostel life gives rise to a rather rich set of social relationships. Another section of students feel that some sort of traditional barriers for social interaction exist in IIT. The faculty does not recognise students outside the class. Faculty houses and students' hostels are built wide distances apart. A better interaction is called for. Students also

TABLE 14: FACULTY-STUDENT INTERACTION

(a)

| Category | Getting Guidance in Difficulty | | | | | |
|---|---|---|---|---|---|---|
| | Yes | No | Did Not Try | Difficult to Meet Them | No Response | Both Yes and No |
| SC/ST | 6 | 30 | 9 | 2 | 1 | — |
| Non-SC/ST | 6 | 21 | 9 | — | 6 | 2 |

(b) (i)

| Category | Help | | | | |
|---|---|---|---|---|---|
| | Helpful | Less Helpful | Unhelpful | No Response | Both Yes and No |
| SC/ST | 33 | 10 | 2 | 3 | — |
| Non-SC/ST | 22 | 13 | 3 | 5 | 1 |

(ii)

| Category | Fair or Not | | | |
|---|---|---|---|---|
| | Fair | Unfair | No Response | Don't Know |
| SC/ST | 39 | 6 | 3 | — |
| Non-SC/ST | 30 | 5 | 4 | 5 |

(iii)

| Category | Availability | | | |
|---|---|---|---|---|
| | Easily Available | Not Easily Available | No Response | Did Not Try |
| SC/ST | 23 | 17 | 6 | 2 |
| Non-SC/ST | 22 | 12 | 7 | 3 |

(iv)

| Category | Friendly or Not | | | | |
|---|---|---|---|---|---|
| | Friendly | Not V Friendly | Unfriendly | No Response | Don't Know |
| SC/ST | 23 | 18 | 2 | 5 | — |
| Non-SC/ST | 17 | 18 | — | 8 | 1 |

(v)

| Category | Fear Inducing/Inhibitive | | | | |
|---|---|---|---|---|---|
| | Fear Inducing | Inhibitive | Both | None | No Response |
| SC/ST | 15 | 6 | 2 | 5 | 20 |
| Non-SC/ST | 5 | 15 | 1 | 2 | 21 |

complain that the IIT set-up fails to create an atmosphere for interaction among boys and girls or of co-operation among students in general.[25]

It appears that the respondents tend to blame the IIT set-up for most of their social problems. They are right to some extent only. IIT is a very academic and competitive set-up both for students and faculty and it leaves little time/scope for anybody to relax for long or to develop social life to any important extent. Hence, the paradoxical nature of responses summarised in this section and in the next.

(4) *Opinion of students about faculty members of IIT:*

This item further gave certain details and clues about faculty-student interaction. Most SC/ST students (30) report that they did not have any problems in getting guidance from faculty members. Only six (Table 14a) of them had problems, nine did not try for guidance. By and large, faculty members are easily accessible to SC/ST students.

The detailed picture of student opinion about faculty is presented in Table 14b. A general comment is that most of them are indifferent towards students.

Non-SC/ST students differ in their opinion about the faculty members. They suggest that it is unfair to generalise faculty attitude, for there exists a wide variety. However, the IIT set-up does not encourage mixing with the faculty either on matters of academics or otherwise. There are intangible barriers between students and faculty.

In general, non-SC/ST students are less satisfied with IIT faculty members than SC/ST students.

(5) *Bases of friendships in IIT:*

Bases of friendships in the two groups are quite comparable except on a few parameters, e g, religion, caste and sub-caste (Table 15). The number of students stating that friendships are based on same caste, same religion and same sub-caste in SC/ST is double those in the non-SC/ST group. General category students don't seem to bother much about these factors while making friends.

The majority of students (SC/ST as well as non-SC/ST) believe that friendships are made on the basis of same wing, classmates living in the same hostel, same class and same hometown in that order.

Among other bases of friendships, common interests got the highest score in both the categories (SC/ST = 13; non-SC/ST = 19).

Factors other than these which have been mentioned by the non-SC/ST category are same language, college/school, background (regional, financial, academic), similar CPI, staying in the hostel on week-ends with fellow hostellers, etc.

Students were asked to report the category/categories to which their own friends belonged. The general trends were more or less the same. Pattern of views on the bases of friendships in IIT in general and bases of personal friendships did not really differ widely.

(6) *Is there 'Discrimination' in IIT Bombay:*

A sizeable section of SC/ST students feel that they are "discriminated".[26] However, some of them report that 'discrimination' was subtle and not obvious. However, the feeling was not conducive to friendship.

Some of the SC/ST students have said that they feel that they are 'discriminated' because they themselves think that they are substandard students. On the other hand, some hostels have SC/ST students as general secretaries, mess secretaries, Mood Indigo organisers, team captains, etc. Perhaps, it depends on how one accepts the whole situation.

A large number of non-SC/ST students feel that SC/ST students are not 'discriminated'. A few even maintain that no question of 'discrimination' arises because they don't even come to know that some of the students are SC/STs unless they see the special merit list. One goes to the extent of saying that the observation that there is 'discrimination' because of special facilities for SC/STs is only an argument given in order to oppose help given to such students.

The majority group (non-SC/ST) can afford to make a minority (SC/ST) feel small because of the larger number on their side, a phenomenon of power relationship. In fact, many non-SC/ST students do not even realise that their remarks hurt and humiliate SC/ST students.

The fact that 14 out of 44 non-SC/ST students confirm 'discriminatory' attitudes indicates that the feeling is not imaginary on the part of SC/STs.

(7) *Do special provisions create social difficulties?*

It has been observed that a majority of students (SC/ST as well as non-SC/ST) feel that special provisions made for SC/ST students contribute to make their adjustment in IIT difficult. SC/ST students feel that they get labelled, that others resent their easy admission to IIT, their getting departments of their own choice (they are given Computer Science and Electrical Engineering Departments in spite of low ranks at JEE). When others pass remarks about them, they develop an inferiority complex and start feeling depressed. They feel humiliated and demoralised during ragging. They feel dejected and defeated and this is how they start here. In spite of their enjoying so many facilities—concessionary admissions, scholarships, dropping of courses in the first year, books, departments of their choice—when they perform badly, they can sense that they are being thought of as some kind of "a standing joke".

Non-SC/ST students are of the opinion that facilities isolate SC/ST students and compartmentalise them. It appears as if they don't belong to the same society as those with whom they have to live. Most SC/STs in the initial phases of their stay withdraw into a shell, don't make friends with other castes. As one non-SC/ST respondent put it, "If they don't come out of the shell in the beginning, then when social groups have already formed, it is difficult for them to join these groups".

Some general category students state that SC/ST students are forced to drop courses in the very beginning and this makes them diffident. Others (non-SC/ST) resent them (SC/ST) both overtly and covertly. However, one student also opines that those resentments are on principle and not on caste. Some general category students feel that

TABLE 15*: VIEWS ON BASES OF FRIENDSHIPS

| Views on | Category | Same Religion | Same Caste | Same Sub-caste | Same Hometown | Same Wing | Same Class | Class Mates Staying in Same Hostel | Any Other Reasons: Language | Any Other Reasons: Miscellaneous Interests including Games, CPI Background |
|---|---|---|---|---|---|---|---|---|---|---|
| General Friendships | SC/ST | 10 | 14 | 8 | 24 | 33 | 26 | 33 | 5 | 13 |
| | Non SC/ST | 4 | 5 | 3 | 22 | 40 | 36 | 38 | 4 | 19 |
| Personal Friendships | SC/ST | 3 | 14 | — | 5 | 23 | 10 | 11 | | |
| | Non-SC/ST | 1 | 2 | — | 5 | 16 | 15 | 16 | | |

*Note:* * Respondents have sometimes ticked more than one basis of friendship. Hence the increase in the total number of responses in each category.

when SC/ST students are told that they can't do well, that they won't complete their B Tech, demoralisation begins but when some teachers in class also tell them the same thing, they get thoroughly convinced about it and lose heart.

Some general category students say that SC/STs, because of the special facilities given to them, are not treated with the respect due to a human being. SC/ST students confirm the general feeling of ill-treatment. As one of them said, "People think SC/STs misuse funds. Foreign students are allowed to keep the books given to them for study by IIT but from SC/ST students they are taken back."[27] Again as another student remarked, "economically poor general category students are treated better than economically poor SC/ST students. Ill-treatment must go."

The most pathetic comment (pathetic because of the innocence and naivete of the respondent) of all was from a young SC/ST who said, "I am fond of the guys (non-SC/ST) in the hostel. But they don't know I am an SC. They comment 'SCs have so many facilities', they think poorly of SCs. I wonder what they would think if they knew that I am an SC. They won't keep up their friendship, I am sure."

All facilities that are meant to help SC/STs academically, including the facilities of dropping courses in the first year, extra tutorials, tutorials with only SC/ST students, their placement in a particular way on the roll list for easy identification by the faculty for extra help, seem to set them apart as SC/STs: privileged, undeserving of such privileges, outside the pale of the general IIT society. Hence fit enough to be ignored or taunted. However, this is only a general trend. There are plenty of exceptions as well.

TABLE 16: RESPONSES ON DISCRIMINATORY ATTITUDES

| Category | Discrimination | | |
|---|---|---|---|
| | Yes | No | No Response |
| SC/ST | 26 | 18 | 4 |
| Non-SC/ST | 14 | 26 | 4 |

TABLE 17: RESPONSES ON WHETHER SPECIAL PROVISIONS CREATED PROBLEMS

| Category | Whether More of Problem | | |
|---|---|---|---|
| | Yes | No | No Response |
| SC/ST | 29 | 14 | 5 |
| Non-SC/ST | 22 | 13 | 9 |

(8) *Does poor academic performance lead to social problems?*

Table 9 shows the frequency of students who had/did not have academic/social problems. The number of students who had either academic or social problems is higher in the SC/ST group as compared with the non-SC/ST group. These students who did not have any academic problems is higher in the non-SC/ST category as compared to SC/ST category but the number is comparable for social problems.

Poor academic performance has been found leading to social problems in a few (6) SC/ST students, to psychological problems in a few (6) non-SC/ST students.

Though a cause and effect relationship cannot be established between academic performance and social problems, yet exploring whether the students belonging to a particular category of academic performance had social problems or not could give a clue. Table 18 gives details.

Two SC/ST students, who are good performers have social problems but one does not have any problem. 14 average performers (SC/ST) have social problems but 19 do not have social problems. Five poor performers (SC/ST) have social problems but seven poor performers don't have social problems. Surprisingly the number of those who do not have social problems (27) is higher than those who have (21).

Among non-SC/ST students, 16 have either not responded or their responses were treated as non answers (since their answers were not relevant). Two of these were very good performers, four good performers and 10 average performers. Besides these, six students in the very good category, six in the good and seven in average category did not have any social problems. Only nine non-SC/ST students had such problems, two were in the very good category, three in the good category and four in the average performance category. It can be safely concluded from these numbers that it is not necessary that poor academic performance generates all the problems. On the contrary, even those who perform very well may have social problems.

It is also interesting to note that a higher number of SC/ST students (27) do not have any social problems in comparison with the non-SC/ST students (19). The reason for this is that some SC/ST students (6) indulge in too many extra-curricular and cultural activities (at the expense of academics it appears) and thus take care of their social problems. They tend to escape from reality (i e, poor academic performance). For them to excel in a new field is easier than to re-attempt to do better in the one in which they have already faced failure. Rather they seek success in doing well in games, in organising cultural programmes, in winning elections, in holding hostel office posts. They try to bridge the difference between their more outgoing, non-SC/ST peers and themselves by aping the former in interests, attitudes and value systems. Since the number of SC/ST students who do not have any social problems includes such cases also, the number of SC/STs who do not have any social problems is higher than the number of non-SC/ST students. Otherwise the number is quite comparable in the two categories.

TABLE 18: ACADEMIC PERFORMANCE AND SOCIAL PROBLEMS

| Category of Students | Social Problem | CPI | | | |
|---|---|---|---|---|---|
| | | V Good | Good | Average | Bad |
| Non-SC/ST | No | 6 | 6 | 7 | — |
| | Yes | 2 | 3 | 4 | — |
| | No response | 2 | 4 | 10 | — |
| SC/ST | No | — | 1 | 19 | 7 |
| | Yes | — | 2 | 14 | 5 |
| | No response | — | — | — | — |

Social problems in SC/ST students are caused by inferiority complex, problems with English, their introverted nature, ragging rooted in the fear of 'reverse discrimination'. The last category leads to many social problems in case of SC/ST students.

The factors which cause social problems in non-SC/ST students are insufficient command over English, difference in social background and ragging.

## III

## Recommendations

There are two parts to this section. Part A pertains to recommendations which IIT Bombay can implement only with the help of the Ministry of Education. Part B refers more specifically to the solutions that IIT Bombay can implement from within and should do so at the earliest.

### A

(1) Because of the numerous academic problems faced by SC/ST students admitted into IIT through reservation (outlined already in the preceding section), it is recommended that an attempt should be made to train bright SC/ST students for competitive set-ups such as IITs at the school level itself. There could also be special coaching at the post-school level, but prior to their entry into IIT. Special coaching after entering IIT[29] overburdens and isolates them. It would be advisable to screen SC/ST students right at the eighth or ninth standard using aptitude tests such as the Differential Aptitude Test (DAT) and coaching them up accordingly.[30]

(2) While admitting SC/ST students into IIT, economically poor, bright SC/ST students should be given preference[31] because rich SC/ST students have the same background as rich non-SC/STs and they can compete and enter IIT on merit.[32]

(3) All second generation SC/ST learners should be considered ineligible for entry through the reserved quota.

Recommendations (2) and (3) are absolutely essential in order to reduce, check and eventually to eliminate the growing resentment among non-SC/ST students against concessionary entry particularly of SC/ST students from upper and middle classes (students who are not in need of upliftment).
(4) SC/ST students admitted to IIT Bombay but who cannot stay on in the institute (because they fail to fulfil the perfomance requirements and are asked to leave or who leave on their own after being put on probation, extended probation) should be rehabilitated. They should be helped to get into some less demanding vocational stream or get admission into some college,[33] otherwise they might end up as 'rejects' for life.

### B

(1) The Panikar Committee recommended that admission forms should be sent by IIT on its own to various schools to be given to bright SC/ST students for applying for JEE. It had also recommended that information such as standards expected in the IITs and the pattern of education here should be sent to all potentially capable students.[34] These recommendations were made in order to get better qualified SC/ST students as well as to prepare them for the rigours of IIT education. They have been implemented since. Both these practices, however, must be reviewed for their success and if beneficial in getting a reasonable number of SC/ST students into IIT, continued. If not, then the process of locating bright, deserving SC/ST candidates would have to be made more rigorous. For example, by extending the same process to villages, small cities with the specific intention of publicising the facilities available in IITs for SC/ST students.
(2) A well established counselling cell[35] should be run to eclectically counsel SC/ST students, specially at the beginning of the B Tech programme. Its job would be:

(a) To familiarise students with the IIT pattern and its expectations.
(b) To help them choose those branches for which their academic background is more suited.
(c) To ensure that students get books through the book lending scheme in time so that they can make proper use of them.
(d) See that students attend special tutorials. If in the first semester, they show good performance, then they could be exempted, if they so wish, from compulsory attendance of special tutorials in the following semester.
(e) Train them up in proper study habits and insist upon hard work on the part of students.
(f) Monitor their academic performance carefully and constantly throughout the B Tech programme but particularly in the first year.[36]

(3) Special facilities created only for SC/ST students like dropping of courses in the first year,[37] special tutorials, extra classes in language learning should be extended to needy non-SC/ST students also. This will prevent segregation of SC/ST students from the main body of students and reduce to a great extent the feeling that they are 'substandard' because they are SC/STs.

In IIT where a performance-based caste system prevails, an SC/ST is one who is given many special facilities at the cost of non-SC/ST entrants but who does not do well. It is necessary to alter the image of SC/ST students by adopting the following measures: (a) by explaining yearly to every fresh batch of general category students admitted the link between reservation and the concept of compensatory justice, (b) by ensuring the entry of more deserving SC/ST students into IIT, and (c) by discontinuing the practice of segregation of SC/ST students for the purpose of additional help.

Unless and until these recommendations are implemented, the stay of SC/ST students taken into IITs on concessionary entry will continue to be an uncertain and uneasy one.

### Notes

[The views expressed in the article are not necessarily those of the IIT Bombay authorities.]

1 K T Chandy: Report of the Chandy Committee on the Admission of Scheduled Castes and Tribes in IITs (Summary), IIT Council, New Delhi, 1973 vide K N Sharma, *et al*, "Educational Arithmetic of Social Inequality", Department of Humanities and Social Sciences, IIT Kanpur, 1974, p 74.

2 V Kirpal: "Higher Education for the Scheduled Castes and Scheduled Tribes", *Economic and Political Weekly*, Vol XIII, Nos 4 and 5, January 28-February 4, 1978, pp 165-167.

3 Report of the Committee Appointed to Consider the Problems of Scheduled Castes/Scheduled Tribe Students, IIT Bombay, November 1977. (Also referred to as the Panikar Committee Report.)

4 We have interviewed SC/ST students admitted through the reserved quota into the First Year B Tech upto 1983. When we began on the study in April 1982 there were 100 SC/ST students studying in IIT at different stages of the B Tech programme. In addition, in July 1982 and 1983, a total of 18 (5 + 13) SC/STs were admitted. 48 students out of a total of 117 SC/ST students were interviewed. (One SC/ST entrant left in Semester I).

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This study does not record the responses of 11 SC/ST students admitted to the new Preparatory Course introduced in 1983 to coach SC/ST students (who appeared in JEE but did not get the ⅔rd cut-off point for qualifying for the reserved quota) for admission to IIT subject to their clearing the Preparatory course examination.

5 The questionnaire was designed by an expert though it is not standardised. The reasons for this are—first this study was exploratory, secondly the kind of subjects required were not too many. Administering and readministering the same questionnaire to those few students would not have yielded anything meaningful.
Moreover, the study was specific to our institute and the questionnaire could not have been standardised.

6 These categories are based on the present stratification of income that enable a student to get scholarship in IIT Bombay.

7 IIT's classification of academic performance for the B Tech programme is:
CPI 8.5 and beyond — I class with distinction
CPI 6.5 to 8.5 — I class
CPI 5.0 to 6.5 — Second class

8 Two of them are sons of doctors.

9 Looking at the annual income level data on JEE (Western zone) entrants for 1980, 1981, 1982, we find the percentage of the middle income group to be comparable with the findings of our study. However, the percentages for the upper and lower income groups differ as follows indicating the necessity of going to a larger sample in order to make any conclusive generalisation about the economic background of IIT's general category students (see Table A).

TABLE A

*Percentages*

| Year of Entry | Rs 25,000 and above | Rs 12,000-Rs 20,000 | <Rs 2,000-Rs 9,000 |
|---|---|---|---|
| 1980 | 51.0 | 40.3 | 8.7 |
| 1981 | 61.5 | 28.5 | 9.8 |
| 1982 | 61.5 | 30.8 | 7.6 |

*Source:* JEE Reports to the Senate, 1980, 1981, 1982. (Data for 1983 and 1984 are not available.)

10 A large number of dropouts from school are from among the poor because their schools are in lower income areas and are notoriously ill-equipped to transmit interest, enjoyment or ability in the learning process. Middle class school experience is both more pleasant and more profitable. The difference in the quality of schools that children go to determines the kind of performance ability of the learners.
B R Schiller: "The Economics of Poverty and Discrimination", (Englewood Cliffs, New Jersey: Prentice Hall, 1976), p 107.

11 While trying to see possible correlations between the parents' educational background and the performance of their wards, it was found that children of parents with professional education (engineering, medicine) do better academically. In the general category, out of three students, whose parents are either doctors or engineers, two have very good CPIs and one has good CPI. In the SC/ST category, out of four such students, two have good CPIs and two have average CPIs.

12 There is need to formally coach up bright SC/ST students in the pre-IIT years in order to prepare them for the competitive set-up.

13 Some illustrative responses are "I want to be a ski instructor", "I am still finding out [my aim]", "I want to write stories", "I want to pursue climbing as a profession", etc, etc.

14 See Section I.

15 The data of successful batches of SC/ST students are available only until 1979 so far. Batches admitted since 1980 will complete their B Tech from 1985 onwards.

16 One student has observed: "Competition spills over into the other activities as well and seeps in like cancer. Even close friends have intangible barriers between them which are not spoken out but enter every sphere."

17 Continuous evaluation and relative grading were introduced in 1973. A study to review the efficacy with which they are working is called for at least a decade after their introduction.
The Kool-Gupta report (see note 20 below) has been very forthright in identifying some negative aspects of the two systems. See pp 20 and 22 (3.2 and 1.2) of that report.

18 This does not mean that non-SC/ST students do not fare badly in IIT or are not asked to leave. But that the stated observation is made for this particular sample of non-SC/ST students only.

19 The duration of the core programme being five semesters in the five years B Tech programme and three semesters in the four year B Tech programme.

20 See also V K Kool and M Gupta: "An Empirical Study of the Problems of Students in IIT", IIT Bombay, 1983, p 17.

21 See Section 1, Impact of Medium of Instruction on Academic Performance.

22 Perhaps by offering special tutorials/classes to all students in need of such assistance and allowing all other first year students as well to drop courses if need be. Perhaps even some general category students could avail of these provisions and adjust better to IIT.

23 Though there is a very wide range of extra-curricular activities and almost all students SC/ST and non-SC/ST participate in some activity or other or have some pastime, social interaction remains poor. Even while going to the Gymkhana, students may talk only of adademic performance. Their obsession with academic performance needs to be analysed.

24 In fact, the variety, range and number of extra-curricular activities and sports provided by IIT Bombay could easily be the envy of many an educational institute.

25 A girl student has stated "There is quite a hostile attitude towards girls in IIT. And it is quite difficult to mix with boys here."

26 Let us make a distinction between 'prejudice' and 'discrimination'. "The term 'prejudice' refers to the unfavourable feelings and attitudes that people harbour against others especially other population groups. These are to be distinguished from unfavourable actions, or behaviour which fall under the heading of 'discrimination'". R Schiller, *op cit*, p 131. In IIT, SC/ST students experience 'prejudice' rather than discrimination. Hence the use of quotation marks around 'discrimination' which has been used synonymously with 'prejudice' by the interviewees.

27 This statement that foreign students are allowed to keep books is incorrect. The observation however highlights the insecurity and heightened perception of hostility (towards them from others) in the SC/ST mind.

28 The Preparatory Course—a kind of special coaching programme—being offered by IITs presently merely gives them the illusion that they are part of the IITs. They stay in IIT hostels and study in the IIT but they cannot be registered as students of IIT's B Tech programme until they have cleared the Preparatory Course.

29 Pre-IIT coaching is different from special tutorials being run in IIT Bombay. Those who have already joined IIT's B Tech programme on concessionary entry do need these additional tutorials.

30 This recommendation has been put forward both by SC/ST and non-SC/ST respondents.

31 The reservation scheme was laid down by the Constitution to uplift the 'weaker' sections of society.

32 On checking up with the Academic Office of IIT Bombay, it was found that there is no record of the whereabouts of students who left the institute after completing B Tech, or midway. It is, as if, our responsibility is over once the student leaves IIT successfully or unsuccessfully.

33 Panikar Committee Report, *op cit*, p 15.

34 Ibid.

35 SC/ST students have asked for a counselling cell. This facility should be extended to all IIT students. The existing counselling cell needs to be re-set up in a more professional manner.

36 Also recommended by Panikar Committee, *op cit*, p 14.

37 Students should not, if it can be helped, be forced to drop a First Year Semester I course, which is a prerequisite for another course in the next semester.

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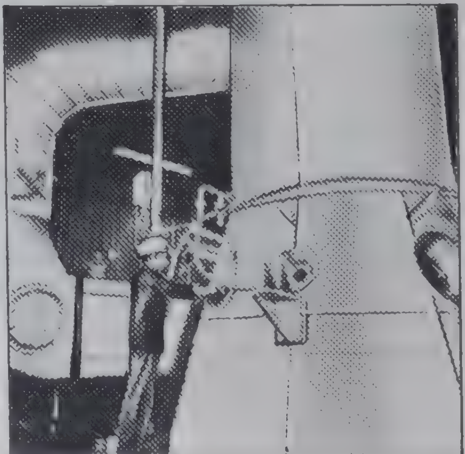

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## WORLD ECONOMY: ADJUSTMENT AND GROWTH

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# A Beginning in Punjab

THE overwhelming response to the Memorandum of Settlement agreed upon between the Government of India and the Shiromani Akali Dal on this Thursday will be one of relief tinged with sadness—sadness because the contents of the memorandum make it clear that a settlement on these terms could have been arrived at between the government and the Akali Dal at least as far back as in 1982, before the launching of the Dal's morcha, and the nation at large and the Sikh community in particular could have been saved the trauma of Operation Bluestar, the assassination of Indira Gandhi and the mass massacre of Sikhs which followed it and the escalating, and mutually reinforcing, violence of the terrorists and the security forces which has exacted such a terrible toll mostly from innocent people in terms of killing, torture and wanton destruction and suffering and anguish. It is worth emphasising in this context that five out of the eleven points of the Memorandum of Settlement pertain to redressal of grievances of the Sikhs which need not have arisen at all had not a political agreement on the demands originally raised by the Akali Dal been delayed so long.

At the heart of these demands are the territorial disputes between Punjab and Haryana and those over the sharing of river waters among Punjab, Haryana and Rajasthan. The Memorandum of Settlement now provides that Chandigarh will go to Punjab without, as hitherto insisted upon by the Government of India, linking this to the transfer from Punjab to Haryana of the tehsils of Fazilka and Abohar (which are not contiguous to Haryana so that their transfer to Haryana would have required the creation of a land corridor). Instead, more sensibly, Hindi-speaking villages bordering Haryana, as determined by a commission to be appointed for the purpose, are to be transferred to Haryana in lieu of Chandigarh. Another commission is to be constituted to settle the claims and counter-claims for readjustment of the Punjab-Haryana boundary. On river waters, the farmers of Punjab, Haryana and Rajasthan are to continue to draw water from the Ravi-Beas system at the current levels (as on July 1, 1985) and the claims of Punjab and Haryana over the remaining waters are to be referred to a tribunal presided over by a judge of the Supreme Court. It is well known now that at least on three occasions negotiations had taken the Akalis and the government to the verge of a settlement on substantially similar terms, but every time the prospect of agreement was aborted because Indira Gandhi as the country's Prime Minister was more intent upon pandering to the Hindu vote in the north and in Punjab itself, under the inspiration of such elements as the then Punjab chief minister Darbara Singh and the then Union Home Minister Zail Singh, trying to undermine the Akali Dal by clandestinely encouraging Sikh extremists led by Bhindranwale.

In an atmosphere vitiated by the pursuit over years of low politics of this genre, the signing of a Memorandum of Settlement by Rajiv Gandhi and Harchand Singh Longowal will not by itself solve the 'Punjab problem' or restore peace and normalcy in Punjab. Among the Sikhs the 'United Akali Dal' of Baba Joginder Singh and sections of the All-India Sikh Students Federation are bound to reject the agreement. More important, within the Akali Dal itself, Longowal has not been able to carry with him prominent figures like the SGPC president Gurcharan Singh Tohra and the former Akali chief minister of Punjab Prakash Singh Badal. As recently as on July 5 Tohra, speaking in Amritsar, had said that the Punjab problem could no longer be solved within the framework of the Constitution, obliging Longowal to declare in rebuttal the next day that all the demands of the Akali Dal were indeed within the ambit of the Constitution. On the Congress(I) side, while no public voices may be raised against the agreement with the Akali Dal, this will not mean universal acceptance of it, especially in view of the attitude of the party's top leadership towards the Akali Dal and developments in Punjab till just a few months back. The Prime Minister himself may find that it is not all that easy to live down the virulent nationalist-communal propaganda which played such an important part in carrying him and his party to power all over the north in the last elections. The attitudes of the opposition parties, though they have been all along vociferous in their support for a negotiated settlement, are now bound to be determined by calculations of narrower political self-interest.

What is of immediate importance, against this background, is the political set-up that is likely to emerge in Punjab once President's rule is revoked. For behind the specific demands raised by the Akali Dal has been the question of political power: the aspirations of a numerically large, economically prosperous and socially powerful section of the Sikh community in Punjab, whose political representative is the Akali Dal, for exercise of political authority and control in the state. One essentially valid interpretation of the events of the last five years or so in Punjab would be to see them as the fall-out of the attempt by the Congress(I), with the backing of the Central government, to undercut the Akali Dal and take over the Dal's support base. The Memorandum of Settlement signed this week between the Prime Minister and the President of the Akali Dal puts the seal on the collapse of this attempt—after exacting a terrible cost in terms of human suffering and heightening of communal passions. It is to be seen whether the Central government and the Congress(I) are prepared to accept the imperatives of this failure in the ensuing process of restoration of political normalcy in Punjab. It is the peculiarity of Punjab that, because of Hindus comprising as much as about 40 per cent of the population, the Akali Dal cannot emerge as a regional ruling party in the manner of the AIADMK, the DMK or the Telugu Desam. Within the existing political framework and in the immediate context there is no alternative to some form of coalition politics with the Akali Dal as a major participant.

To be sure, this is not a situation that Marxist and secular political forces can at all be happy about. At the same time, the task of dethroning the Akali Dal, an avowedly religious-communal force, from its pre-eminent position in Punjab politics cannot be achieved through the machinations of the Congress(I). As the events of the last five years in Punjab have shown, this way of dealing with the Akalis, which has from time to time received sneaking support from sections of the Left, can only give a further fillip to communal and religious forces and wipe out class-based politics wherever it may exist in nascent forms.

## *World Economy*

### Growth Hopes Belied

AS had been expected, the US Commerce Department has pared its estimate of the second quarter growth of the US economy from 3.1 per cent to 1.7 per cent (on annual basis). With first quarter growth at 0.3 per cent, the average rate for the first half of this year sinks to an abysmal one per cent. Even if the growth rate were to pick up substantially in the second half—to, say four per cent on annual basis—as the US administration hopes it will, the rate for the year as a whole will not exceed 2.5 per cent, much below the rate which the Administration itself, as well as the IMF and the OECD, had initially forecast. The OECD, for example, in an exercise completed in early May, had forecast a growth of three per cent for the year. The US growth rate was 6.8 per cent in 1984.

As the US economy slows down, the growth of other industrial countries is likely to suffer. The Japanese growth rate in the first quarter of 1985 was a miserable 0.4 per cent on annual basis. This is not surprising as over the years Japan has become increasingly dependent on the US market for its exports. In 1984, 35 per cent of Japanese exports went to the US compared to 24 per cent in 1980. The slow down in US economic activity has also begun to affect the trade performance of other industrial countries, such as Italy. It is very likely that the growth rate of all the industrial countries taken together in 1985 will fall short of the OECD forecast of 3.25 per cent. It may turn out to be in the region of 2.5 per cent.

Such a low growth rate of the industrial countries, compared to the near five per cent rate achieved last year, would have serious destabilising consequences for the world economy. The growth of unemployment in the industrial countries had been arrested in 1984 by the exceptionally good performance of the US economy; now it is likely to rise again in 1985. The major debtors among the developing countries will probably find it difficult to earn trade surpluses on the scale they had done in 1984, so that it may no longer be possible to contain the debt crisis. Countries which rely on primary commodity exports, and which had benefited comparatively less from the strong growth in world trade last year, face an even bleaker prospect.

While everyone is aware of the importance of securing a high growth rate in the industrial countries, there seems to be no consensus on how this is to be done. The Chairman of the US Federal Reserve Board, Paul Volcker, would like to see greater expansion in West Europe and Japan. In a testimony before the Banking Sub-committee of the US Congress on July 17, he said that the United States' trading partners must take steps to stimulate their economies if the US economy is to perform satisfactorily. The US Secretary of State had echoed similar sentiments in April.

However, the IMF, that august body of wise men which the industrial countries have called upon to assume an enhanced role of multilateral surveillance with a view to "assess the consistency and mutual compatibility of national policies in the light of the objectives of international adjustment and financial stability, and hence to identify situations that warrant policy reviews and consultations", as a report of the Group of Ten had put it, is plainly against changing the policy of fiscal and monetary restraint which is being pursued in West Europe and Japan. In its latest "World Economic Outlook", issued in April, the IMF stated: "In the staff's view, the basic demand management strategy being followed by most countries outside the United States is broadly appropriate and is bearing fruit. Domestic demand has been picking up in Japan and a number of European countries, and investment is recovering. Growing confidence in the medium-term stability of policy has been an important feature of this development, and it would be a mistake to jeopardise such confidence by trying to force the pace of expansion. In the case of countries where the balance of payments is strong and inflation at very low levels, there may be some scope to moderate the pace at which medium-term fiscal objectives are approached. In general, however, recent trends give no grounds for change in the basic course of fiscal and monetary policy in the European countries and Japan."

In the IMF's view, growth in the medium-term is best secured by a strategy which brings down public debt and interest rates. A prime prerequisite for bringing down interest rates is, of course, a reduction in US fiscal deficits. The IMF believes that if West Europe and Japan continue to pursue their present course of reducing public debt, which requires a contractionary fiscal policy, then a fall in interest rates induced by a reduced US fiscal deficit will be a strong enough stimulant to generate growth. The IMF also emphasises the need to reduce structural rigidities in West Europe by which it means, roughly speaking, that it should be easier to hire and fire labour and there should be less protection against imports.

It is becoming increasingly doubtful, however, whether such a strategy is adequate to prevent a near recession in the industrial countries. To start with, it is not at all clear that US fiscal deficits will come down in the near future. It is also to be doubted whether a fall in interest rates, following a reduction in US fiscal deficits, will be a strong enough stimulant to compensate for the loss of stimulus resulting from the reduced fiscal deficits. The OECD approvingly quotes the results of a number of world linkage models which conclude that "endogenous reductions in interest rates outside the United States, with money growth and fiscal policies unchanged, would be insufficient to offset the loss of stimulus from the reduced US fiscal deficits". In a similar vein, the Bank for International Settlements observes: "For the global growth performance of the industrial countries to remain a durable 3 to 3.5 per cent . . . a soft landing of the US economy would require as a counterpart some acceleration in the rate of growth of domestic spending of other industrial countries as a group"—though it is unclear how exactly this is to be brought about.

Paul Volcker, for long a symbol of prudent monetary and fiscal policies, recognised the dilemma when he said in his testimony referred to above: "I am a central banker. I can well appreciate and sympathise with the priority that . . . Europe and Japan have attached to budgetary restraint and particularly to the need to restore a sense of price stability in their own economies . . . The effort—along with others—*is justified only by its necessity to their own economic health*" (emphasis added). One could take this to mean that while the policies pursued outside the US are prudent from the point of view of their internal economic management, the international repercussions of these policies imply stagnation in industrial country growth. But which is the country which is prepared to respond by giving greater priority to growth than to budgetary restraint?

## *Mizoram*

### Testing the Waters

THE latest round of talks held early this month between the Union government and the Mizo National Front over ending the latter's two-decade old agitation against the Centre seems to have collapsed. Prior to the negotiations, both parties were highly optimistic that a solution would be worked out.

A similar turn of events—of optimistic initial hopes followed by a deadlock—occurred during an earlier round in March this year. In its wake MNF leader Laldenga had almost given up hopes of a settlement and had planned to return to his self-imposed exile in London, though ostensibly for medical attention. There were three MNF demands that the government had refused, leading to the impasse: doing away with the Governor's special powers in respect of law and order and financial matters, dissolution of the autonomous district councils set up for the Chakmas and safeguards for Mizos in trade and commerce.

Two of the outstanding issues were reportedly sorted out during this month's meeting, with the government agreeing not to confer special powers on the Governor and the MNF giving up their opposition to the councils for the Chakmas. Though disagreement over the safeguards on trade and commerce persisted, it was not said to be of a vital nature. However, Laldenga refused to sign an agreement, insisting that a high court be set up in Mizoram's capital, Aizawl. Government spokesmen have unofficially accused Laldenga of not being keen on an agreement. Laldenga has refuted the allegation that he was raking up a minor issue to stall an understanding. He says that the MNF had assumed, from the inception of the talks last year, that a high court would be set up. The government refused to grant this demand at the latest round of talks, probably when the terms of the likely agreement was being put down in writing. The demand, Laldenga continued, was not a trifling matter since the Mizos have suffered due to the lack of a high court.

Though there is a basis for demanding a high court, other compulsions too seem to have influenced Laldenga to abandon the agreement. The negotiations have now been going on for almost a year. A number of the MNF's major demands were conceded earlier by the government. Consequently, after an accord is signed, Mizoram is to acquire statehood and the present Congress(I)-led Assembly in the Union territory will be dissolved. An Advisory Council, to be headed by Laldenga, is to run the administration till fresh elections are held.

Laldenga is probably unsure of the extent of popular support he commands among the Mizos today. The Congress(I) had won the last Assembly poll with an overwhelming majority. Then there is the possibility of some of Laldenga's lieutenants splitting and continuing the battle with the Union government, if the MNF arrives at an agreement. Laldenga has sent two of his emissaries to discuss the government's latest offer with the MNF executive, reportedly stationed in Bangladesh. The demand for a high court in Aizawl could hence also provide him with an opportunity to guage the response of the Mizos to a likely settlement before committing himself to an agreement.

## *International Economic Order*

### Looking for the Silver Lining

*A Correspondent writes:*

THE past few years may well go down in history as the period when a substantive part of the edifice of international economic co-operation so patiently built in the early post-war years and extended in the subsequent two decades and a half was deliberately dismantled, observes I G Patel in his LSE Society Lecture, 1985. Take the IMF, which "has become the darling of the industrialised world as a kind of international economic gendarme for the erring poor" but which role has not earned for it any significantly larger resources so that it has suffered "emasculation" in its essential role as a provider of internationally created reserves or as an agency for the surveillance of the monetary and fiscal policies of its members, whether big or small, whether debtors or creditors. Further, although the case for the IMF to create and distribute SDRs on a regular basis is in theory unassailable, it is not acceptable to the strong because they "do not stand to gain much by it at present". The reasons advanced for their reluctance, such as not wanting to add fuel to the fire of inflation, seem to I G Patel "rather hypocritical when they are advanced by the country which is most guilty of exporting inflation today".

But Patel is not unoptimistic. "There are", it seems to him, "certainly seeds in the present situation of a rather sudden change in the US attitude towards many areas of international co-operation", including another creation of SDRs. Patel pins his hopes principally on the downward slide of the dollar, which has already begun, "when additional unearned reserves would become valuable even to the US". But Patel omits, possibly deliberately in order not to sound radical in his immediate demands, to say whether the US and other strong countries will be agreeable to a regular allocation of SDRs and that too on a much more equitable basis than at present.

Patel's optimism for the future, indeed the near-future, is not confined to SDRs. He believes that the downward slide of the dollar will also make the US less unwilling to consider an arrangement under which the IMF is given "a lot more muscle in relation even to the big and the powerful" in regard to the determination and adjustment of exchange rates. Patel does not make clear whether he considers the recent recommendation of the G-10 study calling for effective surveillance as a step in that direction. Will it necessarily lead to a greater willingness to observe Fund advice on exchange rates by the high and mighty? Patel does express his doubt though about Fund surveillance leading to greater co-ordination of national economic policies.

Once sentiment in favour of orderly exchange markets, adjusted pegs or more concerted intervention returns, Patel believes, "it would be difficult to resist the temptation to restrict private capital movements also to some extent and on some occasions". So whatever doubts he entertains, Patel does not abandon his optimism that some change for the better in the present international economic order is round the corner.

Patel clearly belongs to that band of economists from the Third World who always spot the silver lining no matter how dark the clouds.

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# A Modest Target, Yet Unattainable

THE revival of monsoon about the middle of July after a dry spell of three to four weeks has considerably relieved anxiety about the outlook for kharif oilseeds as also for other crops. Yet another week's delay would have caused serious irreparable damage to kharif production. While the worst fears have been allayed, few knowledgeable observers of the agricultural scene are inclined to share official optimism about achieving the targets set for 1985-86. On current indications, it seems rather unlikely that kharif production would turn out to be better than in 1984-85 which was by no means a good agricultural year, the overall increase in agricultural production being only about one per cent against 13.6 per cent in 1983-84. This would tend to aggravate inflationary pressures unless adequate steps are taken to improve demand-supply management.

All the major groundnut producing areas in Gujarat—Saurashtra alone accounts for nearly 30 per cent of the total groundnut production in the country—Maharashtra, Madhya Pradesh, Rajasthan, Karnataka and Andhra Pradesh are reported to have had sufficient rains for undertaking sowing operations which should really have been completed by June-end. In view of the delayed revival of monsoon, it would be risky to grow the high yielding bold variety which is a 120-day crop. And switch-over to the short duration (90-day) crop is not all that simple. Procurement of requisite seed in adequate quantity could pose a serious problem.

Inquiries with knowledgeable men in the oilseeds trade and industry who closely watch the progress of the crop indicate that kharif groundnut production is almost certain to register a substantial setback in the new season. Estimates of likely decline in production range between 20 per cent and 35 per cent, depending on weather conditions until the harvest is ready. Even the soyabean crop which does not need much rain is not expected to show any significant improvement over the 1984-85 record production of about 9 lakh tonnes.

It is extremely doubtful whether the likely shortfall in kharif production which accounts for nearly three-fifths of the total oilseeds production will be made up through increased production of rabi oilseeds. This is because the impressive increase in rape/mustard seed production—the major rabi crop—in 1984-85 was due to certain fortuitous factors and it did not represent any technological breakthrough which could sustain production at a high level. The view is widely shared that the overall oilseeds production in 1985-86 is unlikely to equal the 1984-85 figure, officially reckoned at 130 lakh tonnes, let alone achieve the 136 lakh tonne target set for the year—78 lakh tonnes of kharif and 58 lakh tones of rabi oilseeds.

The strategy proposed to achieve the target chalked out by the Union Agriculture Ministry includes the implementation of special projects on groundnut, rape/mustard seed, and sunflower in 12 potential states by providing necessary financial support. Stress is also being laid on the implementation of intensive programmes in 17 states for development of groundnut, rape/mustard, soyabean and sunflower. It is one thing to spell out a strategy but quite another when it comes to its effective implementation. The organisational framework continues to suffer from serious deficiencies and the financial support also is grossly inadequate. There is no getting away from the harsh fact that kharif oilseeds are grown mainly in rain-fed areas. In respect of rabi oilseeds also, irrigation facilities are inadequate. Oilseeds production therefore is at the mercy of the unpredictable weather.

No matter how one views it, the 136 lakh-tonne target set for oilseeds production in 1985-86 is very modest. The increase of six lakh tonnes—over the output of 130 lakh tonnes in 1984-85—is small even in relation to the Seventh Plan target of 170 lakh tonnes in 1989-90. The target looks dismal indeed when seen in the context of the massive annual imports of edible oils. Apparently, the government is least bothered about the continuing massive foreign exchange expenditure on edible oil imports. In order to maintain the per capita availability of edibile oils/fats at the 1984-85 level, the government will need to step up edible oil imports. This is most undesirable, to say the least. The need for a really bold plan for boosting oilseeds production can scarcely be overemphasised.

The welcome break in the prolonged dry spell has not had any noticeable effect on the market. Vegetable oil prices have declined by only Rs 150 to Rs 300 a tonne from the high levels registered during the dry spell. This is partly because current prices are substantially lower than a year ago and the scope for a further fall is therefore limited. Seasonal factors also are beginning to weigh on the market. Mid-July to October-end is a lean period from the viewpoint of availability of indigenous oils. This also happens to be the festival season when consumer demand is on the high side. Kharif crop prospects are far from encouraging. All this should make for a hardening tendency in oil prices in course of time.

It is, however, difficult to assess precisely the impact of seasonal factors on prices as imported oils have come to constitute an important element in the aggregate supply of edible oils. Imports of edible oils totalled 16.34 lakh tonnes in 1983-84 and the figure for 1984-85 (crop year) are estimated to be of about the same order. The government is in a position to influence the course of oil prices through the release of imported oils under the public distribution system. How the government will go about allocating the imported oils is anybody's guess. Ad hocism continues to mark the government's policy for import of edible oils as also their allocation and pricing.

Export activity has, of late shrunk to modest proportions and an overwhelmingly large percentage of this is accounted for by USSR and East European countries. Valuewise, there is little chance of exports of deoiled meal during the current fiscal year showing an improvement over the previous year's performance. The outlook for castor oil also does not appear very promising because of intensified competition from Brazil in the wake of its much larger crop this year. The export outlook for groundnut HPS is bleak unless the government adopts an imaginative approach in dealing with the problem of price disparity.

## *Tyre Industry*

### Familiar Refrain

THE tyre industry is complaining with increasing insistence that it is running into cash losses on account of high duties and escalating cost of raw materials. This familiar refrain is not surprising considering that the Union government is under pressure to impose price and distribution controls on the industry.

Tyre manufacturers have an informal understanding with the government that they would raise prices only after the prior approval of the latter. But this year, both in January and April, the industry decided to rise prices unilaterally. These two hikes totalled about 10 per cent. As a result, goods, including essential commodities, transported by road have become more expensive. Apparently, partly to curtail the inflationary impact and partly in response to pressure from tyre dealers and users, Union Minister for Industry, Veerendra Patil, warned the industry against any further price increase while inaugurating the Annual General Meeting of the All-India Rubber Industries Association at Bombay on June 29.

Tyre prices have been periodically raised during the past two years. But curiously even as the prices were being pushed up and the account books of companies showed cash losses, manufacturers were offering discounts of as much as Rs 600 per truck tyre between April and October 1984. At present too there are companies that are selling below the collectively fixed prices. Such undercutting is undertaken for expansion of market shares. In this context, it is worth mentioning that the manufacturers are pressing the government to treat tyres as an essential commodity—on the ground that they are used for transporting essential commodities—and accordingly grant the industry various concessions and subsidies.

No doubt the cost of raw materials used

in the industry, particularly natural rubber, has been rising. The excise duty at 66 per cent can also be regarded as high. Yet the extent of rise of tyre prices is hardly justifiable. A study by the Ministry of Industry's Bureau of Industrial Costs and Prices has found that even the informally agreed upon hike in tyre price of January 1984 was not justified. The All-India Motor Transport Congress has alleged that major tyre companies are acting as a cartel to fix prices, distribution as well as appointment of dealers. Similarly, the All-India Tyre Dealers Federation has charged that manufacturers are evading excise duty and defrauding on exports.

Apparently the increases in price, the offer of discounts and so on constitute a jumble of measures undertaken by the companies to overcome a crucial 'obstacle' within the industry. Presently, with the establishment of several new companies in recent years, potential capacity far exceeds demand. The industry seems to be operating at reduced capacity to forestall excess supply from pushing down the price. As a result costs have escalated, which the manufacturers are pushing on to the consumers. Licences for setting up new plants were liberally issued in the late 1970s because the few companies then operating were acting in collusion to push up prices in a situation of shortfall of supplies. Now, the companies seem to be trying to get around the situation of excess capacity while keeping the price high.

## LETTERS TO EDITOR

# Agrarian Policies of Left Front in West Bengal

I ACCEPT the validity and relevance of Ashok Rudra's findings as regards 'attached' agricultural labourers in West Bengal. But I would like to raise some questions of theoretical interpretation of these empirical results.

First, why does he insist that 'unfree labour' and wage differences in similar villages conclusively prove the absence of labour-power being a 'commodity' and hence the absence of capitalist relations (p 1016)? All labour-power may be regarded as 'homogeneous' labour-power plus 'compounded' labour-power, but workers' preferences may still restrict mobility and result in wage differences. (These preferences may be individual or 'collective' preferences—linked with trade union solidarity, or 'political' solidarity behind a political party, which Rudra mentions.) All this is not only *compatible* with capitalist wage-relations, but is, in any ultimately realistic model, an *essential* feature of such relations. Although this aspect was ignored by Marx (and also by Sraffa) in their simplified models of a capitalist economy, there are no analytical—still less realistic—problems in recognising it.

Second, I agree that 'group actions' by sections of workers (in agriculture or elsewhere) which are at the expense of interests of other sections do not promote 'class consciousness'; also that Left parties seem to specialise more and more in promoting 'selfish', restrictive, monopolistic trade unionism (not only in India, but everywhere). But is it necessary to jump to the conclusion that *every* group action must *necessarily* be so? For example, is it not possible to find instances where if "party people tell workers to remain within their own villages" they may be genuinely promoting the interests of workers' solidarity? After all, if we recognise that not only the wage, but also other objectives such as security (economic or political) matter and should matter, there may be instances where the Party's advice may be sound.

Third, I am not sure about this, but it seems to me that both Rudra and the targets of his criticism seem to agree that capitalist relations do *not* dominate agriculture in West Bengal. The difference seems to be as to whether share-croppers or 'attached' agricultural workers (*both* representing *non*-capitalist agrarian relations) constitute the 'largest target group' for agrarian policy. I have already stated above that in my understanding 'attached labour' is capitalist labour as much as mobile labour. I would also like to state, without elaboration here, that share-cropping is similarly best regarded as a 'semi-feudal' feature of capitalist relations (and *not* an expression of some 'semi-feudal mode of production').

ARUN BOSE

Calcutta.

## Withdrawal of Mahmood Mamdani's Citizenship by Uganda Government

WE have received information that on April 13 a leading Third World political scientist was stripped of his citizenship as a result of a public lecture in which he freely expressed his opinion as an acadmic and a scholar. Mahmood Mamdani was an Associate Professor at Makerere University College in Kampala at that time. He is well known for his outstanding contributions to the field of political science research. He has authored two well-received books, "Politics and Class Formation in Uganda" and "Imperialism and Fascism in Uganda". These works have gained him international recognition and respect.

His active involvement in the life and work of the academic and scientific community in Africa and the world is illustrated by his membership in the African Association of Political Scientists (AAPS) as Secretary of the Ugandan Chapter, his leadership at Makerere University as Acting Dean of the Faculty of Arts and Social Sciences and by his membership in the International Political Science Association (IPSA). He is the editor of a leading academic journal *Mawazo* published by the Faculty of Social Sciences, Makerere University. He is also known for his active participation in the struggle that brought back democracy to Uganda in 1979.

Mamdani was born in the then Tanganyika. He moved to Uganda with his parents in 1952 and was registered Ugandan citizen in 1963.

Because of his Asian origin he was expelled by Idi Amin in 1972. He lectured at the University of Dar-es-Salaam until 1979 when he returned to Uganda after the overthrow of Idi Amin. He was issued with a new Ugandan passport in the same year, which was renewed in January last year.

The present withdrawal of citizenship was precipitated by a public lecture at a Red Cross Conference in Kampala entitled 'Disaster Prevention: Defining the Problem' where he argued that famine was not a result of drought but the exploitation of the peasantry.

It is alleged that Mamdani's line of argument was vehemently challenged by the Minister of State for Security who officiated at the closing of the meeting. The Minister singled it out for a vicious attack in his closing address. Subsequently the same Minister appeared on television and repeated the attack.

Soon after officials affiliated to the Ministry of State for Security (the Criminal Investigation Department, Immigration Officials) interrogated him on his immigration status.

Subsequently, he received a letter from the Immigration Department dated April 1, pretending to solicit certain information for the purposes of, as it put it, 'updating the files'.

On April 10, Mamdani supplied the requisite information. On April 13, he left for Spain to attend a conference. On April 19, a letter was received purporting to declare Mamdani an alien and asking him to surrender his passport.

S M MOHD IDRIS

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When corresponding with the Circulation Department, subscribers are requested to mention their subscription numbers.

# STATISTICS

| **Index Numbers of Wholesale Prices** (1970-71 = 100) | Weights | Latest Week (6-7-85) | Variation (Per Cent) Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85++ | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| All Commodities | 1000 | 358.9 | 1.0 | 5.4 | 3.9 | 7.0 | 9.5 | 2.6 | 9.3 |
| Primary Articles | 417 | 338.0 | 1.7 | 2.1 | 5.0 | 4.8 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 323.4 | 3.1 | 5.8 | 8.7 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 300.5 | −1.8 | −6.8 | −3.3 | 2.3 | 15.1 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 565.9 | 0.6 | 9.7 | 2.0 | 2.6 | 7.6 | 7.5 | 20.7 |
| Manufactured Products | 499 | 341.3 | 0.7 | 7.1 | 3.6 | 6.0 | 8.7 | 0.6 | 5.2 |

| **Cost of Living Index** | Base | Latest Month | Variation (Per Cent) Over Last Month | Over Last Year | Over March 1985 | In 84-85 | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| For Industrial Workers | 1960 = 100 | $600^{5}$ | 1.0 | 6.8 | 2.4 | 6.4 | 12.6 | 7.8 | 12.5 |
| For Urban Non-Manual Employees | 1960 = 100 | $546^{4}$ | 8.1 | 7.1 | 8.1 | 8.1 | 10.3 | 8.0 | 11.9 |
| For Agricultural Labourers | July 60 to June 61 = 100 | $524^{5}$ | 1.2 | 3.2 | 1.4 | 0.2 | 11.4 | 5.2 | 12.4 |

| **Money and Banking** | Unit | Latest Week (5-7-85) | Variation Rs Crore (Per Cent in Brackets) Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85++ | In 83-84++ | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| Money Supply ($M_3$) | Rs Crore | 1,07,087 | 2,336<br>(2.2) | 15,364<br>(16.8) | 5,530<br>(5.4) | 15,443<br>(18.0) | 13,031<br>(17.9) | 10,115<br>(16.1) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 54,213 | 770 | 8,960 | 5,234 | 8,460 | 5,757 | 4,748 | 4,965 |
| Bank Credit to Commercial Sector | Rs Crore | 72,476 | 1,626 | 10,059 | 2,790 | 9,447 | 8,830 | 8,247 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 2,647 | −172 | 1,005 | −352 | 1,419 | −104 | −977 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 76,136 | 2,717<br>(3.7) | 12,193<br>(19.1) | 4,950<br>(7.0) | 10,590<br>(17.5) | 8,550<br>(16.4) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets** | Rs Crore | 6,544 | −221 | 805 | −417 | 1,463<br>(26.6) | 943<br>(20.7) | 911<br>(27.2) | −1,468<br>(−30.4) |

| **Index Numbers of Industrial Production** (1970 = 100) | Weights | Latest Month | Average of Months* 1985 | 1984 | Variation (Per Cent) In 1985++ | In 1984++ | In 1983 | In 1982 | In 1981 |
|---|---|---|---|---|---|---|---|---|---|
| General Index | 100.00 | $216.3^{3}$ | 208.3 | 200.3 | 4.0 | 6.6 | 4.5 | 4.5 | 9.3 |
| Basic Industries | 32.28 | $248.5^{2}$ | 257.8 | 243.2 | 6.0 | 11.7 | 5.5 | 8.0 | 14.5 |
| Capital Goods Industries | 15.25 | $228.3^{2}$ | 222.9 | 227.0 | −1.8 | 9.2 | 4.3 | −0.9 | 8.1 |
| Intermediate Goods Industries | 20.95 | $162.1^{2}$ | 167.1 | 156.5 | 6.8 | 1.7 | 7.9 | 1.9 | 3.7 |
| Consumer Goods Industries | 31.52 | $162.1^{2}$ | 168.3 | 169.0 | −0.4 | 1.3 | 0.4 | 5.8 | 8.2 |
| Durable Goods | 3.41 | $210.2^{2}$ | 209.7 | 181.4 | 15.0 | 13.0 | 0.1 | 3.6 | −0.1 |
| Non-Durable Goods | 28.11 | $156.3^{2}$ | 163.3 | 167.5 | −2.5 | 0.5 | 0.5 | 6.5 | 9.3 |

| **Foreign Trade** | Unit | Latest Month (March 85) | Cumulative for* 1984-85+ | 1983-84+ | 1984-85 | 1983-84 | 1982-83 | 1981-82 | 1980-81 |
|---|---|---|---|---|---|---|---|---|---|
| Exports | Rs Crore | 951 | 11,297 | 9,872 | 11,297<br>(14.4) | 9,872<br>(10.8) | 8,908<br>(14.2) | 7,803<br>(16.3) | 6,711<br>( 3.9) |
| Imports | Rs Crore | 1,414 | 16,485 | 15,763 | 16,485<br>(4.6) | 15,763<br>( 9.8) | 14,356<br>(5.0) | 13,671<br>( 9.2) | 12,524<br>(40.6) |
| Balances of Trade | Rs Crore | −463 | −5,188 | −5,891 | −5,188 | −5,891 | −5,448 | −5,868 | −5,813 |

| **Employment Exchange Statistics** | Unit | Latest Month (March 85) | Cumulative for* 1985 | 1984 | 1984 | 1983 | 1982 | 1981 | 1980 |
|---|---|---|---|---|---|---|---|---|---|
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,744 | 23,744 | 22,603 | 23,547<br>(7.3) | 21,954<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) |
| Number of Registrations | Thousand | 454 | 1,362 | 1,681 | 6,220<br>(−6.5) | 6,655<br>(13.5) | 5,862<br>(−6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) |
| Number of Vacancies Notified | Thousand | 49 | 150 | 180 | 707<br>(−15.5) | 827<br>(0.9) | 820<br>(−8.4) | 895<br>(6.6) | 840<br>(−4.1) |
| Number of Placements | Thousand | 29 | 86 | 111 | 407<br>(−16.3) | 486<br>(2.5) | 474<br>(−6.1) | 505<br>(5.2) | 480<br>(2.6) |

* For current year upto latest month for which data are available and for corresponding period of last year.

** Excluding gold and SDRs.

+ Variation in current year upto latest month for which data are available over corresponding period of last year.

+ + Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript$^{1}$ indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

# Shadow-Boxing in OPEC

### ISG

TWO very interesting developments have taken place with respect to oil. One is that OPEC was put on notice by Saudi Arabia that the organisation must evolve and establish effective procedures, more effective than in the past, to monitor the observance of price and production discipline because the Saudis were unable to play any more the role of a swing producer, i e, of a producer who varies his output with a view to so balance market of oil supply, including supply from other OPEC members, with its demand that the price agreed upon among the producers is possible to maintain. The other development is that Mexico, a non-OPEC net exporter of oil, which until the other day, was observing voluntarily the OPEC discipline, has decided to break rank and unilaterally reduce the price of its oil by an average of $ 1.50 per barrel.

How does one assess these developments? Do they presage the break-up of the oil cartel and a free fall, as they put it, of the price of oil? Writing on the eve of the OPEC's abortive meetings, just ended in Vienna, the *Wall Street Journal* posed the same issue in the following words: "When the oil ministers of the financially pressed and divided nations meet in Vienna at the end of next week to try to stabilise the sagging oil markets they will be staring over the edge of a precipice. At the bottom: the spectre of a smashed cartel and a $ 20 barrel of oil."

It is true that the share of OPEC in world oil production has declined considerably over the past decade starting with 1974, the year of the first round of oil price rise. The decline has been from a share of over half in 1974 to less than a third in 1984. OPEC's share in world net oil exports (defined as the aggregate of oil trade balances of countries that are net oil exporters) has declined during the same period from over 90 per cent to a little below two-thirds.

So there is absolutely no doubt that the leverage that OPEC enjoyed at one time is nowhere as strong as it once was. But the way issues are now being posed makes one ask what, if any, leverage still remains with OPEC to influence world oil price.

While the fact that OPEC still accounts for quite a substantial part (almost two-thirds) of world net exports is certainly worth bearing in mind, it cannot be overlooked at the same time that at the current level of its exports, OPEC as a group is operating at a level of less than 60 per cent of the production reached in 1979, the peak year.

The decline in the OPEC's share of world production and exports of oil has been caused primarily by two factors. Firstly, the contraction in total demand for oil. Between 1979 and 1984 the decline in world consumption of oil was of the order of nine per cent; the consumption of the western industrial countries including Japan declined by almost twice that proportion. Secondly, the increase in the non-OPEC production of oil was by almost 15 per cent. Behind both these factors the sharp increase in oil prices of the past decade had no doubt a major role to play. And behind these price increases was the clear hand of OPEC.

But the point to note, for our present purposes, is that while OPEC members were, as the IMF's "World Economic Outlook" for 1985 puts it, able to absorb the fall in demand with relative ease during the period 1979-81 when their balance of payments position improved considerably due to the higher oil price, this was no longer so subsequently when the oil price started weakening with demand for OPEC oil continuing to fall. Earlier, "there were no production sharing agreements in effect and the fall in exports was brought about by voluntary reductions in output levels of individual countries to match the fall in world demand". More recently, with the sharp deterioration of the OPEC's current account balance of payments position from a surplus of $ 110 billion to a deficit of $ 18 billion in 1983, not only "voluntary output restraints became increasingly more difficult to achieve" but also there were increasing signs of competition among OPEC members to protect, or even enhance, their respective market shares in an overall declining market. That is how OPEC felt obliged to agree in March 1983 on production quotas for individual members within an overall ceiling and at the same time to reduce the price of benchmark crude from $ 34 to $ 29 a barrel. But while agreement was reached on individual production quotas, no effective machinery was set up to police the observance of these quotas. As a result, within OPEC itself several members observed production quotas more in breach than in compliance and there was "an increasing predilection" to offer discounts below the official price in various direct or indirect ways. Faced with an effective decline in export price and distribution of export volumes among individual OPEC members totally out of tune with that envisaged in the quota-scheme, it became necessary to introduce a formal system of auditing production and export volumes. Also, the marker crude's price was reduced to $ 28 a barrel and the overall production ceiling was brought down from 17.5 mbd to 16 mbd.

It would appear from the Saudi complaints and the Mexican action that even the latest arrangements have not been possible to put into effect. The reason seems to be two-fold. Firstly, it would appear that it has not been possible yet to restrain partly the individual members from violating these quotas and, secondly, non-OPEC exporters have attempted to unload additional quantities on the world market in various ways with a view to taking advantage of OPEC's attempt to restrict its exports. A situation has thus been reached where after one makes allowance for the various discounts, direct and indirect, offered on oil exports, the effective price is at least one dollar below the official OPEC price, the total quantity OPEC as a whole is able to unload is below the OPEC ceiling by one to two million barrels per day. The combined OPEC output since May 1985 is estimated to have been hovering around 15 mbd as against the ceiling of 16 mbd.

The Saudi complaint acquires substance because as a swing-producer Saudi Arabia has had to reduce its output considerably below its quota of 4.3 mbd. So is the case with the Mexican complaint because in trying to keep in tune with OPEC, as a major individual producer-cum-exporter, Mexico too had to keep its output considerably below the level it had agreed to maintain.

The question, however, is whether the Saudi threat and the Mexican action combine to strengthen or weaken the OPEC. Recent events have no doubt demonstrated the weakness of OPEC in maintaining either the price or its market share. Naturally, therefore, any breaking of rank within OPEC is bound to affect its position adversely. But what has Saudi Arabia to gain from forcing the issue at this state? It is true that because of the sharp fall in OPEC's export volume, OPEC carries an unused capacity of 45-65 per cent of its 1984 output, as the IMF's World Economic Outlook' estimates. But if this is considered a sign of weakness, by the same token the Saudi position should be even weaker, certainly not stronger, since its unused capacity should be close to 75 per cent, if not higher. Moreover, Saudi ability to withstand an even further reduction in output, given its sizeable foreign holdings, monetary and non-monetary, is still not anywhere as vulnerable as is possibly the case with some of the other OPEC members who are currently violating their quotas. Here, however, one must hasten to add that primarily a lot more is being blamed on the latter than is justified. OPEC is more under attack from outside, from non-OPEC oil exporters, principally Britain and Norway, than from inside now. But non-OPEC oil exporters have little additional unused capacity left to exploit. So if OPEC holds out a little longer, it may well be in a position to call the bluff of its antagonists. And Saudis have everything to lose if the member countries break ranks. Surely, the world price of oil will then fall precipitously. It may well go below $ 20 a barrel. But are the Saudis sure that they will then be able to sell substantially larger quantities than today? Basically, what is going on within OPEC today is a sort of shadow-boxing, with Saudis trying in the process to share their burden with other OPEC members. But it may well be over-playing its hand.

# Excise Irritants

### Hansavivek

*STRAW PRODUCTS* has produced good results for 1984 with increases in production, sales and profits. Production of paper and board was higher at 65,848 tonnes against 61,807 tonnes in the previous year. Production at the paper mills in Orissa reached an all-time high. The output of board mills located at Bhopal would have been substantially higher but for the tragic incident of gas leakage from the Union Carbide India's plant there in December last resulting in complete dislocation of normal operations for nearly a month. There has been an improvement in the demand for paper, but the market for kraft paper and duplex board remained sluggish. The high excise duty differential enjoyed by smaller units in the case of these varieties affected the company's board mills. The directors feel that the increase in excise duty on certain varieties of paper produced by large integrated units through the Union Budget for 1985-86 may affect the sales of the integrated paper mills. They also contend that the increase in the price of the controlled variety of white printing paper from Rs 5,400 to Rs 6,400 per tonne in May 1984 is still "far too inadequate" to cover the cost of production and the industry continues to suffer heavy losses on this account. The full requirement of raw materials for the paper mills in Orissa could not be met from the company's leased forests, and sizeable quantities had to be brought in from distant regions like Assam, North Bengal and Maharashtra or purchased otherwise at considerably higher costs. Exemption of import duty on wood pulp should help the paper industry to overcome to some extent the difficult raw material position. About 20 per cent of the coal required at the paper mills had to be transported by road at higher cost and the quality of coal continued to be poor. With the recent hike in railway freight, increase in the price of petrol and petroleum products and general rise in prices, the costs will be further pushed up. The company is implementing a Rs 23-crore scheme of modernisation and renovation of its paper mills in Orissa, which was set up in 1962. Orders for most of the equipment have been placed. The scheme would be implemented before the end of 1987.

The production of cement increased from the previous year's 2,88,954 tonnes to 4,81,144 tonnes and the plant attained 96 per cent capacity use. The power position in Rajasthan continues to be very unsatisfactory. The company had to use captive DG power to the extent of about 50 per cent of the total requirement at a very heavey extra cost. There has been a substantial rise in the cost of coal and other inputs as well as in railway freight, gunny bags. Due to the Central and Railway Budgets for 1985-86, there have been further increases in freight and cost of petroleum and other products which in turn have increased the cost of production of cement. Excise duty on cement has also been enhanced by Rs 20 per tonne. Moreover, cement production in the country has increased by six million tonnes in the last two years and it is now available freely in almost all parts of the country. The prices of non-levy cement have substantially gone down. Decrease in price realisation, coupled with increase in production costs has particularly affected adversely the new cement plants. The JK Batteries' factory was closed down following a tripartite settlement with the workmen. The government of MP also accorded its permission for the closure.

In association with Industrial Promotion and Investment Corporation of Orissa the company has promoted a joint sector company, 'Orissa Synthetics' for setting up a project for the manufacture of 15,000 tonnes per annum of polyester staple fibre at Dhenkanal, a backward area in Orissa at an estimated cost of Rs 73 crore. The latest world-renowned 'Du Pont' technology will be made available for the project through Chemtex of USA. The financial arrangements for the project have been tied up. Orders for the imported equipment and long delivery indigenous machinery have been placed. The civil construction work is in full swing and the project is expected to go on stream during 1986. The fixed assets of the paper mills division have been revalued as on January 1, 1984 and the resultant increase of Rs 47.49 crore in the value of these assets has been credited to capital reserve. During 1984, the company earned a gross profit of Rs 9.44 crore against Rs 6.19 crore in the previous year following a turnover of Rs 82.41 crore against Rs 65.88 crore. These figures also reflect an increase in margins. After depreciation, there was a net profit of Rs 172 lakh compared to a net loss of Rs 94 lakh previously. The unchanged dividend was covered 1.67 times by earnings.

**The Week's Companies** *(Rs Lakh)*

| | | Straw Products | | Kesoram Industries | | Western Ministil | |
|---|---|---|---|---|---|---|---|
| | | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-3-85 | Last Year 31-3-84 | Latest Year 31-12-84 | Last Year 31-12-83 |
| Paid-up Capital | | 587 | 587 | 1005 | 1005 | 40 | 40 |
| Reserves | | 6589 | 1865 | 11860 | 11492 | 51 | 18 |
| Borrowings | | 6398 | 6286 | 4321 | 3716 | 145 | 237 |
| *of which* Term borrowings | | 4434 | 4304 | 3356 | 3330 | — | 18 |
| Gross fixed assets | | 14390 | 8914 | 18272 | 14222 | 218 | 179 |
| Net fixed assets | | 10364 | 6088 | 14454 | 11799 | 113 | 94 |
| Investments | | 520 | 300 | 579 | 560 | — | — |
| Current liabilities | | 2683 | 2585 | 5496 | 5097 | 325 | 466 |
| Current assets | | 5332 | 4890 | 7649 | 8950 | 471 | 667 |
| Stocks | | 2153 | 1651 | 2853 | 2718 | 182 | 429 |
| Book debts | | 984 | 730 | 808 | 844 | 76 | 187 |
| Net sales | | 8241 | 6588 | 13348 | 12584 | 1700 | 1517 |
| Other income | | 223 | 238 | 362 | 373 | 9 | 8 |
| Raw material costs | | 1536 | 1328 | 3947 | 3780 | 875 | 788 |
| Wages | | 957 | 831 | 2071 | 2036 | 52 | 45 |
| Interest | | 754 | 679 | 428 | 436 | 40 | 35 |
| Gross profit (+)/loss (–) | | 944 | 619 | 1657 | 1627 | 77 | 95 |
| Depreciation provision | | 772 | 713 | 727 | 579 | 21 | 37 |
| Tax provision | | — | — | 125 | 636 | 14 | — |
| Net profit (+)/loss (–) | | 712 | –94 | 805 | 412 | 42 | 58 |
| Investment allowance reserve | | — | — | 374 | 113 | 8 | 4 |
| Transfer to reserves | | 65 | — | 212 | 103 | 26 | 14 |
| Dividend | | | | | | | |
| Amount | P | 10 | 10 | 13 | 13 | — | — |
| | E | 97 | 97 | 206 | 183 | 8 | 6 |
| Rate (per cent) | P | 7.8 to 11 | 7.8 to 11 | 11 | 11 | — | — |
| | E | 20 | 20 | 23.50 | 23.50 | 20 | 15 |
| Cover (times) | | 1.67 | — | 3.84 | 2.18 | 5.25 | 9.66 |
| *Ratios* (per cent) | | | | | | | |
| Gross profit/sales | | 11.45 | 9.39 | 12.41 | 12.92 | 4.53 | 6.25 |
| Net profit/capital employed | | 7.02 | — | 15.11 | 8.68 | 46.17 | 100.00 |
| Inventories/sales | | 26.12 | 25.06 | 21.37 | 21.60 | 10.70 | 28.28 |
| Wages/sales | | 11.61 | 12.61 | 15.51 | 16.18 | 3.06 | 2.96 |

*KESORAM INDUSTRIES AND COTTON MILLS* has selected Balasore, a 'no-industry' district of Orissa for locating its project for the manufacture of one million tyres and tubes per annum. The company has already got a letter of intent and is negotiating for foreign collaboration, for technical know-how, basic engineering and other necessary assistance for the implementation of the project. Its applications for capacity expansion of its cement plant in Karnataka, from 5 lakh tonnes to 15 lakh tonnes per annum, and for the manufacture of white cement in Rajasthan and sponge iron in Orissa are pending with the government. Meanwhile, the company started clinker production towards the end of March last at its new plant at Sedam in Karnataka. Certain teething difficulties were detected and steps have been taken to overcome them. Even though power was released by the KSEB for commissioning of the plant, a power-cut to the extent of 80 per cent was imposed unexpectedly from April 1, 1985. The company, therefore, had to stop the plant. The matter has been taken up with the Electricity Board to find a solution to this difficulty. The company has placed orders for two diesel generating sets of 4 MW each, which are expected to be commissioned in July 1985. The company's other cement plant in AP produced 7,61,581 tonnes of cement against 7,49,197 tonnes in the previous year. Production would have been higher, but for the heavy power-cut during April 1984. Moreover, erratic and inadequate availability of wagons, particularly from November 1984 to March last, adversely affected cement despatches and consequently production had to be curtailed.

There has been steep increase in the cost of production. The price of coal supplied by the Singareni Collieries has been recently increased from Rs 210 to Rs 323 per tonne, which has increased the company's cost by Rs 16 lakh per month. Apart from cost increase, the realisation of non-levey cement has come down due to greater availability of cement in the market. The company alongwith other cement producers challenged in the Supreme Court the increase in the Minerals Rights Tax imposed by the AP government to 900 per cent, that is, from 4.50 to Rs 40.50 per tonne. The Supreme Court has issued an order asking the industry to pay the tax at 300 per cent immediately and submit suitable security for the remaining 600 per cent. After a detailed review, the Central government agreed to de-rate the company's installed capacity from 9 lakh tonnes to 8.26 lakh tonnes per annum from November 15, 1984 till end of March 1985. The company has now asked for further capacity reduction on a permanent basis in view of the fact that the expansion of 2 lakh tonnes capacity, granted earlier by the government, was based on the availability of dry fly-ash from APSEB, which has now practically stopped supplies since its 5-year agreement with the company has come to an end in March last. The working of the textile division was marginally better than that of the previous year. On February 16 last, workmen of the Card and Frame departments struck work in a "deliberate, concerted and illegal" manner. This led to heavy accumulation of process-stock and a shortage of materials in succeeding processes resulting in complete stoppage of production. The management imposed a partial lock-out the next day. After a week lock-out was declared in the other departments of the textile section. In spite of the conciliation efforts by the Government of West Bengal, the dispute could not be resolved and the lock-out continued.

Due to competition from imported rayon yarn and demand recession during the first few months of the year, prices of rayon yarn continued to be unremunerative and production had to be curtailed for some time. Gradually, however, the offtake improved and full production was resumed. The offtake of transparent paper was also poor earlier in the year, but subsequently the situation improved. In the last Union Budget, import duty on wood pulp was abolished, which would help improve the profitability of these sections. The cost of production, however, will increase due to higher charges for power, coal, diesel and other inputs. Production of the spun pipes and foundaries section was lower at 28,010 tonnes as against 31,886 tonnes in the previous year. Export prices are absolutely unremunerative because of the high cost of production. The performance of this section can be improved but for demand recession. Offtake of the refractory section continues to be sluggish and prices are unremunerative. The directors expect the offtake to improve by the end of 1985. Considering the various constraints it had to face, Kesoram's overall working has been satisfactory with the gross profit a shade higher at Rs 16.57 crore against Rs 16.27 crore in the previous year following increase in sales from 125.84 crore to Rs 133.48 crore. These figures show a decline in margins. With a saving in tax liability, however, net profit has expanded from Rs 4.12 crore to Rs 8.05 crore. The unchanged dividend of 23.5 per cent is covered 3.84 times by earnings as against 2.18 times previously. A S Gupta resigned from the board during the year.

*WESTERN MINISTIL* has suffered a mild setback in its working during 1984 on account of lower sales realisation in the first quarter of the year due to a sluggish demand for its products, coupled with an increase in input costs in the latter half of the year. Production of steel ingots/billets was higher at 45,086 tonnes against 43,044 tonnes in the previous year and sales were 45,185 tonnes against 42,734 tonnes. Although sales brought in Rs 17 crore against Rs 15.17 crore, gross profit declined from Rs 95 lakh to Rs 77 lakh reflecting contraction of margins. Net profit was also lower at Rs 42 lakh (Rs 58 lakh). Dividend has been stepped up by 5 points to 20 per cent which is covered 5.25 times against 9.66 times previously. The company created additional assets to the extent of over Rs 40 lakh as against Rs 17 lakh in 1983. The bulk of these assets were in the form of plant and equipment required to be installed for the abatement of smoke nuisance. The company's performance during the current year has been satisfactory. The company made a 'rights' issue of Rs 20 lakh to the existing shareholders on a one-for-two basis, which was oversubscribed.

*SOORAJ AUTOMOBILES* will be entering the capital market on August 6 with a public issue of 7 lakh equity shares of Rs 10 each at par to raise a part of the finance required for its expansion project estimated to cost Rs 80 lakh. The company is manufacturing diesel motorcycle for the first time in India. The plant at Saharanpur in UP is in trial production for the last one year manufacturing 50 motorcycles a month. The Automotive Research Association of India, Pune, has certified the optimum fuel consumption of the vehicle at 86 km a litre. The product has been well received in Gujarat and Tamil Nadu where it is being marketed at present. The company now proposes to increase production to 500 motorcycles a month. It has already booked orders to cover six months' production. The company purchases 70 per cent of the components required for the vehicle from various existing manufacturers in the field. This has enabled it to drastically reduce the project cost. The major raw materials required for the manufacture of the remaining components are all indigenously available. The main promoters of the company are two entrepreneurs—Ajay Paul, Managing Director, who is a mechanical engineer, and Nirbhay Paul Sharma who is a business management graduate. They are brothers and their family has been in the automobiles business for the last two decades. According to Ajay Paul, the vehicle is light and versatile and as such can be used more effectively both in the rural and urban areas. The company produces two models—one being the kick-start model and the other self-start model. This is again for the first time that a motorcycle is being manufactured in the country with a self-start arrangement. The cost of running the company's vehicle is almost ⅓rd of a 50 CC motorcycle moped. Moreover, it has lower maintenance and has a good appearance and competitive price for the same horse power. About 40 dealers have been appointed in different states. The company does not foresee any problem in selling its meagre production of 500 motorcycles per month, keeping in view its well organised marketing network. The board of directors is of the opinion that the company will earn sufficient profits to pay a minimum *pro rata* dividend of 12 per cent for 1985 to new shareholders. The issue is managed by MEFCOMS, New Delhi.

### INDO-PAK RELATIONS

# Climate of Mistrust

**Rita Manchanda**

THE wonder is that the present phase of the Indo-Pakistan dialogue has not foundered upon the layer upon mounting layer of mutual suspicion and mistrust about each other's intentions. In New Delhi especially, suspicions about Pakistan's nuclear intentions have acquired alarmist proportions with the recent disclosure of Islamabad successfully testing the US-made Kryton detonators, normally used in a nuclear explosion. Misgivings continue also to persist on Pakistan's support for terrorist activity in Punjab.

In Islamabad, there is sharp resentment over what the controlled press there has described as Rajiv Gandhi's 'Pakistan bashing' during his recent foreign tour. India has been accused of seeking to drive a wedge between the US and Pakistan and what is infinitely worse of partially succeeding in convincing the Reagan administration that American policy towards Pakistan as a front-line state must be moderated by India's perception of its 'genuine' interests in South Asia. The suspension of the agreement to transfer the E-2 Hawkeye system to Pakistan is seen as a demonstration of a shift in US thinking. However, the recent announcement of Washington's decision to speedily despatch 100 AIML sidewinder missiles comes as a timely reminder that as long as the situation in Afghanistan and the Gulf remains, the US-Pakistan special relationship will continue.

Yet despite this backdrop of acute misgivings, officials in the Foreign Ministries of the two countries are currently engrossed in working out confidence-building cooperative interaction. Consequently although the euphoria was missing, the second meeting of the Indo-Pakistan joint Ministerial commission did take place in the first week of July. And at the end of the month, the foreign secretaries of the two countries will meet to discuss the gamut of bilateral political relations. Significantly, Pakistan's Foreign Minister Yaqub Khan commenting on the meeting in New Delhi said that the two Foreign Secretaries would address themselves to finalising a common draft that would marry the Pakistan proposal of a no-war pact and Indian offer of a Friendship Treaty. Indian officials however have been at pains to say that the draft will be but one of the things that will be discussed. The exchanges between Niaz Naik and Romesh Bhandari are being projected here as a continuation of his exploratory April visit to Islamabad and not as a follow up of the May 84 visit of the then foreign secretary M K Rasgotra when the talks were specifically on finalising a synthesised third draft. Presumably, through this subtle nuance in approach, policy-makers in New Delhi wish to stress their increasing wariness about talking of peace when misgivings about Islamabad's hostile intentions are so acute.

This dualism in Indo-Pakistan interaction was in sharp evidence during the meeting of the Joint Commission in New Delhi. The inaugural addresses of both the Ministers struck a cautious note about the 'modest' progress that could reasonably be expected. Yaqub Khan stressed that direction was more important than speed in the finalisation of the agreements and added that "while neither side should procrastinate ... they should not be unduly discouraged or daunted if issues arise that require further and more thorough consideration".

However, the initiative taken by President Zia to telephone the Prime Minister encouraging him to give a political impetus to the talks, had led some to hope that a breakthrough might be expected on such intractable issues as bilateral trade. The importance of the meeting taking place on the thirteenth anniversary of the Simla agreement was also noted by both sides. Indeed, the political impetus given to the talks by Zia and Gandhi was reflected in the discussion on general principles but when it came to concrete details, the difficulties seemed as insurmountable as ever.

Yaqub Khan had acknowledged at the outset that the present level of trade was not satisfactory. However, Pakistan refused to budge from the position that bilateral trade would be within the framework of an agreed list of 42 or more items to be traded only through its state trading corporation: India has rejected this negative and discriminatory trade regime offer and insisted upon the same terms as applied by Islamabad to its other trading partners. If Pakistan had fears of its infant industry being swamped a list could be drawn up of items for restricted entry, it was suggested. No progress was possible and the deadlock remained fast.

On travel, India proposed the opening of a second route through Kokrapar on the Gujarat Sind border. Pakistan refused. Exemption from police reporting was proposed for all visitors staying only a fortnight. This was enventually whittled down to businessmen and transit travellers. On the cultural side the two were able to agree upon a draft but the finalisation of the accord was again postponed. It excluded exchange of films, songs, dances, newspapers and periodicals.

While the details of step-by-step functional co-operation were being worked out by the four subcommissions, Yaqub Khan in his meeting with Rajiv Gandhi and G Parthasarathy sought unsuccessfully to allay their misgivings about Pakistan's nuclear pro-

## APPOINTMENTS

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Persons interested may submit detailed bio-data on or before 20/9/1985.

gramme and assistance to terrorists in the Punjab. Yaqub Khan proposed mutual or international inspection of each other's facilities. His offer was treated with little credibility. Even if it was accepted, Pakistan could have already secreted away a few bombs before the regime could come into force. In any case the IAEA has no experience in inspecting uranium enrichment facilities like that of Pakistan. Besides, it would imply that India as well as Pakistan would have to surrender their political use of the nuclear option. On the Punjab problem, Yaqub Khan was told of intelligence reports of inflammatory propaganda aimed at the Sikhs who crossed the border and training facilities and supply of arms.

No doubt these suspicions will continue to retard the efforts of the two sides to reduce tension by undertaking such confidence-building measures as a no war pact-cum-friendship treaty or functional co-operation through the joint commission. In the prevailing climate of mistrust, South Block feels that the no war pact offer is designed to dilute Pakistan's commitment to bilateralism under the Simla agreement. The agreement in any case guarantees all that the no war pact would assure, 'non-aggression'. The friendship treaty involves not only active co-operation but also includes a clause prohibiting the granting of bases to any foreign country. Pakistan has persistently refused to accept this restriction on its 'sovereignty'.

Yaqub Khan had confidently assured some correspondents in New Delhi that the third draft would be finalised in time for the SARC summit in Dhaka in December. However in view of the prevailing climate of mistrust, the Naik-Bhandari meeting can be expected to do little more than go ove already covered ground.

# Loans, Doles and the Poverty Line

**Bharat Dogra**

VARIOUS schemes of loans, subsidies and grants to the poor have been prominent in the government's poverty-alleviation efforts. Recently the loans made under the Integrated Rural Development Programme (IRDP) have received a lot of prominence as a means of raising people 'above the poverty line'. On the basis of several interviews about the impact of such programmes, this is an assessment of their functioning in the villages of Manikpur block of Banda district, Uttar Pradesh.

One fact which stands out clearly is the prominence of such schemes which involve giving subsidised loans or grants to selected beneficiaries in the government's overall perspective on fighting poverty. Whether one talks to officials or to the rural poor, or examines official publicity handouts, it is clear that in everyone's perception poverty alleviation by government is equated with such programmes. Although there is much scope for redistribution of ceiling land in this area of sharp land inequalities and of improving the terms of share-cropping or minimum wages, all this is hardly talked about in the context of poverty alleviation. At the most, distribution of community land is considered.

Specifically, we may examine the performance of two programmes based on this loan and dole approach. One relates to the rehabilitation of bonded labour and the other is the more widespread IRDP.

In the case of the first programme, at first it was estimated that there were 2,316 bonded labourers in Manikpur block. This was stated on the basis of a study of bonded labour in this block sponsored by the labour department, and carried out by the Uttar Pradesh Development Systems Corporation. According to the same study, 45 per cent of the bonded labourers had been bonded for over 10 years.

Following this study, an office for the rehabilitation of bonded labourers was set up in Manikpur. It was found on the basis of a door-to-door survey by this office that only 252 bonded labourers existed in this block. The cases of all these bonded labourers were referred to the office of a sub-divisional magistrate who decided that only 117 of them were bonded. While all this was going on, many bonded labourers were of course being forced under threats to say that they were 'free'. These 117 bonded labourers were then rehabilitated by giving them several types of assets, including weak and sick animals and a 'band and bugle' in at least one case.

It is anyone's guess how much cash assistance was actually given to the bonded labourers after the tortuous process of identifying them had continued for several years, and how much money was spent on the research work, survey, transport, salaries, etc, relating to the identification of bonded labourers. The money spent under the second head is likely to have been much higher than that under the former head. Needless to add, no legal action has been taken against any employer of bonded labour.

As for IRDP, according to official statistics, nearly 600 people became its beneficiaries in Manikpur block in 1984. The population of Manikpur block is nearly one lakh, and the percentage of people living below the poverty line is likely to be higher than the national average. In the context of these facts it would appear that despite all the publicity, the coverage of IRDP is still quite narrow compared to the overall number of the poor.

In the case of IRDP loans, the feeling is quite widespread that at least the subsidy component is wiped out because of corruption and the expenses incurred by the beneficiary in pursuing the loan. Whatever contribution such schemes make to the alleviation of poverty, they have at least spawned a new breed of middlemen who get something for the beneficiaries, something for the officials, something for the dealers (from whom 'income-earning assets' are purchased) and of course something for themselves. It is quite common to come across beneficiaries who feel they have been cheated, or who claim to have learnt from some source or other that a higher loan has been shown against their name than what they had got. Even if all these complaints are not true, the fact that the 'beneficiaries' should be so uncertain and suspicious of the benefits they have received speaks for itself. Their suspicions need to be judged against the past experience of bank loans where people have sometimes even been held responsible for loans taken by others in their name in collusion with officials.

The poor quality of the animals or other income earning assets received by the beneficiaries is another frequent complaint. What is more, insurance claims are generally not settled for dead animals despite assurances to the contrary.

It may well be asked, in view of this unfavourable experience with these loans, why there is demand for them among the poor? One reason is that the middlemen who settle several of these deals are never anxious to convince the beneficiaries that the loans have to be paid back. In at least some cases the loan is taken in the spirit that 'if the government is giving something, why not take it?' instead of being treated seriously as a means for permanent improvement in income generation. The harsh truth that the loan has to be paid back is faced when the payments become due. Then some of the beneficiaries start fleeing when they see the vehicles of officials approach, but cannot always escape and are sent to the lock-up.

Lastly, some changes in the attitudes of the beneficiaries (specially tribals who live here in large numbers) brought about by the emphasis on this type of development programmes are also significant. Instead of redistribution of land and then mobilisation of the masses for land-improvement or small irrigation schemes (or the mobilisation of co-operatives of the poor for work in forests or quarries), this kind of development leads to the poor running around middlemen and officials to get some help and each individual competitively trying his luck in this effort instead of there being any community effort for improvement of working and living conditions.

# Women, Personal Laws and the Struggle for Secularism

### Vimal Balasubrahmanyam

RECENTLY, on April 23, the Supreme Court in a landmark judgment upheld the divorced Muslim woman's right to maintenance. The case got good coverage from the media. Some Muslim groups have reportedly criticised the judgment saying that it violates their personal law, while a Muslim lawyer has filed a petition seeking a review of the judgment. Judgments such as these need to be publicised for two reasons. One, unless Muslim women of all classes and especially from the disadvantaged sections are aware of the Supreme Court's ruling, it would be easy to dupe them into continuing to believe that the destitute divorcee has no right to maintenance according to the personal law. Secondly, all issues regarding various laws applicable to different religions are of relevance to the women's movement and information on them needs to be spread.

A major demand of women's groups in this country is that the government should enact a uniform civil code applicable to people of all religions. This was promised decades ago under Article 44 of the Constitution but there is no sign of any action towards implementing it. The laws relating to marriage, divorce, custody of children, maintenance and inheritance are still different for different religions although ours is supposed to be a secular state. Knowledge of how these different laws discriminate against women of different religions is necessary so that women, regardless of which religion they belong to, will realise their common cause in the demand for a common civil code. And for such knowledge to spread the media has a crucial role to play.

Consider, for example, the April 23 Supreme Court judgment. It made front page news; it was followed up by articles describing the finer legal details. There were editorials welcoming the judgment, while letters to editors expressed shades of opinion both for and against the judgment. And yet, in 1979, when the same Supreme Court gave a similar judgment on the same issue of maintenance for Muslim divorcees, there was hardly a ripple by way of press or public response.

In the *Bai Tahira versus Ali Hussein* case (AIR 1979 SC362), the Supreme Court had said that the payment of trifling amounts of *mehr* to a divorced Muslim woman is no substitute for maintenance. Earlier the Bombay High Court had adhered to a rigid interpretation of the personal law and had refused to grant maintenance allowance to the woman petitioner concerned. This was reversed by the Supreme Court in the first of the landmark judgments on this issue which is now, six years later, being discussed with so much animation.

Again, in 1980, the Supreme Court in its second important judgment on this subject (*Times of India*, Bombay, May 9, 1980) granted maintenance allowance to a divorced Muslim woman, this time reversing the judgment of the AP High Court. On this occasion the Supreme Court also passed severe strictures against the AP High Court for not complying with the precedent already set by the *Bai Tahira* ruling.

The role of the media is undeniable in making the public conscious of the implications of liberal new interpretations of the law, especially personal laws. If the April 23 judgment got the media treatment which the earlier two failed to generate, it is probably because it is only in recent months that the media has become more responsible to legal issues affecting the status of women. In the past couple of years a number of petitions have been filed by individual women challenging obsolete and discriminatory laws covering various religions. The media has taken note of some of these happenings and helped in generating public consciousness as well as public support on these issues. However, while the print media has responded, the government-controlled audio-visual media has not fulfilled its potential for raising awareness on such a socially relevant matter. Further, some channel of communication has to be devised by which such information also reaches those sections which are well beyond the influence of the formal media.

This is necessary not only in regard to landmark judgments but even in the matter of basic and indisputable legal rights. For example, when the Committee on the Status of Women in India was making its investigations, umpteen cases were noted of women not exercising even their limited property rights under existing laws, mainly because of ignorance. Obviously, ignorance about liberal *new* interpretations of laws is likely to be even greater.

Coming back to personal laws, since the Muslim personal law is rather topical at the moment, it is interesting to note that there have been important judgments beneficial to Muslim women (not necessarily in the landmark category, but significant enough) and one wonders how many of them are aware of these legal possibilities.

For example, in the case of custody of male children, the courts have allowed Muslim mothers to take recourse to the more speedy remedy of the *habeas corpus* petition rather than go through the lengthy litigation inevitable under the Guardian and Wards Act. Under personal law, Muslim mothers are entitled to preferential custody of sons upto the age of seven. In a number of decisions the courts have acknolwedged that custody cases can drag on for years and that the son may then cross the seven-year age mark, leaving the mother very little chance of getting custody.

Similarly, there have been important decisions on the Muslim wife's right to divorce if she has been denied maintenance for two years. There have of course been conflicting decisions and some courts have ruled that if it is the woman's 'fault' and the husband is 'justified' in denying maintenance, then she cannot 'take advantage of her own wrong'. Other judges have held that the wife's right to divorce in this circumstance is absolute regardless of whose 'fault' it is. The Status of Women Committee had dwelt on this aspect at some length and had recommended that the Muslim woman's right to divorce on denial of maintenance should be an absolute one. This is another issue where awareness and discussion would be helpful to affected Muslim women.

Another important judgment which deserves publicity was given last year by the Madras High Court (*Hindu*, August 6, 1984). A Muslim employee of the Indian Airlines was refused permission to marry a second wife under the Airlines' rule enforcing monogamy. He had challenged this in a petition, claiming that the rule violated his rights under personal law. The court, however, dismissed the petition and said that notwithstanding the position under personal law, the employee would have to abide by the Airlines' rule.

In an interesting case reported this April (*Patriot*, April 24, 1985) a Muslim woman has challenged her husband's right to marry a second wife. According to the news report, one of the points of argument is that according to Qoranic law, a man can marry again only if he can financially support both wives and ensure equal treatment for both.

The most significant case in recent months is of course the petition in the Supreme Court by Shehnaaz Sheikh of Bombay who has challenged the constitutional validity of Muslim personal law. She has argued that it violates Article 14 by treating Muslim women as unequal to Muslim men. She has also pointed out that the government has enacted laws which have given benefits to Hindu women but has failed to introduce similar legislation to do justice to Muslim women, thus violating Article 14. The case has received good media coverage and generated much public support. And yet, how many members of the public are aware that a similar petition challenging personal law was filed by another Muslim woman last year?

According to a news report (*Patriot*, July 27, 1984), a Muslim woman of Pune has challenged personal law and, interestingly, is supported in her action by her husband. Their grievance relates mainly to the topic of adoption which, I understand, does not have clear recognition under personal law. The couple have an adopted son and they have said that as his legal status is *not* acknowledged by the Muslim community, his future is uncertain. The petition says that since polygamy and unilateral divorce are permitted under personal law, childless wives are at a disadvantage. Like Shehnaaz's petition this one also refers to the government's initiative in reforming Hindu laws to benefit Hindu women but failing to introduce similar reforms in Muslim law.

Incidentally, the *Patriot* item mentions that CPI(M) general secretary E M S Namboodiripad, had issued a statement applauding the courageous action of the Pune couple. The news about this petition, to the best of my knowledge, did not appear in any of the other newspapers. One wonders if even *Patriot* would have picked up this piece of news but for the fact that a senior, veteran Leftist leader happened to make a public statement on it! And yet, this petition deserves as much public support as Shehnaaz's petition has rightly evoked. The role of the media in publicising such initiatives and generating support is obvious.

While Muslim personal law is in the news off and on, one must remember that discriminatory laws covering other religions too have been challenged in recent months by individual women, backed by women's groups. The latter have been vocal and active in publicising these issues and hence the greater general awareness about them as well as the more positive media coverage. These cases relate to inheritance laws which discriminate against Christian women in Kerala, Hindu joint family property law which discriminates against daughters, and Indian Divorce Act applicable to the Christian community which is unfair to Christian wives.

Against this broad background, the question naturally arises: what should be the stand of the women's movement on this issue of personal laws? There is of course a tacit agreement that women should unite in the demand for a common civil code. This was in fact highlighted and emphasised at the women's studies conference at Trivandrum last year. However, since the struggle to achieve this is going to be long and hard, it seems necessary for the movement to adopt also the more immediate objective of creating public opinion in favour of more liberal interpretations of existing laws covering different religions. The April 23 judgment on maintenance for Muslim divorcees is an example of an enlightened interpretation of the law which was earlier viewed from a rigidly traditional stand. Predictably, voices of protest against the judgment have emerged and these need to be actively countered, perhaps drowned, by voices of support and approval. The very climate of public opinion needs to be guided into favouring such liberal judgments which help in an important way to nullify to some extent the inequities in the existing laws.

Of course, the question may also be asked, why should women alone be uniting on this issue? Undeniably, all progressive sections, male and female, are agreed on the need for a uniform civil code. In fact, when two years ago there was this demand for a Sikh personal law, civil liberties groups were as vocal as women's groups in strongly condemning this retrograde step. (If a Sikh personal law comes into being, it would erode women's rights to property and would enforce compulsory marriage of a widow with the dead husband's brother.) However, two examples will illustrate why women of all religions have a special stake in uniting on this personal law issue.

It will be recalled that in the late 50s, when former justice V R Krishna Iyer was law minister in Kerala, he had introduced a Bill seeking to amend the inheritance laws which discriminate against Christian women in that state. He failed in his effort because he was opposed not only by the Christian Establishment but also by Muslim leaders and other members of the Opposition. The reason is obvious. Any success in reforming the laws governing one religious community is bound to pave the way for similar reform in the laws applicable to other religions. The fundamentalist, conservative and patriarchal bastion of all religions, however communal or fanantical they may otherwise be towards one another, are bound to unite when it comes to defending personal laws and opposing their reform. There is also the patently political angle.

Last year, when former Chief Justice Potti of Gujarat High Court stated during a seminar in Trivandrum that there ought to be a uniform civil code, he was criticised not only by Muslim leaders but reportedly also by Kerala's Hindu chief minister, K Karunakaran. Obviously, vote-catching requires refraining from 'offending' religious sentiments. And leaving personal laws untouched suits conservative and opportunist males of all religions and political parties.

The second example is more bizarre. Once again, this was an item in the *Patriot*. (Some time in 1982, I have the cutting but not the exact date.) According to the news report, a Hindu male had filed a petition in the Supreme Court charging that the Hindu Marriage Act enforcing monogamy is discriminatory and violates Article 14. His contention is that the state allows Muslim men to have four wives and Jewish men to have two wives but discriminates against Hindu men by allowing them to have only one wife.

Thus, the discriminations inherent in the laws for different religions can be viewed differently depending on whether you are male or female. Muslim personal law, for example, can be seen either as a potential source of oppression to Muslim women or as a source conferring 'benefits' to Muslim men which the men of other religions too wish to enjoy. The irony is that in both cases Article 14 is the bone of contention.

Against this general picture, the need for action by women's groups on these discriminatory laws becomes logical. And along with the demand for a single civil code, the stake which the women's movement as a whole has in achieving a truly secular state also becomes obvious. The Status of Women Committee had long ago observed that no religion in its institutionalised form concedes or accepts the concept of gender equality. Secularism has not so far been seen as an issue of specific concern to the women's movement as such. In recent times, women's groups doing relief work among victims of communal violence have realised how devastating the impact has been, especially on women in the affected areas. Although women's groups do have myriad issues to take up, hopefully there will be increasing realisation among them that secularism and the goal of a truly secular state are also important areas for stimulating awareness and action.

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## UNITED KINGDOM

# Thatcherism and Reform of Welfare State

### Michael Jacobs

THE British government has unveiled its plans for the most comprehensive reform of the Welfare State since the latter was established after the Second World War. The consultative Green Paper published in May by Social Services Secretary Norman Fowler may have failed to live up to its pre-publication billing as a coherent, systematic reformulation of welfare provision: it looked more like a simple cost-cutting exercise. But within its proposals do lie fundamental changes in the principles of the welfare state which reveal clearly the ideological drive of Margaret Thatcher.

The proposals are based on four reviews of social security instituted by Fowler last year, on pensions, low-income support, family allowances and housing benefit. The public face of the reviews was impressive: over 40,000 consultation documents were issued and 4,500 pieces of evidence received. But privately the process was characterised by political calculation and ministerial infighting—principally between Fowler and the Chancellor of the Exchequer, Nigel Lawson, over the savings to be made—and the final proposals differ substantially from those recommended by the review teams. The latter's remit had already precluded the establishment of an integrated tax and welfare system, for which many who gave evidence pressed, while the goal of cutting costs prevented the proper 'rationalisation' of the system the Prime Minister had ordered. Contrary to her claims, there was little fat that could be cut off welfare provision without hurting the poor who depend on it. So it has proved.

The reviews—which were not part of the Tories' 1983 Manifesto—were forced on the government in mid-term by financial considerations. In common with all the industrialised nations, recession-hit Britain has encountered a 'fiscal crisis' in which the rising cost of welfare (five times faster than the rate of inflation since 1945) can less and less be afforded out of the profits of industry and the taxation of a declining number of employed workers. While welfare provision has always been an important social base for economic growth—controlling and moulding the labour force—industrial profitability has fallen so low over the last 20 years that the State has found itself with a simple problem of financing it. In Britain the social security budget is now £40 bn pa, nearly one-third of all government expenditure. In the last six years alone it has risen 30 per cent in real terms, and the trend remains upwards. Upto half of this rise is due to the three-fold increase in unemployment since Margaret Thatcher came to power in 1979—with 3½ mn officially out of work, the direct cost of unemployment benefits is a huge £ 7½ bn—and the rest is due to a rise in low-wage-based poverty. Five per cent of the population now lives below the subsistence-level poverty line. Cost has been compounded by complexity: the social security system's rules run to 16,000 paragraphs, administered by a staff of 38,000.

But alongside financial necessity stands Margaret Thatcher's ideological antipathy to the whole concept of State welfare. "Can we afford a system which encourages idleness and irresponsibility, and discourages initiative and enterprise?" asked her protégé Nigel Lawson recently. For Margaret Thatcher and her followers, social security reduces the incentive to work: many of the unemployed, they claim, are better off on the dole than in a job. In its crusade to 'free the labour market' the government has already been pushing the wages of low-paid workers down—through its own public sector pay policy, a variety of low-wage subsidies for young and part-time workers, and by the forthcoming abolition of the statutory councils setting minimum wages. Now welfare benefits are to follow. Although it is not yet known at what levels the new benefits will be set, the direction is clear. Under the Fowler proposals, the 'Family Income Supplement' to low-paid workers with children will be replaced by a new 'Family Credit' paid through the wage packet. This will encourage employers to set lower wages—the Credit will act like a subsidy. Similarly the new 'Income Support' for the poor (in and out of work) is to be based on net not gross income, thus reducing the high marginal rates of tax experienced by workers coming off the dole into low-paid jobs. The aim in both cases is to open up the labour market at the bottom end of the wages scale.

Even more fundamentally, the 'Thatcherites' are opposed to what they deride as the 'nanny State'. In looking after citizens 'from cradle to grave', the State, they say, saps individual independence and self-reliance, and removes the moral compunction to 'stand on one's own two feet'. Margaret Thatcher has frequently spoken of her desire to return to 'Victorian values'. The individualist self-help philosophy of Samuel Smiles has always been prominent amongst them. It is this philosophy which underpins both the two fundamental changes of principle embodied in the Fowler reforms.

First, there is a major move away from the principles of contributory insurance and of universality. These were the key features of the Beveridge Plan which laid the foundations of the welfare state in 1942. State pensions, unemployment and sickness benefits, child allowances, maternity and death grants—these were to be paid at a universal flat rate to every citizen *as of right*, regardless of income. They were to come out of a National Insurance Fund into which all those in work would contribute, proportionately according to income. However much or little, the individual's contributions were the moral basis of the provision he or she received. The Beveridge Plan assumed that governments would maintain full employment, so that the system would be self-financing. It envisaged 'National Assistance', paid according to the claimant's needs relative to income and wealth ('means-tested') being necessary only as a 'safety-net' for those permanently out of work who could not contribute to the National Insurance Fund.

As unemployment has risen, the contributory principle of the system has collapsed. There are now over eight mn people, more than one in seven of the population, dependent on Supplementary Benefit, the successor to National Assistance, set at subsistence level. (The rise in long-term unemployment means that only a third of those out of work actually receive Unemployment Benefit—which is contributory—since it lasts only a year.) Supplementary Benefit is means-tested, which involves claimants in a complicated and often humiliating bureaucratic enquiry into their personal circumstances. Many people still feel shame at claiming 'hand-outs'—means-tests remove the belief in a 'right to welfare' which attaches to universal benefits. As a result, more than £one bn worth of means-tested benefits go unclaimed every year.

The Fowler reforms make no effort to reinstate the principle of insurance. Unlike the Beveridge Plan it purports to emulate, the Green Paper does not mention the need to reduce unemployment. What it does do is to extend the principle of means-testing. Under the label of 'targeting relief to the most needy'—a goal which the low take-up of means-tested benefits suggests will not in fact be achieved—Fowler intends to abolish the universal maternity and death grants and replace them by discretionary means-tested payments. In replacing Supplementary Benefit by 'Income Support', he proposes to cut all additional grants paid to the poor, such as for heating, special diets, laundry and basic furniture. These will now have to be claimed, with a separate means-test, from a discretionary Social Fund, sometimes in the form of loans. In an explicit throwback to the Victorian values of blaming the victim, claimants "will be given help by social workers (and psychologists) on how to manage their budgets". As the Social Fund is to be cash-limited (the first part of the Welfare State ever to be so) this may be of particular use to claimants at the end of the financial year for whom no money is left

Fowler has not abolished Child Benefit, the widely popular (and almost 100 per cent claimed) universal allowance paid direct to mothers, largely because of pressure from the Conservative Women's Group and other lobby organisations. But from his statement—after the Green Paper—that Child Benefit would not be raised in line with inflation this year the government has clearly broadcast its intention to phase it down, and replace it in importance by the non-universal Family Credit and means-tested Income Support.

(This year's cut will immediately hurt seven mn mothers and 12 mn children, and specifically reneges on a government promise that Child Benefit would be uprated each year to retain its value. The move against the Benefit is only one of the Fowler reforms which affects women adversely: the new Family Credit will be paid to men. Abolition of maternity grant and of the state earnings-related pension scheme—which allows for maternity leave and gives divorced women a right to share in their husband's pension—will particularly hurt women, while the cutting of benefit to young people under 25 will create more dependency at home, reducing women's disposable income and the possibility of independence. An attack on the position of women has been a recurring feature of the Thatcher administration.)

The second fundamental principle underlying the Fowler reforms is that of privatisation. This has been a major theme of the Conservative government. It has taken the form both of selling off public industries, such as British Telecom, Britoil, British Aerospace and the Gas Boards, and of contracting out elements of the National Health Service, local government and social services to private firms. The government's aim has again been both financial—raising money for the Public Sector Borrowing Requirement—and ideological. Its desire to 'roll back the frontiers of the State'—opening up new areas for profitable investment—neatly dovetails with its determination to diminish the strength of public sector trade unions.

The Fowler Green Paper outlines a third component of the privatisation programme, the abolition of the state earnings-related pension scheme (Serps). In effect, the government intends to privatise occupational pensions. Under Serps, eleven million contributing workers are guaranteed on retirement a second, earnings-related and inflation-proofed pension on top of their basic State pension. The scheme particularly benefits lower-paid workers, who receive a higher proportion of their earnings than the higher-paid, and those who change their job or who are made unemployed, since the pension is based on the best 20 years of employment. Serps was introduced with all-party support in 1975 (and reaffirmed by Norman Fowler 18 months ago) as a means to minimise inequality in old age. The government now plans to abolish it.

Ostensibly this is on grounds of finance. As the number of pensioners rises, the cost of Serps will rise, from £100 mn pa now to £23 bn (at current prices) in 50 years' time. But as the three specialist advisers appointed to the review team showed, Serps could have been modified to keep its cost down without abolishing it. Private pensions, which are run at a profit (and which attract tax relief) ultimately cost more. In fact, one of the advisers subsequently revealed, abolition was not discussed by the review team at all: the members were opposed to it. Fowler ignored their advice. The proposal he has put forward is an ingenious phasing out of the scheme so that those already in it are not affected. But for others abolition will hurt: the minimum employer's contribution to a private pension has been set at four per cent, which for lower-paid workers will mean a much smaller retirement income, while the unemployed will lose their additional pension rights altogether. One commentator has described the proposals as 'planned pauperisation'.

Meanwhile the City is preparing for what the *Financial Times* called a 'bonanza', as an expected £four bn is switched to private occupational pensions. Following the Green Paper announcement, shares in pension funds and Life Assurance companies shot up.

Despite the far-reaching nature of the Green Paper, the government has not released figures showing exactly who will benefit and who will not, and how much money it is intending to save. The figures were in fact removed (along with some intended changes, such as a reduction in unemployment benefit) at the printers: the government was clearly nervous about the public impact of the proposals. Unofficial estimates suggest that the savings will amount to about £one bn, principally through the cuts in housing benefit. Although this is less than the government would originally have wished, it is still a significant addition to recent cuts in the National Health Service and the education budget, aimed at reducing the State's welfare 'burden'. It also reinforces the regressive trend in the government's fiscal policy. Since 1979 £8.2 bn has been cut, in real terms, from the social security incomes of the poorest 15 per cent of the population, while tax cuts have furnished an extra £six bn to those on higher pay, including £2.6 bn to income-earners above £20,000 pa. (The UK average wage is about £8,000.) Michael Meacher, the Labour Party's Social Services spokesperson, recently described this redistribution as "Robin Hood in reverse ... a shift to the rich from the poor on an unprecedented scale".

Margaret Thatcher's calculation is that such a shift will gain her support rather than lose it. The savings made in the Green Paper will contribute to an estimated £five bn worth of tax cuts the Chancellor aims to give away in two years' time, just before the next General Election. The proposals carefully avoid touching the 'hidden welfare state' of tax relief on mortgages, company cars and other perks which benefit the more affluent. Meanwhile the abolition of Serps, it is hoped, will create a new class of private occupational pension holders with a financial and philosophical stake in Conservative rule. (Labour has pledged to reintroduce the State scheme.)

Yet this is not necessarily safe ground for the Tories. Public support for the principles (if not the practice) of the welfare State is one of the Labour Party's strongest bases, and its attack on the Green Paper has already been vociferous. "If this review is a series of reforms with the beneficial purpose of refining the system of social security, then the blitz was an exercise in town planning", said Neil Kinnock, Labour leader. The Party has already outlined its own proposals for reform, centering on the integration of the tax and benefit systems, with minimum and maximum wage limits, a progressive reform of the tax structure and universal benefits based on a 'participation' rather than 'subsistence' standard of living. Along with many organisations representing women, children and the elderly, it will seek to publicise the Green Paper's likely effects through the summer and into the autumn when the government finally publishes its figures. Already Fowler has come under pressure from backbench Tory MPs to modify the proposed housing benefit cuts, particularly as they affect pensioners. With the government sliding backwards in the polls, Margaret Thatcher's latest assault on the post-war consensus may prove a dangerous course.

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Administrative Officer

# Jyoti Basu and Multinationals

### Ashok Rudra

SO now we have it from the horse's own mouth! Of course, the horse has spoken similarly many times in the past. But we never had a verbatim report. One knew from press reports about various steps taken by the West Bengal government and various declarations made by its chief minister about the government's industrial policy, but references to them by critics like ourselves were vehemently dismissed by the intellectual supporters of the Left Front as mischievous press distortions and we were advised to consult sacred party documents. But now we have the benefit of the full text of a speech made by Jyoti Basu on the occasion of the inauguration of the Hindustan Lever Fertiliser Factory on June 26 of this year. Thanks are due to the *Telegraph* for doing this important service to the public.

The chief minister stated in one place in the speech: "I, being a Communist, am being very frank." As such, we are entitled to take his observations as reflecting truthfully his views *as a Communist*. They are mostly about private industrial capital, both national and international. We present below some delectable passages.

Firstly, take his view about the aim with which capitalists invest capital. Speaking about the plant he was inaugurating he says " ... this particular factory which, I believe, represents an investment of Rs 22 crore for *helping agriculture* ..." (emphasis added). So, now we know! We had it wrong all along! Ever since the genesis of capitalism, one has taken for granted that capitalists invest for making profit. This assumption has not been restricted only to Marxists or other opponents of capitalism. It is a central principle of neo-classical economics as well as a matter of commonly held public opinion about businessmen's motivations. Now we know that when a multinational invests in the fertiliser industry, it does so "for helping agriculture"! Elaborating further his attitude towards multinationals and Indian monopoly capitalists, he had the following to say: " ... when somebody comes and tells me that he is interested, I do not take more than half a minute to agree with that industrialist. I tell him, you come along with me, we shall give you all the help necessary. I think a technical team has come from West Germany and America today along with Mr Goenka. It is a good thing. *I will show them around*" (emphasis added). The reader may not miss the last sentence. The chief minister promises to go around himself with Goenka and his German and American collaborators. Is this not what in English figurative speech is called red carpet treatment? As to Free Trade Zones, he said: "We have now got the tax-free export zone near Calcutta ... I am informed it is going ahead very well". Readers of *EPW* may remember that repeated angry fulminations in the columns of this journal against such zones, when they were being considered for other parts of the country, made by that passionate enemy of capitalism and ardent supporter of the Left Front writing under the signature of AM. But that was yesterday and they are all lost in "Yesterday's seven thousand years". Lost, along with many other things, like the equally passionate arguments against the kulak lobby forcing the government to raise the prices of farm products, for by now the West Bengal government has also fallen in with the line laid down by the Punjab rich farmers.

But we are digressing. We shall wait for another occasion when the chief minister will speak frankly as a communist about his red carpet treatment extended to jotedars. Let us come back to the multinationals. We do not want to quote the chief minister out of context. His red carpet treatment is subject to the following qualification: "The Union government has made guidelines for implementing laws in regard to not only foreign and multinational companies but monopolies as well. If any company following those guidelines ... operates and invests and reinvests ... it will be foolish not to support such ventures". In the course of the speech he made several references to having "differences with our planners and the Union government on many basic issues". But obviously there are no such differences on matters of policy towards monopolies and multinationals. For we have a clear statement that once the Union government's guidelines are followed multinationals and monopolies are all welcome. Anyway, we have further categorical declarations of policy in such words as the following: "We have a mixed economy. We mobilise the private sector, we mobilise the state sector so that *all of us together can advance the cause of our country*" (emphasis added). Surely, this sounds like a familiar tune! When did we hear it? It is difficult to answer; for it is like an immemorial folk song, chanting the role of private capital advancing the interests of the people. Listen again to the same tune: "We are now receiving applications from the private sector. We are inviting them for the joint sector. We have also invited the private sector to take the land and go ahead and do the needful *for the advancement of our economy*" (emphasis added). Do we recall faintly people in general, not only those calling themselves communists, getting upset at the very idea of a joint sector?

The occasion being the setting up of a fertiliser plant, we have also the benefit of the chief minister's views about the Green Revolution strategy. Thus: "Our farmers and agricultural labourers have had the ability to absorb the technology which is called high technology, along with appropriate technology of various kinds made available to them". What a pity that the chief minister should slip up in this fashion, especially as he has the benefit of advice from so many highly competent economists. How can "high technology" go along with any kind of "appropriate technology", given that the latter is conceived of as its anti-thesis? The New Technology in Indian agriculture consists of a package of chemical fertilisers, private pump irrigation, mechanisation, chemical pesticides, etc. The appropriate technology alternative would call for much less dependence on chemical fertilisers and much more on organic manures to be gathered from various unconventional sources; much less dependence on plant nutrients and plant protectors (e g, chemical pesticides) and much more on water; much greater reliance on public irrigation with the help of non-energy consuming contraptions, much less on privately owned energy consuming industrially manufactured pumps and other gadgets; improvement of traditional agricultural implements rather than the induction of tractors, harvestors and other mechineries; and so on. No kinds of appropriate technology are being made available to our farmers, either by the Government of India or by the Government of West Bengal.

That the Green Revolution strategy is inequality aggravating and unemployment creating (in its mechanisation aspect) has now been definitively established. Among the countless articles and books that have contributed to this is a book by Biplab Das Gupta who happens to be one of the economists attending upon the chief minister. How strange that despite this the chief minister should speak with the voice of Ludhiana. It is also strange that one can possibly ignore the all too well-known fact that the Green Revolution strategy has been sold to the country by American experts and that among the powerful forces behind it lie the lobby of multinational fertiliser manufacturers and fertiliser plant manufacturers. The chief minister s warm welcome to any industrialist who will invest in West Bengal is totally devoid of any awareness of the imperialist menace represented by these lobbies.

Those right-wing economists who support the technology associated with the Green Revolution sometimes argue that there is, after all, no other viable alternative. That there is an alternative to the massive use of chemical fertiliser and farm machinery has been firmly established by international experts in several reports issued by the FAO as well as the Government of India.* The designing of new instruments requiring little capital and scarce energy and absorbing a great deal of human and animal labour has taken the form of a powerful movement in many countries of the world, though unfortunately not in India. The Left Front Government of West Bengal has not shown the slightest interest in encouraging a technological approach to agricultural development which would be an alternative to the one being pursued by the Government of India and which has for its motto 'Growth at the Cost of Social Justice'. Jyoti Basu's speech fully exposes the total bankruptcy of the Left Front government's development policy.

* See, for instance, the following:

FAO (1962): "Efficient Use of Fertilisers", Food and Agriculture Organisation of the United Nations.

FAO (1976): "Development of a Programme Promoting the Use of Organic Materials as Fertilisers", Food and Agriculture Organisation of the United Nations.

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## REVIEW

# Technological Underdevelopment

### M R Bhagavan

**Technological Capability in the Third World** edited by Martin Fransman and Kenneth King; London, Macmillan, 1984; pp 404.

LOOKING back over the last three decades, it is apparent that the ruling groups and the ruling classes in most underdeveloped countries (UDCs) have failed signally in generating sustained growth per capita in modern agriculture, industry, transport and communication. The crisis in capital accumulation that this signifies for the ruling groups has been further exacerbated by their inability even to organise the maintenance and proper functioning of the small modern sector they took over from the colonial regimes. There are both underlying and proximate reasons for this failure. The book under review deals with one of the important proximate causes, *viz*, the inability to create the conditions under which imported western technology can be assimilated, adapted and changed to overcome local constraints, and thus can be efficiently used, reproduced and further developed.

The building-up of technological capability within the confines of a nation-state is affected not only (i) by the technical, economic and educational conditions prevailing inside the country, but also even more (ii) by the social relations of production (both national and international) and the workings of imperialism (as experienced through the terms of foreign trade, foreign investment, etc). Most of the authors in this book deal with aspects of the first set of conditions. The notable exceptions are Colin Leys who puts the social relations of production at the centre of the stage and Manfred Bienefeld who discusses the impact of imperialism, *albeit* very obliquely.

In analysing the technical, economic and educational conditions that inhibit or promote indigenous technology-learning and technology-creating capacities, the various papers in the book crystallise around two approaches: the first approach asks why some among the 'newly industrialising countries (NICs)' have been so much more successful than others, such as for example South Korea as compared to India; the second approach compares a NIC, say Brazil, with itself over a span of decades and asks how it managed to make the transition from a level of low technological capacity to a level of high capacity.

The comparison of India with South Korea brings out clearly the areas of agreement and disagreement among neo-classical economists on the technology question: They generally agree that the intervention of the state in protecting 'infant' industries during the early phase of import substitution has greatly helped in establishing a technological base, especially in the key sector of capital goods (i e, embodied technology)—this is accepted as established even for Japan and South Korea. Disagreement surfaces when they analyse the period that follows the 'early phase': one group of neo-classicists (who appear to be in a majority) lovingly cite the strategy of the South Korean state of liberalising technology imports and actively promoting exports, which exposed the domestic firms to the rigours of foreign competition. This competition, they maintain, forced individual firms to adopt the latest western technology and innovate further on the basis of assimilation of that technology. They point to India as the classic case which did not adopt the 'South Korean strategy', but persisted in providing protection to domestic oligopolies and monopolies, with the result that technological stagnation has deepened in that country. The other group of neno-classicists challenges this analysis, and maintains that if the gates had been opened wide to foreign technology before import-substitution had matured, the process of creating local technological capacity would have been subverted. They claim that as a result of the restrictions on technology imports imposed by the Indian state, the indigenous technological capacity of Indian industry is deeper and wider than that of South Korea. However, both these groups in the neo-classical camp are agreed that at least now, when import-substitution is long past its prime, the 'laggard' NICs (e g, Barazil, India, Mexico) should follow in the footsteps of the 'leading' NICs (e g, South Korea, Taiwan, Hong Kong and Singapore). In general, the neo-classicists are opposed to state intervention and across-the-board policies and measures. They want to see the initiative for technological development left to the individual firms. If they see a role for the state in the technology area at all, it is one of implementing measures tailor-made to suit the specificities of firms, which is where the second approach in the book comes to its own, i e, examining a country's specific experience with respect to itself over time. The major conclusions that emerge from the second approach are that (i) productivity increases in *some* capital goods industries have occurred as a result of state-imposed protection from technology imports, (ii) investment decisions involving import of foreign technology should explicitly allow for, and insist on, the technology-learning process, i e, mechanisms for assimilating within a firm both the know-how and the know-why of imported technology, and (iii) a proper sequencing must be identified and established in allocating resources to technological capacity building among various industrial branches, because advances in some branches depend upon prior advances in others.

The two editors, Martin Fransman and Kenneth King, provide good overviews of the debate and able summaries of the papers contained in the book. Fransman deals with the technical and economic aspects, while King concentrates on the learning and educational aspects. I entirely agree with Fransman when he points to the demise of the neo-classical and the dependency paradigms (page 6). But that has not prevented him (as an editor) from giving the lion's share of the book to neo-classicists—the odd dependista and Schumpeterian had to rest content with the meagre leavings! Which presumably goes to show how hard it is to escape the tentacles of the Sussex-Oxford-World Bank octopus! *Plus ca change, plûs la même chose*.

Many Third World governments had high hopes that by rapidly expanding the number of students entering higher education in science and technology, they would equally rapidly build up national technological capacity. It took them over a decade to discover, and at great cost, that a mere churning out of hundreds and thousands of science and engineering graduates from 'examination factories' was not synonymous with technological capacity building. (One of the leading practitioners of the self-delusion that confuses quantity with quality is India, whose official and non-official spokespersons are forever bragging about India having the third largest number of engineers in the world. Ronald Dore is entirely justified in his caustic remarks on the general lack of quality and the widespread shoddiness in Indian industrial goods and infrastructural services.)

In his able and wide-ranging review of the complex of issues that affect the utilisation of off-the-job science and technology education for technology capacity building, Kenneth King spotlights the critical importance of complementing formal school and college education (i e, off-the-job education) with on-the-job learning of both the technological and non-technological kind, the latter in particular for entrepreneurs. He finds (page 52) that "in several countries in Africa, the firms with a very high indigenous technology capacity record have a very poor record in off-the-job training, while the government, parastatal and multinational sectors which patronise the state training system are not considered particularly innovative". He points out further that the spreading-disease of the "bureaucratisation of science manpower is a direct counterpart of the theoretisation of science and technology in schools and colleges" (page 54) in those underdeveloped countries where job-opportunities and research careers in industry are extremely limited.

The title of the book is somewhat misleading: it is really more about the NICs than the Third World in general. Of the eight NICs that figure prominently in the book, four have already made the transition from the Third World to the first world (South Korea, Taiwan, Hong Kong and Singapore), while two (India and Brazil) with their enormous natural resources and very large economies are hardly representative of the bulk of the Third World countries. The book may prove of interest to those who are looking for plausible-sounding proximate explanations by well known neo-classical analysts of why the four East Asian NICs have succeeded so dramatically where the other NICs are stagnating of faltering in their attempts at technological development along the capitalist route. The analyses advanced are of little relevance and hardly of any help to those who want to understand the continuing, or even deepening technological backwardness of most of Africa and large parts of Asia and Latin America. NICs are clearly not the whole of the Third World! Colin Leys is surely right when he points out that (page 181) "to understand the process of state-directed development of production relations we must first understand the class forces of which the operation of the state is an expression. In relation to the NICs, this means that we cannot explain the emergence of a class of industrial capitalists and the rapid expansion of manufacture by reference to the operation of a 'strong state'; on the contrary, we must seek an explanation of the operation of a 'strong state' in the prior strength of the class of capital."

To get at the *underlying* reasons for the technological underdevelopment of the Third World, one has to get to grips with on the one hand the political-economic interests of the dominant classes at the national level, and on the other hand the imperialist interests of international capitalism at the global level, and the intermeshing of the two. There are several substantial studies within the framework of Marxian political economy which attempt this task, but none of them appear in this book. As for the World Bank's strategy for sub-Saharan Africa, one should heed Bienefeld's warning that (page 172) "using this [NIC] experience to urge sub-Saharan African economies in 1982 into export-promotion, import and capital liberalisation, and a withdrawal of governments from economic activity, is not only inappropriate, but borders on the incredible".

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Peasants, Workers and Freedom Struggle: Jalpaiguri, 1945-47
Ranajit Das Gupta

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REVIEW OF POLITICAL ECONOMY

# Peasants, Workers and Freedom Struggle
## Jalpaiguri, 1945-47

Ranajit Das Gupta

*This essay makes a preliminary attempt to deal primarily with the stream of popular movements, particularly peasant and worker movements, in Jalpaiguri, a district in North Bengal that had a significant role during the climactic years of 1945-47 in India's struggle for freedom. It discusses popular participation and analyses the nature and significance of such participation in the national movement. It also touches on the links and interactions between different streams of the national movement, different approaches to freedom struggle and, further, the interventions made by the major anti-imperialist political forces.*

## I

### Society and Economy of Jalpaiguri

IN 1945 the Jalpaiguri district included present day Jalpaiguri and five other *thanas* (Boda, Debiganj, Pachagarh, Titalya and Patgram) now in Bangladesh. Formed in 1869, the district comprised two distinct tracts, *viz* (1) the regulation portion lying to the west of the river Tista, and (2) the non-regulation portion, the Western Duars or commonly known as Duars, annexed at the end of the Anglo-Bhutan War of 1864-65, covering the portion east of the river Tista.[1]

The first tract was a permanently settled one. It was also a long settled tract with little margin for extension of cultivation and a large but decadent population. The Western Duars was very sparsely populated when first acquired. The British classified the land into three types: the tea plantations subject to privileged Regulations, the reserved forest areas, and the *Khas Mahal* area, i e, all other cultivable land owned by the government. By early twentieth century the entire Duars area came to be studded with tea gardens. Cultivation also expanded rapidly and between 1872 and 1931, population increased seven-fold mainly through immigration.[2]

One distinctive characteristic of the Jalpaiguri society was its variegated composition. In 1931 the district's total population was 9,83,357.[3] Of them the Hindus constituted 67.5 per cent and the Muslims 24 per cent. The Rajbansis, an autochthonous group, constituted about 34 per cent of the 1931 population. The precise origin, status and folk history of the Rajbansis are, however, not yet well-known.[4] The early history of the local Muslims too is obscure.[5] These two population groups formed the bulk of the landholders of various categories and also the core of the working peasantry. Most important among the landholders were the *jotedars*, and among the peasants, the *adhiars* or share-croppers.

Oraons, Mundas and Santals whose immigration into the district was organised by the tea planters to meet growing labour requirements numbered two lakhs in 1931 and constituted one-fifth of the district total. A large section of the ex-tea garden tribal labour later on also came to be settled as *adhiars*.

Upper caste Hindus (Brahmans, Baidyas and Kayasthas) formed in 1931 a meagre 1.7 per cent of the population. Following the formation of the district in 1869 Bengali caste Hindus hailing mainly from East Bengal districts and Bengali Muslims from Noakhali, also an East Bengal district, moved into the district as service holders, professionals, traders or *maulavis*. The district also came to be traversed by Marwari financiers and merchants. The two small towns of the district—the district town Jalpaiguri and the sub-divisional town Alipur Duar—grew essentially as settler towns, Rajbansis and local Muslims having only a marginal presence.

The most noteworthy feature of the Jalpaiguri economy, especially in the Duars, was the growth of an economic enclave in the form of the tea plantation sector.[6] By 1931 there were 151 gardens in the district with 132,000 acres under tea. Except eight gardens located in the area west of Tista, all the gardens were in the Duars. But the plantation sector failed to have any significant spread effect in the region. The Bengal Duars Railway (BDR) line, launched in 1893 under the aegis of Octavius Steel and Co to connect the tea garden areas and meet the narrow requirements of the planters, by and large bypassed all non-plantation settlements.

The plantation sector itself remained under extensive and firm British control in terms of ownership and management. But certain circumstances prevailing within Jalpaiguri's society and economy led quite early in the history of the district's tea industry to the emergence of a core of indigenous capitalist entrepreneurship. In terms of social origin the Indian entrepreneurs came mainly from Jalpaiguri town based families of Bengali Hindu and Muslim service holders, legal practitioners, traders, contractors, etc, and also of a few Marwari merchants.[7] However, within the European controlled plantation sector and administrative framework the Indian entrepreneurship had a subordinate status. As late as in 1947-48 out of a total of 155 tea gardens in the district, 100 gardens or 65 per cent of the total covering 81 per cent of the tea garden area were under the ownership and management of European concerns.[8]

As regards the labour force employed in the industry in 1931 it numbered 116,853 constituting 11.8 per cent of the district's population. The overwhelming majority was composed of various tribal groups, mainly Oraons and Mundas, recruited from Chota Nagpur and Santal Parganas. There was a sizeable chunk of Nepali labour too.

The Duars labour was, however, unlike the Assam system, not recruited under the indentured arrangement. But that did not mean that the conditions of work and living of the Duars labour were less harsh. Government enquiries made in 1945 revealed that their life situation was brutish, maternity benefits non-existent and sickness benefits existed only on paper.[9] Though not recruited under penal contracts, the labour suffered from various kinds of unfreedom. Corporal punishments including flogging were common practices. It was kept under guard day and night and had little freedom of movement. Tiny plots of paddy land were given to the labour as a means of binding it to the garden as cottar on the plantations. This allotment of paddy land also enabled the planters to cut down their cost for the maintenance and renewal of the labour force. The estate manager was for all practical purposes the only authority for labour. Under the circumstances, the labour was reduced to a semi-servile status.[10]

While the plantation system occupied the key position in the economy of Jalpaiguri, the large majority of population remained wedded to land. The form of control over land and labour that emerged as the dominant one in Jalpaiguri was the *jotedar-adhiar* relations or the *barga* system under which the *bargadar*, or in local parlance *adhiar*, virtually a semi-serf, usually cultivated the *jotedar's* land with his (*adhiar's*) plough and cattle and handed over half of his produce to the *jotedar* in kind rent. He did not have any tenancy right and suffered from various forms of exorbitant exactions.

In Jalpaiguri and also in the neighbouring districts of Dinajpur and Rangpur the system was old and fairly common. In the closing decades of the 19th and early decades of the 20th centuries the system became still more widespread in these three North Bengal districts. In Jalpaiguri the tea garden development, the influx of a large labouring population, the expansion of roads, railways and communications and the colonialised commercialisation of agriculture—all led to a rapid and substantial extension and consolidation of the *jotedar-adhiar* relations.[11] The big *jotedars*, particularly those in Duars, not infrequently owned hundreds of acres of land and had scores of *adhiars* under them. The Settlement Officer Milligan noted that by mid-1910s elements of an extensive and serious crisis were being accumulated within Jalpaiguri's agrarian economy.[12]

The Depression of 1929-32 aggravated the process and brought about certain structural changes in agrarian relations.[13] The Land Revenue Commission of 1938-40 expressed concern over the phenomenal growth of the share-cropping system.[14] In Jalpaiguri this growth was particularly pronounced. The Commission found that of the total land transferred in Bengal between 1928 and 1940, 31.7 per cent was cultivatd by *bargadars*. For Jalpaiguri the relevant figure was much higher—42 per cent of the transferred land. Further, in the province as a whole, of the families enquired into 12.2 per cent lived mainly or entirely as *bargadars*. For Jalpaiguri the figure was 26.6 per cent. Again, while in the province 21.1 per cent of the total cultivated area enquired into was cultivated by *bargadars*, in Jalpaiguri 25.9 per cent of such area was cultivated by *bargadars* or *adhiars*.[15]

To sum up, Jalpaiguri came to provide a microcosm of maldevelopment caused by colonial commercialisation. The plantation system and the *jotedar-adhiar* relations evolved as two sub-systems of the colonial socio-economic order. The system of oppression that involved the plantation labourers and the working peasantry was based on a social existence form of labour that was essentially unfree. The requirements of colonialism also led to the growth of fairly large and heterogeneous body of town-based petty bourgeoisie engendering its own contradictions.

## II

## Trends in Anti-Colonial Movement: Early 1920s to Mid-1946

The above provided the background to the unfolding of the nationalist movement in the early 1920s. There was a fresh spurt in the early 1930s.[16] The District Congress Committee led by nationalists coming from immigrant, caste Hindu, town-based educated Bengali or *bhadralok* families, however, remained indifferent to explicit peasant grievances. It displayed a remarkable apathy to the brutal expolitation of the tea garden workers, the 'coolies'. (One major reason for this was the inhibiting influence of close social connections that many of the Congress leaders had with Jalpaiguri's Hindu planters. No less important were the ideological constraints of the Congress leaders and also the socio-cultural distance between the town-based *bhadralok* nationalised and the plantation labourers.)

It was only in the wake of the formation of the District Krishak Samiti (December 1938) and of a unit of the illegal Communist Party (February 1939) that a peasant movement involving large sections of Rajbansi and Muslim peasants and *adhiars* took shape in the winter of 1939-40 in Boda and Debiganj *thana* areas—areas having also a tradition of Congress-led activity since 1921. The agitation was against collection of excessive tolls at the *haats* (weekly rural markets), various levies or *abwabs* exacted by the *jotedars* from the *adhiars* over and above the half share and exorbitant interest on *karja* or consumption loan in paddy and also for the right to stack harvested paddy at *nij kholan*, that is, at a threshing place chosen by the *adhiars*. The movement did also spread to the adjoining areas of Dinajpur and Rangpur districts. The administration responded by conceding some demands and also by launching quite severe repression against the Krishak Samiti and the Communist organisers.[17]

The first trade union of the district, the BDR Employees Union, was formed in November-December 1938 as a branch of the Bengal-Assam Rail-Road Workers' Union. From the initial days some Communists were associated with the BDR Union.[18]

In the early forties there was not much of Congress-led mass activity. The Quit India movement caused comparatively little trouble to the district administration.[19] Congress leaders considered dangerous were arrested in early August. However, students and younger elements[20] helped to maintain a skeletal Congress organisation and carried on nationalist activity in various forms.[21a]

In terms of future potentiality for an anti-feudal, anti-imperialist popular movement, perhaps the single most significant development in the years between 1942 and 1945 was the spread of Communist activities in Jalpaiguri town and particularly in the rural areas of Debiganj, Pachagarh and Boda *thanas*. Despite the repression following the *adhiar* agitation of 1939-40, with the help of Rajbansi and Muslim peasant activists and peasant women militants the Communists of the district[21b] were able to maintain an effective underground network. After the withdrawal of the ban on the CPI in July 1942, they fanned out to the villages, and open activities of the Krishak Samiti were revived.

Though Jalpaiguri district was spared the severity of the 1943 famine and the mortality rate was relatively low,[22] mass suffering was nonetheless extensive and acute. The exploitative grip of the *jotedars* and *mahajans* over the rural masses, particularly small peasants, *adhiars* and day labourers was intensified through famine and wartime inflation.[23]

The response of the Communists to this situation, as elsewhere, was mass-oriented activities—vigorous campaign against hoarders and blackmarketeers, formation of broad-based food committees, dehoarding and vigil against smuggling, organisation of famine relief and other related activities and interventions against bureaucratic bungling and corruption.[24] Through such activities the Communists and the Krishak Samiti were able to a marked extent to expand and strengthen their influence and support base in the Debiganj-Pachagarh-Boda area. Further, the sort of resentment and opposition the Communists at times faced in the town because of their stand on the Quit India movement was not a problem in the rural areas.[25] These years also witnessed the growth and consolidation of the BDR workers' Union.[26]

Some of the activities of the Communists, particularly the campaign for seizure of food hoards and criticisms of the bureaucracy for its handling of the food and cloth situation, increasingly brought them into conflict with the administration.[27] By March 1945 it was being complained that the Communists "were causing disquiet to the District Officers of Jalpaiguri and Rangpur" and in Jalpaiguri they were "inciting *adhiars* against *jotedars*".[28]

The end of the war did not bring much relief to the people. Acute food shortage, scarcity of essential commodities, continuing inflation, blackmarketing and bureaucratic corruption and inefficiency plagued the life of the common people.

But socio-economic dislocation, though very important, was only one element in the post-war situation. The defeat of fascism, the demonstration of the might of the Soviet Union, a perception of the coming collapse of British rule in India—all combined to provide the background in which a new stage began in the history of political currents and cross-currents in the district. The urban middle class, particularly students and youth, and the rural population were in a restive mood. There was also an undercurrent of labour unrest in the Duars gardens that found occasional manifestations.

In mid-1945 the Congress leaders arrested in 1942 were released. But the activities of the district Congress leaders, as at the national and provincial levels, were not geared to the launching of any mass agitation but primarily to the preparation for the coming Assembly elections.[29] At the same time, a campaign was started against the Communists for their 1942 stand.

Of all the parties and groups, according to secret official reports, the CPI was most active in giving shape to popular discontent, particularly in the rural areas.[30] Yet with the launching of a tirade against them, the Communists faced an adverse swing of public opinion. Placed in such a situation the Communist leaders of the district chalked out a programme of mass agitation for relief and dehoarding and against interests on *karja*. The party also decided to set up a candidate from the constituency reserved for Scheduled Castes.

But the election preparations of the differnt political parties and the political lull were broken by eruptions of massive popular outbursts over the issue of release of INA prisoners first in late November and then again in February as well as the RIN Revolt. The impact of all this was felt in the district, particularly in the two towns Jalpaiguri and Alipur Duar, in the form of popular agitations—frequent strikes in schools and colleges, *hartals*, processions, meetings, hoisting of the National Flag, etc. While the established Congress leaders kept away from these agitations, all the Left groups and parties—Forward Bloc, Congress Socialists, Revolutionary Socialist Party and CPI—particularly their student organisations, took a leading part in these agitations. Muslim students and the District Muslim Students League also joined these agitations.[31] These agitations, however, mostly remained confined to the urban and semi-urban centres and their rural repercussions were limited.[32]

But the rural areas, particularly the Debiganj, Pachagarh and Boda *thana* areas were also in the midst of a peasant agitation against exploitation by *jotedars* and *mahajans*. In this agitation taking place in the winter months of 1945-46 the key demand put forward by the District Krishak Samiti was the demand for ending the practice of charging of interest on *karja*—a demand around which widespread *adhiar* unrest had taken place earlier in 1939-40.[33]

This and other issues relating to the grievances of the rural masses figured prominently in the election campaign of the CPI in favour of the party's candidate from the Jalpaiguri constituency—Radamohan Barman, a Rajbansi Krishak Samiti leader coming from a poor peasant family. In their campaign the Krishak Samiti and the Communists tried to link up the *adhiar* agitation and also the issue of abolltion of the *zamindari* system with the struggle for freedom. They put forward the perspective of a final bid for power on the basis of Congress-League-Communist unity, that is, mass struggle along non-communal lines.[34]

Understandably enough, the *adhiar* agitation aroused the ire of the big *jotedars*. The Rajbansi big *jotedars* flocked to the Congress or to the Kshatriya Samiti, a caste-based Rajbansi organisation, and the Muslim *jotedars* to the Muslim League. The Congress leadership, not to speak of the Kshatriya Samiti and the League, took an indifferent and even hostile attitude to the *adhiar* agitation.[35] This indicated the sort of tension that existed at the local level between the two major segments of the anti-imperialist leadership—one imbued with Marxist ideology and working for radical social transformation and the other one, much older, more powerful and commanding far greater popular support and prestige but afraid of attacks on the existing social order.

The election took place in March 1946. From the Jalpaiguri general constituency the Congress candidate defeated his Hindu Mahasabha rival by a huge margin. In the reserved constituency the CPI candidate was defeated by a Congress candidate by a margin of two thousand votes.

In the months following the election, barring two agitations—one in June-July 1946 and the other one in late January 1947,[37]—anti-colonial mass political activities were at a low ebb in the towns. However, in late 1946 and early 1947 large parts of Jalpaiguri witnessed an upsurge in popular movements of a nature and magnitude that had never before been experienced in the district.

## III

## Labour Upsurge in Duars

An entirely new and highly significant dimension was the beginning and rapid spread of unrest and agitation as well as nationalist and leftist political activities among the Duars plantation labourers. Prior to mid-1946 these labourers had not been organised in trade unions and by and large remained untouched by the national movement. But several developments during the War and immediate post-War years converged to bring about a critical change in the life-situation of the labourers. The sort of exploitation and bondage to which the labourers had been subjected under the plantation system has been indicated earlier. In the War years the extent of exploitation and misery was greatly increased. An official enquiry made in 1946 revealed that between 1939 and 1945 while the cost of living had gone up by at least 200 per cent in the Duars plantation area, the labourers' total earnings including concessions had only doubled.[37] The planters, however, minted money. Thus in 1945 some of the Duars tea companies distributed dividend ranging between 65 per cent to 110 per cent.[38]

The workers suffered from irregular and inadequate supply of and also from very bad quality of rice, adulterated mustard oil, scarcity of kerosene oil, and acute cloth shortage.[39] The end of the War did not bring in any improvement. In his Report for the year 1946 the Chairman of the Duars Planters Association (DPA) representing the European planters' interests said, "The past year should go down in the history of our Association as the year of shortage".[40] Wheat and wheat products partly substituted rice, while the labourers were habituated to take rice. The annual cloth quota was reduced from 20 yds per capita to 10 yds.[41] Evidently enough, the problems were much worse than these had been when the War came to an end a year earlier.

At the same time, the workers' perception of deprivation and exploitation must have been accentuated by other developments. As the ITA Chairman in his address before the DPA's 1946 Annual Meeting observed, "... the War has stimulated new demands and new standard of living for labour ..."[42] Another factor was the emergence of a situation of relative labour shortage in the gardens. The Eastern Front War projects had led to an increased demand for labour[43] which helped to create a bargaining power in favour of labour.

But economic factors alone do not provide the explanation for the widespread unrest that broke out in the Duars tea garden area. In the country as a whole there was what may be characterised "crucial shifts in collective mentalities".[44] The components as well as the determinants of such shifts require further probe. But the shifts and tumultous developments that had been taking place must have been affecting the Duars labourers.

Already Assam and Darjeeling labourers were in ferment. The Duars labourers too were in a restive mood. In June 1946 it was being officially reported that the labour situation in the tea gardens was "far from normal"[45] and by the end of the year the Communist Party, Congress and Gurkha League, as noted by the Rajshahi Divisional Commissioner K A L Hill, were active in the area.[46] To the typical imperialist bureaucratic mind and also the planters the workers were, in the words of ITA Chairman G A Rainey, "thoroughly healthy in themselves", but "new forces, working amongst an illiterate labour force are bound ... to produce stresses and strains".[47] ITPA Chairman T P Roy who was noted for his support to the Congress and public cause observed that labour unrest was "caused by agitators who seem to take advantage of the present difficult conditions of the country to excite labourers for the purposes of party strength".[48]

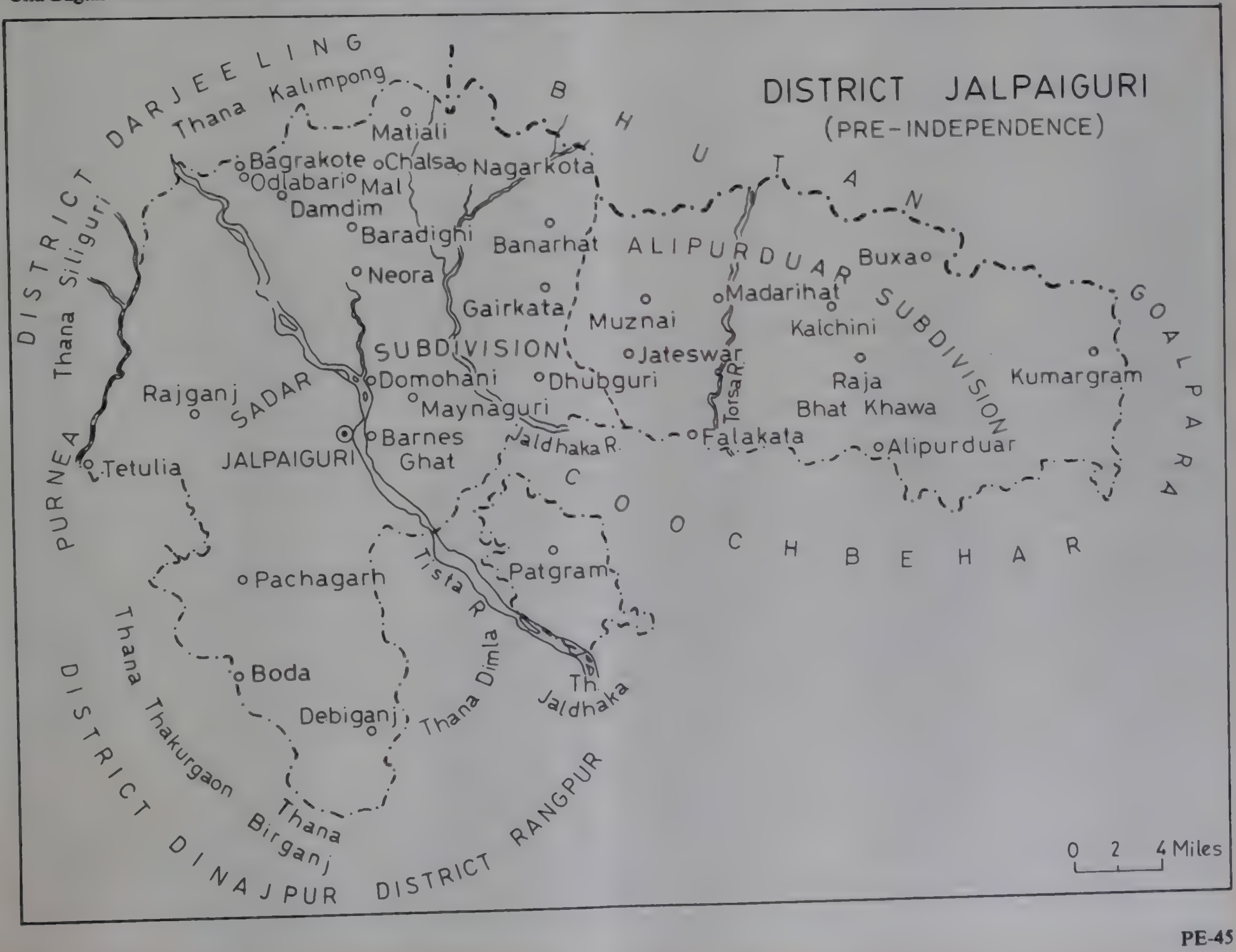
Among the different political forces active in the Duars gardens in 1946, the CPI was the most potent force. Available evidence suggests that the message of the Red Flag, and in large parts of Duars even that of nationalism and freedom were for the first time carried to the plantation workers by the CPI at the time of the 1946 election campaign.

Also, very important were the activities of the Domohani Branch of the CPI-led B A Railroad Workers Union and particularly the impact of a significant victory won by the unionised railway workers as part of an all India agitation of the railway workers in May-June 1946. The BDR Union leaders and activists carrying the news of the concessions granted by the authority to far-flung areas moved in a railway engine and bogey bedecked with Red Flags, victory banners and flowers. This highly visible demonstration of the strength of the Union and the information that even the powerful railway *sahibs* had to bow down to the Red Flag had a great impact on the tea garden workers.[49] Around that time some of the Union leaders and railway worker cadres[50] took the initiative in mobilising tea garden workers. Their work was facilitated by locational factors. The railway lines went by the side of, or even through the tea gardens, and railway stations like Mal, Banarhat or Madarihat had a cluster of tea gardens around them. Moreover, the lowest ranking railway workers—the unionised pointsmen and gangmen, themselves mostly immigrant tribals, and having some relative working in the gardens—came into frequent contact with the plantation labourers. However, the initial work had to be done in a clandestine fashion. As the 'cooly' lines and most of the roads and pathways through the tea gardens belonged to the private property of the estate, making contacts with the labourers openly or within the gardens was virtually out of question. Contacts and group meetings had to be held on railway lines, in a dark corner of a railway platform or in the gangmen's quarters.[51]

After some spade work, a meeting of worker representatives from about thirty gardens was held in Mal sometime in June or early July and from that meeting the Zilla Cha Bagan Mazdoor Union—the first union of the Duars plantation workers—was formed.[52] Soon thereafter a Memorandum containing demands for wage increase, regular supply of ration, supply of good quality rice and other commodities, better housing, improved medical facilities and introduction of welfare measures was prepared and submitted to the government.[53]

In the meantime the seething labour discontent burst forth in a series of disturbances—petitions and representations, gheraos, sudden work stoppages, strikes, riotous actions, assaults on managers and *babus* or clerical employees notorious for their *zulum*, corruption and violence, against Marwari shopkeepers considered to be responsible for high prices, adulteration, short weight, etc. The secret political report for the first half of July mentioned "signs of trouble developing in some of the Duars gardens . . .".[54] In the second half of July two strikes "in one of which labour made an organised attempt to cut off the garden from the outside world and to sabotage the factory arrangement" was reported.[55] A DPA Committee meeting held on July 30 considered labour troubles at Dumchipara, Banarhat, Nya Sylee and Jiti tea gardens.[56] In August it was officially reported that the situation was "not normal in Jalpaiguri gardens" and that the Communists were "active in organising unions".[57] In September the Divisional Commissioner reported "unrest, rioting and a strike in three different gardens".[58] In early November trouble broke out in nine tea estates of the Alipur Duars subdivision. It was officially reported that ". . . considerable violence was used by the staff particular targets being the houses and property of Bengali clerical staff and the shops of some Marwari garden shopkeepers".[59] *Ananda Bazar Patrika*, a nationalist daily, reported that there was a "revolution" on the part of labour of Salbari, Dima, Kalchini, Raimatang, Chinchula and some other tea estates in the Kalchini area and that not only the workers but also the peasants of the area joined the "revolution".[60] In two other gardens there was "renewed agitation" following the expulsion of labourers alleged to have been implicated in earlier disturbances along with all of their family members.[61] In February 1947 it was reported that the workers of several gardens were stirred to action by the Communists and assaulted guards and clerks.[62]

That the planters as well as the officials held instigation or manipulation by 'outside agitators', usually Communists, as primarily


DISTRICT JALPAIGURI
(PRE-INDEPENDENCE)
DISTRICT DARJEELING
Thana Kalimpong
Matiali
Bagrakote
Chalsa
Nagarkota
Odlabari
Mal
Damdim
Baradighi
Banarhat
Neora
Gairkata
Muznai
Madarihat
Kalchini
Buxa
BHUTAN
ALIPURDUAR SUBDIVISION
SADAR SUBDIVISION
Jateswar
Domohani
Dhupguri
Maynaguri
Raja Bhat Khawa
Kumargram
Torsa R.
Falakata
Alipurduar
Jaldhaka R.
Barnes Ghat
JALPAIGURI
Rajganj
Tetulia
Thana Siliguri
PURNEA
GOALPARA
COOCHBEHAR
Patgram
Tista R.
Pachagarh
Boda
Debiganj
Thana Dimla
Th. Jaldhaka
Thana Thakurgaon
Thana Birganj
DISTRICT DINAJPUR
DISTRICT RANGPUR
0 2 4 Miles

responsible for the labour unrest in Duars has been noted above. But while the Communists certainly acted as a catalytic agent in the unfolding labour upsurge, and were also the first to carry even the message of nationalism and anti-imperialism to large sections of labour, in a situation of social and political turmoil, in a very large number of cases, the workers acted on their own, set up impromptu organisations and threw up leaders from their own ranks. This is what seems to have happened in Dumchipara garden in June 1946.[63] In some gardens political elements other than the Communists, for example, some of the Congress leaders and workers of Alipur Duars took the initiative in establishing contacts with the plantation workers.[64] Socialists working within the Congress too started to organise the workers of some gardens around Bagrakote in late 1946.[65] Around that time the RSP also began work among the tea garden workers.[66]

The Gurkha League was also active. But it acted mainly as a disruptive force and received support from the European planters.[67] But such disruptive tactics could not put to a halt the labour unrest that continued to surge forward and engulf previously unaffected gardens. Reports of strikes and work stoppages continued to pour in. Violence and assaults provided a sort of perpetual background.[68] But the unrest was not a reflection of mere economism. In the situation prevailing in the country the labour upsurge came to have an anti-imperialist political content. Slogans such as British owners go back to London, *Inquilab Zindabad*, etc, rent the air.

All this caused serious alarm among the planters, particularly the European planters, and the British rulers. The alarm was compounded by the knowledge that the upswing in labour unrest was not a phenomenon localised in the Duars. The whole of the plantation area extending from Darjeeling to Assam was in the midst of an unprecedented upheaval. In fact, it was an integral component of the labour situation in the entire country which, according to a secret note by the Director of Intelligence Bureau (dt 9.8.46), was "becoming increasingly dangerous".[70] Making a similar point the Jalpaiguri Superintendent of Police Cottam told an Emergency General Meeting of the DPA held on February 19, 1947: "Trouble now being experienced on [Duars] garden was by no means local; Communist activity was, in fact, widespread throughout India".[71]

A 'Top Secret' Note prepared by the Bengal Governor Burrows on his return from a North Bengal tour in February 1947 specifically referred to the dangerous conditions prevailing in the tea gardens of North Bengal.[72] Earlier, in December 1946 in their communication to the British High Commissioner in India, the Calcutta-based European Association had spoken of "the danger of a complete breakdown of law and order" in the planting areas of Bengal and Assam and also of the "crude form of Communism" assuming in the planting areas "an anti-British form".[73]

The responses of the planters and the British officials to the situation prevailing in the Duars plantation area and also elsewhere were essentially four-fold. One was to admit the genuineness of some of the grievances and redress these.[74] Interim increases in wages and allowances were made in two instalments, one in October 1946 and another one in February 1947.[75]

At the same time, the labour problems were viewed essentially as law and order problems. Hence, the second response was to handle the labour disturbances and the agitators firmly, that is, to take resort to repressive measures. These included dismissals, *hata-bahar* and arrests. The Jalpaiguri Superintendent of Police advised the DPA that "complaints require to be made to the Police before action can be taken either by the Police or the authorities". He assured the meeting that wide powers existed under the Special Powers Ordinance which was already in force. But to enable the Police to use these powers "clear cases" should be made out.[76]

The third response was a panicky planning for the evacuation of the Europeans from the plantation belt.[77] The fourth one was a political response in the form of a coordination between the Indian Tea Planters Association, the Duars Planters Association and the District Congress Committee.[78] In the face of continuing labour unrest and 'disturbances' and increased activities on the part of the Communists, the planters, both European and Indians, on the one hand and the district Congress leadership on the other were devising plans to help each other. This once more brought out some of the contradictions within and the limits of the national movement in Jalpaiguri.

## IV

## Tebhaga Struggle

While the Duars plantation area was going through a wave of labour unrest, a major peasant outbursts took place in large parts of the district (and also in adjoining areas of Dinajpur, Rangpur and Malda districts in North Bengal as well as pockets in most of the other districts in Bengal). In September 1946 the Bengal Provincial Kisan Sabha gave the call for *tebhaga*, that is, two-thirds share of the harvests in favour of the *adhiars* recommended by the Land Revenue Commission in 1940. This call coincided with continuing peasant agitation against the exploitation made by *jotedars*-cum-*mahajans*, sharpened perception of the increasing non-viability of *jotedar-adhiar* system tellingly revealed by the 1943 famine and, perhaps more importantly, the growing awareness that the days of British rule in India were numbered. The *Fortnightly Report* considered the call as "clearly most dangerous for the peace of the countryside".[79]

### DEBIGANJ-PACHAGARH-BODA AREA

In the district of Jalpaiguri the Debiganj-Pachagarh-Boda area provided a favourable setting for response to the BPKS call. First, the area had a long tradition of political activity and peasant movement and broad sections of Rajbansi and Muslim peasants, particularly of rural poor and *adhiars* of the area came to have an orientation for peasant struggles and also for viewing such struggles as part of the struggle for national freedom. Second, there was a band of dedicated Communist organisers who, though coming from petty bourgeois intelligentsia background, sank themselves deep into the masses. Third, there were scores of Rajbansi and also Muslim peasant activists and cadres, many belonging to poor peasant and *adhiar* families. These peasant cadres made possible a regular and lively functioning of the Krishak Samiti Committees at the Union and village level. Thus, the area also had an organisational structure for mass struggles.[80]

With the call for *tebhaga*, the district leadership of the CPI and the Krishak Samiti began active preparations for launching the movement. Group meetings, mass meetings, demonstrations, *haat* squads, peasant marches through the countryside and such other forms of both propaganda and mobilisation became a regular feature; volunteers were recruited, trained and assigned with specific responsibilities. *'Ek bhai, ek taka, ek lathi'* became a major rallying slogan.[81]

From late November onwards *tebhaga* began to be enforced by organised peasants and Samiti volunteers, and the movement spread rapidly to villages under Debiganj, Pachagarh, Boda and parts of Kotwali and Rajganj *thanas*. Paddy was harvested collectively. After stacking it in the *adhiar's* place or a common place, the *jotedar* was asked to come there and receive his one-third share of the crop. The police was also informed. But neither the *jotedars* nor the police turned up.[82]

For the colonialist bureaucrats the movement was the outcome of manipulation by "outside agitators". According to a report submitted by the Jalpaiguri SDO in March 1947, "... the movement was organised ... by educated Communist workers of town and outside agitators. Without [them] there would be no movement ... in the subdivision".[83] But as *The Statesman* correspondent covering the movement reported, the peasants were "moving with a momentum that does not need any aid from outside".[84] In fact, the SDO himself indicated the mass character of the agitation. He stated:

> . . . during the harvest season Communist volunteers in batches visited different localities, established camps in the interior, enlisted local support and they helped the selected *adhiars* to cut and take away the entire produce from their lands and stack these in places suitable for the purpose of the Communists. The *jotedars* could not oppose . . . Large number of volunteers armed with lathis, scythes, etc, would gather together and cut paddy of some land on each occasion . . .[85]

One major indicator of the broad peasant awakening was the active participation of Rajbansi peasants and *adhiar* women in the movement. Led by Punyeswari Debi, Makri and other women activists of Debiganj area and Tilak Tarini Nandi, Sikha Nandi and a host of militant women activists of the Pachagarh area the Rajbansi peasant women took part in meetings, processions, paddy harvesting and threshing and even clashed with the armed police with broomsticks and scythes in their hands.[86]

For several weeks, that is, from late November to early February the peasants and *adhiars* in particular remained on the offensive. Many *jotedars* made a retreat and arrived at compromises and some even left the area temporarily. According to the SDO's report, ". . . the *jotedars* were on many occasions kept confined in their houses under threat of assault and violence".[87] The *jotedars* sought police help. But for several weeks even the police did not dare to enter the strongholds of the *tebhaga* movement. With the help of children, young boys and girls and women an elaborate forewarning arrangement was organised. For two months or so administrative control over these areas was virtually non-existent and the provincial government expressed its serious worry over the "parallel government" run in Jalpaiguri, Dinajpur and other parts of the province.[88] Thus, the militant peasants threw up a powerful challenge to the established structure of authority.

The *jotedars*, however, were only bidding their time and carried on a conspiracy to smash the movement. Many of the big *jotedars* in Pachagarh were Muslims and they tried to divide the peasantry along communal lines. Though they failed to create any communal clash, they succeeded in keeping the bulk of the Muslim peasants away from the movment. The *jotedars*, irrespective of their community identity, held confabulations among themselves, raised funds and put increasing pressure on the district administrative officials and the Muslim League government in Bengal for police intervention.

Soon an opportunity was provided by a new turn of the movement, which once begun tended to generate its own momentum, a turn that was not anticipated by the district leadership or even by the provincial leadership. In villages and areas where the Krishak Samiti had no previous base or strong organisation, the *adhiars* had stored the paddy in the *jotedar's kholan* (threshing place). But the success of the movement in the organised areas and also the publication of the Bargadar Bill incorporating some of the demands of the movement in January 1947 gave a new impetus to the *tebhaga* struggle.[89] The *adhiars* in the unorganised areas, such as parts of Kharija Berubari Union under Kotwali PS and certain areas under Debiganj, Pachagarh and Boda PS too, and previously remaining untouched by the movement, now on their own and without any directive from the Samiti leadership, started what came to be known as the *kholan bhanga andolan*.

This was the second phase of the movement both in Jalpaiguri and other districts of movement, particularly Dinajpur and Rangpur.[90] The SDO reported:

> The second phase of the movement was forcible taking away of paddy stocks and plough cattle from the khamars and houses of the *jotedars*. Some cases of removal of paddy from *golas* [granaries] were also received. Allegations were also made by many *jotedars* that the volunteers were armed with *lathis, daos* (chopper), bows and other weapons and the *jotedars* were threatened with violence and assaults . . ."[91]

With reference to this phase *The Statesman* correspondent commented: "It was an attempt to alter custom by force, but it is doubtful if it amounted to criminal breach of the law . . ."[92] But these actions provided the opportunity sought for by the *jotedars*. They lodged the charge of dacoity and looting and immediately thereafter a well-prepared police offensive followed. Sec 144, banning the gathering of five or more persons at one place, was declared in Pachagarh, Debiganj, Boda, Kotwali and other adjacent police station areas; large scale arrests were made and severe repression was launched.[93]

### WORKER-PEASANT-TRIBAL UPHEAVAL

But while by late January or latest by early February the *tebhaga* movement was put on the defensive in its old bases and massive repression was let loose also in neighbouring Dinajpur and Rangpur, the other two North Bengal districts in the forefront of the *tebhaga* struggle, peasant unrest again took a new turn, a turn which was once more neither planned nor even foreseen by the Jalpaiguri district leadership of the CPI and Krishak Samiti. This was a virtual tribal peasant uprising in wide areas under Mal and Matelli PS in the Duars.

In the countryside of Duars too, as noted earlier, the basic production relations was that between *jotedars* and *adhiars*. Exploitation of the *adhiars*, overwhelmingly immigrant tribals—Oraons, Mundas, Kharias, Santals, etc—in large parts of the Duars by the *jotedars*, mostly Muslims and Rajbansis but also some Marwaris and immigrant Bengalis, knew no limits.[94] But there was no tradition and experience of peasant movement and organisation in most parts of the Duars.

Between late January/early February and April 1947 a peasant upsurge around the issue of *tebhaga* flared up in the Oodlabari-Dam Dim-Mal-Chalsa-Baradighi area. It is not quite clear how the tribal peasants and *adhiars* of this area came to know of the *tebhaga* agitation. That this peasant outburst had substantial elements of relative autonomy can be inferred.[95] However, a close examination of the unfolding of the movement shows that it did not begin so "spontaneously" as has been suggested by some scholars.[96] In the first place, in this area too the organised railway workers and their Union having a nearly decade-long experience of mass activities and movement played an important role. Some of the railway workers, particularly the leading cadres,[97] must have come to know about the *tebhaga* struggle and its advance from *Swadhinata*, Krishak Samiti leaflets and various party sources.

Further, in early December 1946 the Fourth Annual Conference of the Bengal and Assam Rail-Road Workers' Union (the Union to which the Domohani Branch was affiliated) was held at Lamding in Assam. This conference, attended by a number of Domohani Branch organisers and cadres and also two tea garden worker activists, Jagannath Oraon and Faguram Oraon, adopted a Resolution in support of the *tebhaga* demand.[98] On their return from the Conference the railway union, cadres some of whom themselves were tribals, carried the message of the *tebhaga* movement to the tribal peasants.

In the meantime, the story of success achieved by the *tebhaga* struggle in the organised bases in the district had spread to the peasants of the Mal-Matialli area through the railway workers and Union activists and also through various other channels. Messages must have also circulated through 'rumour'.[99] The wave of labour unrest continuing in the surrounding plantation areas for several months had also certainly stirred up their minds.

All these elements—some determinate and others indeterminate—converged to give shape to the seething discontent and anger of the peasants. In early 1947 four distinct forces—the Communist leaders and cadres, the railway workers who had been unionised and were being led by the Communists for several years, the plantation labourers who were just in the midst of a process of being organised and were in a state of turmoil, and the peasants (mostly tribals), unorganised in the conventional sense but in a restive and militant mood—joined hands, and the outcome was an outburst of peasant movement.

Samar Ganguly who had earlier been an organiser in Debiganj and had come to Mal to attend a conference of the tea garden workers was assigned with the responsibility of looking after the peasant struggle in Duars. He set up a sort of operational camp at a place near Chalsa—a *jote* owned by Balgovinda, a Marwari *jotedar*. The peasants took possession of it without any resistance from any quarter.[100] Apart from Ganguly, several other experienced party and Krishak Samiti leaders were placed in the Mal-Matially area for providing active assistance. Along with them a host of peasant leaders and organisers like Birsa Oraon and Sukra Oraon, who came to be known as 'Lal' (Red) Sukra of Matha Chulka near Baradighi, Buni Oraon and Deocharan Nayek of Oodlabari, Puria Manki Munda of Dhumsigara, Hopna Majhi of Khagrabari or Sarbaru Mohammed were thrown up from amongst the peasants, Jagannath Oraon, a victimised tea garden worker activist, was also given the responsibility of looking after the peasant movement. Several militant peasant women activists too emerged. The peasants of the area also showed a remarkable degree of organisation and leadership pattern and fairly rapidly set up an organisational network. In the Oodlabari area an organisation was formed with Buni as the leader, Deocharan as the Captain and Sarbaru as the Lieutenant.[101] Available evidence shows that something in the nature of a parallel government was set up in the Duars areas of the movement.

The pattern of unrest was fairly uniform. Hundreds and sometimes even thousands of peasant men, women and even children—mostly tribals with a sprinkling of Nepalis, Rajbansis and Muslims—joined in by a large number of tea garden labourers who had struck work in support of the agitating peasants and bands of railway workers, carrying Red Flags and in many cases armed with *lathis*, spears and bows and arrows marched from village to village. Tribal drums, *nagras* and *madals*, were used to spread the struggle message and mobilise the peasants. By the time this upheaval took place in Duars the harvesting was over and paddy was already stored with the *jotedars*. Under this circumstance the *tebhaga* struggle in Duars inevitably took the form of forcible seizure of paddy for securing a two-thirds share. Here one witnessed not only something unprecedented in the history of popular movement in Jalpaiguri but also one of the rare instances of close physical interaction in the sphere of action between peasants, workers and tribals in the history of popular movements in India.

Describing the course of movement the following observation was made in the ITA's Annual Report for 1947:

> [Early in 1947] as a result of outside agitation bands of labourers had left their work and, headed by Communist leaders, were roaming the countryside, in many cases armed with *lathis* and spears, with the object of entering *bustees* and raiding paddy stocks in support of the general demand by the ryots of the district for a two-third share of the crop, instead of half the share which they had always received in the past from the Zamindars.[102]

Nani Bhowmik, a well-known litterateur of 1940s and a Communist, who was on the staff of *Swadhinata*, spent several days among the rebel peasants and workers. Here is an extract from his long first-hand account[103]:

> The spectacle of how the down-trodden people got roused up into a new life of unbounded vitality—that is what I witnessed. Nobody lent a hand to the paddy accumulated in the *kholans* of *jotedars*, no threshing till *tebhaga* is realised. A mammoth contingent of Santal, Oraon and hill peasants are on the march night and day. Each and every village and hamlet in two to three *thanas* are being covered. Only a few words to the village folk and they instantly realise what is afoot. With heads covered in dirty *chaddars* (wrappers) they leave their home and join this thrilling procession. The coolies at work in the fields lock in eager expectation as the noise reaches their ears. They too go on strike and join in. They lend their support to their *kisan* brothers. In the gang quarters inside the jungles the gangmen troop out. They hoist high the iron gang plates like banners and head the demonstration.
>
> In all the corners of the hills, forests and lands, amongst all the sections of the people, a new wave of inspiration finds its way through.

The *jotedars* were totally taken by surprise. Not only the big Rajbansi and Muslim *jotedars* but even some tribal *jotedars* were affected.[104] Particularly exposed were the Muslim and Rajbansi *jotedars* in villages and areas with large tribal peasant population. In many cases they had no alternative but to concede the demand. Where necessary, coercion was used against the *jotedars*. Government officials too were not prepared for such a situation. Sometimes one *daroga* with a small police force appeared but on seeing large crowds of armed villagers hastily retreated. There were also a few instances of a *daroga* or a police party being surrounded and temporarily confined by rebellious peasants.

It was in the context of such a situation that the terrified *jotedars* begged for police help. Their plea was reinforced by the planters. An emergency meeting of the Dam Dim Sub-District of the DPA held on February 4, 1947 "decided to instruct the Chairman to request the Superintendent of Police to provide an adequate armed police force in the Dam Dim Sub-District and to remain there until the wave of unrest, now being experienced, subsides, and conditions return to normal".[105] In the emergency General Meeting of the DPA held immediately after the above meeting the SP gave a resume of the Communist effort "to stir up troubles amongst our labour and *adhiars*" and advised the members present to take advantage of the wide powers existing under the Special Powers Ordinance.[106]

By late February the situation began to change and the police force was strengthened. On March 1 at Mathachulka near Baradighi under Mal PS a large number of peasants raided the paddy stocks stored in a *jotedar's* granary. An armed police force was already posted there. A scuffle took place and, according to several accounts, the peasants snatched away some guns from the police. The police opened fire and killed five peasants including one woman.[107]

The district leadership was taken aback by this incident and showed utter confusion. Couriers were sent to Domohani where the district leaders were holding a meeting seeking advice and instruction from them. While several leaders along with a large number of Rail Union activists rushed to Mal and made arrangements for first-aid, the advice sent by the leadership was two-fold: a) Throw away the snatched guns in wells; and (b) Ganguly, the most prominent leader of the *tebhaga* struggle in Duars, was to evade arrest.[108]

The peasants did not expect the brutal police attack. But they were not demoralised. On the contrary, they were incensed and cried for retaliation. The movement continued to spread throughout the month of March. But another major incident of indiscriminate firing by a police party led by the Sadar SDO himself on a group of peasants and tea garden workers took place on April 4, 1947 at village Mahabari situated near Mangalbari *haat* (Chalsa area) under Matialli PS. Nine persons including one thirteen year boy were killed and a few others were seriously injured. Among those killed two were workers of Oodlabari tea garden and thus here a new kind of worker-peasant alliance was forged in blood. Available accounts show that there was no attack on the police or no scuffle. The brutal firing was a preplanned one with the aim of smashing the spread of peasant-worker rebellion.[109]

Following this incident the police repression which had earlier been unleashed was intensified. By late February Sec 144 had been in force in as many as eleven police stations. By the end of April criminal cases were lodged against more than one thousand persons, more than two hundred leaders and peasants and workers were in jail, and arrest warrants were issued against two hundred and fifty leaders and activists.[110]

Here it deserves mention that the Congress leadership, the bulk of the non-Communist nationalists and the urban middle classes were by and large apathetic to the *tebhaga* struggle and some were even hostile to it. However, sections of them reacted against the brutality of police repression. Following the Mahabari police firing three enquiry teams went there. One team included several Communist and non-Communist doctors and one college teacher. The second team consisted of representatives of the

Students Congress (the students organisation of the Congress Socialists and RSP), District Muslim Students League and Students Federation. The third one was composed of three prominent Congress leaders including a provincial leader. All the teams condemned the police firing in the most unequivocal terms.[111] It was also possible to organise a successful students strike and hold a students demonstration in Jalpaiguri town in protest against the police firing.[112]

Yet the *tebhaga* movement in general and the peasant worker upsruge in the Dam Dim-Chalsa area received a most serious set back. Massive state repression was one major factor. That the movement even at its height remained deprived of support from the non-Communist nationalists and also remained in a state of isolation from most of the rural areas in the district and from Rajbansi and Muslim peasants in large parts of the Duars as well as from the masses of urban population and middle classes in particular were also very important factors. No less important was the transformation in the political climate of the province in general and Jalpaiguri district in particular. That freedom with partition was in the horizon overshadowed all other events.

When freedom came, the Debiganj-Pachagarh-Boda area went to erstwhile East Pakistan. The Duars upheaval, however, created durable bases for the future movement and organisation led by the Communists and other Left groups and parties, particularly the Socialists and RSP.

## V

## Concluding Remarks

Before concluding, certain points emerging from this study of a microcosm may be made. Though Jalpaiguri because of its socio-economic specificities cannot be viewed as a paradigmatic pattern, it brings out some of the very significant aspects and multiple complexities of popular struggles within the national movement.

That the years 1945-1947 witnessed a marked decline in the stream of national movement that was led directly by the Congress leadership not only at the national and provincial levels but also at the district level has been noted above. But quite independent of the attitude of the district Congress leadership there was an upsurge in multi-ethnic, multi-community and multi-tribe—Rajbansis, Muslims, Oraons, Mundas, Santals, Nepalis, Rabhas, Meches, etc—united popular movements[113] never before experienced in the story of freedom struggle in the district. Parts of the district also witnessed one of the rare instances of the principle of worker-peasant alliance taking shape in the history of anti-feudal, anti-imperialist struggle in the country.[114] But the two streams, though not infrequently criss-crossing and influencing each other, not only flowed in separate courses but in some respects the gulf between the two even widened.

The popular movements, the two major components of which in the context of Jalpaiguri district were the *tebhaga* struggle and the Duars labour unrest, though segmentary and partial in character and usually spurred on by economic issues, produced broader political repercussions. It was not that demands of these movements were by themselves of an explicit political nature. It was also not that the Communist leadership was always able to concretely link up the immediate issues with the broader perspective of freedom struggle. But the overall situation in the country, the growing mass awareness about the imminent crumbling down of the power of the British rulers and also the logic and dynamics of the popular movements themselves gave these struggles a definite political, anti-feudal, anti-colonial dimensions.

It may be quipped that the plantation labourers did not aim at the abolition of the European-dominated plantation system. Seizure of land or outright elimination of *jotedari* exploitation was also not on the immediate agenda of the *tebhaga* struggle. But it is important to stress that the Duars labour unrest forming an integral component of the turmoil in the Darjeeling-Duars-Assam plantation belt was directed against the formidable power of the managers and their direct or indirect agents, such as *munshis, chowkidars, babus* and *kayas*, that is, against the existing power structure in the plantation area. In the *tebhaga* struggle too radical changes in the agrarian relations as well as breaking of the socio-political power of the *jotedars*-cum-*mahajans*, and not merely quantitative dispute over the share of produce, were the substantive issues. Not only that. The rebellious peasants and their allies challenged the authority of their direct exploiters and oppressors and in course of their struggle also of the law-enforcing agencies and administration and sought to set up alternative centres of power.

True, the *tebhaga* movement remained by and large free from certain forms of violence—bloodshed and killing of the *jotedars*. Some scholars have viewed the absence of such forms of violence as indicators of the reformist character of the movement.[115] But, as shown in the preceding section, the unfolding of the *tebhaga* movement was not free from violence. The enforcement of *tebhaga* itself essentially involved the application of direct, organised, collective force and violence. This was also true for the Duars labour upheaval. It should also be added and stressed that whether a movement is revolutionary or not is not determined by the extent of violence and bloodshed involved but by the content and direction of the movement. It is by this criterion that the character of the two movements need to be evaluated.

Put differently, both the movements went, directly and indirectly, against the two subsystems of colonialism that kept the direct producers in a state of semi-bondage and also against certain essential components of the established rural order and of the colonial power structure too. And all this was accompanied by the diffusion, though certainly in a vague and inchoate fashion, of a new radical ideology and glimmer of a superior social and political order.

Related to all this was also the process of emergence of a new kind of leadership—a Left and Communist leadership as an alternative to the prevailing bourgeois liberal one. That the implications of such a development were not missed by some of the interests that were being directly affected and endangered—particularly the planters and the Congress leadership—was indicated by the sort of understanding and co-ordination which they were beginning to have.

Another aspect, not entirely unrelated to the above, was that the progress of popular movements in Jalpaiguri unmistakably showed a *complex interplay* between and blending of ideologically and politically motivated conscious and sustained attempt on the part of the Communists to mobilise and activise the peasants and workers and a relatively autonomous stirring amongst the latter that led to an unprecedented popular outburst. Undoubtedly, there was an area of autonomous activity and perception. At the same time, it requires to be emphasised that the popular upsurge in Jalpaiguri was to a very large extent an outcome of intensive and sustained ideological, political and organisational preparations over a number of years.

Yet the radical potential that was latent in the situation could be realised only to a very limited extent. Several studies show that a major responsibility for this lay with the dominant segment of the anti-imperialist leadership at the national level. But the micro-study made in this essay suggests some of the serious weaknesses that were there even within the Left and Communist-led popular movements. The story of Jalpaiguri reveals the inability of the Communists to link up in the sphere of actual practice the peasant and worker upheaval with the question of state power, and also to establish and extend the linkages between the labour upsurge, *tebhaga* struggle and town middle class agitation. That the *tebhaga* struggle itself remained territorially localised and did not spread to other parts of Duars was another manifestation of their limitations. The Communist leadership was also found to be confused and ill-equipped for the task of facing state repression. It also appears that the 1942 stand of the Communists put a serious limit on their ability to mobilise a wider mass of the peasantry and middle classes. These were, however, not the limitations of the Communist at the local or district level only but reflections of their weaknesses and limitations at the provincial and national level.

It is not that the Communists and the movements led by them lacked courage and heroism. It is also not that they did not try to give anti-feudal, anti-imperialist political content to struggles around economic issues. Yet they were unable to intervene effectively. They failed to respond to the requirements of the situation and to put forward a positive alternative to the bourgeois leadership. This brings one to the character of the Communist-led movement and leadership. One may hazard the suggestion that the seminal distinction made by Antonio Gramsci between corporate economism and national popular collective will[116] may be of considerable help in understanding the nature of Communist default in 1945-47. Here only a few questions of a fundamental nature can be posed: Did the class struggles and Communist-led movement of those years remain confined to corporatism? Can the failure of the Communists to lead the process of formation of national popular collective be traced to the corporate nature of the Communist movement? Related to these is another fundamental question: Why did the radical yearnings manifested at popular levels of the anti-imperialist struggle remain unfulfilled when political independence came? Reasonably satisfactory answers to these questions demand further exploration and thought.

## APPENDIX I

### Note by Sir F Burrows (R/3/1/130: ff. 77-80)

[Extracts only]

[February 14, 1947]

"I understand that the contingencies for which planning is required are:

A An announcement by H M G that they intend to withdraw their power in India within a time limit irrespective of a constitutional agreement:

B A situation of widespread disorder and confusion.

"The Communists are actively fishing in all our troubled waters and would give the disorders both an agrarian and an anti-British colour—the latter would not be difficult in the tea gardens of North Bengal or the industrial areas along the Hooghli in West Bengal and at Narayanganj (Dacca).

"The "internal security" problem as it presented itself from time to time during the past ten months has been the subject of frequent discussion by me with successive Army and Area Commanders, and as a result of my recent tour in North Bengal I am proposing to discuss more especially the arrangements to be made in that area when I see the Army Commander on the 15th February. (In this matter I share the apprehensions of the Commanding Officer of the Northern Bengal Mounted Rifles regarding the suitability of the existing scheme in present conditions in the Jalpaiguri and Darjeeling districts. The scheme, I understand, even in its most recent form, still envisages the evacuation of the European population of the Jalpaiguri (plains) tea area by the very vulnerable "cart road" to Darjeeling. That may have been a good—and the only safe plan—when there were no aerodromes in the Duars, when the loyalty of the hill people was not questioned, and when retreat to Darjeeling would have been only till restoration of order in the plains. In all these respects the situation has now changed. The existence of an airstrip at Baghdogra (near Siliguri) and of an airfield at Hasimara (in the east of Jalpaiguri district) render evacuation to Calcutta or even out of India feasible if aircraft can be made availabe and this would obviate retreat to Darjeeling where (if it could be reached at all) the friendliness of the hill population can be no longer counted on to anything like the former extent and where, with the plains in chaos and no airfield available, the European community may find themselves quite cut off amid a population which may soon be very short of food. Evacuation from East Bengal (Dacca and Chittagong) will have to be by air (for the former) and by sea or air (for the latter). There are possibilities of road, rail and air evacuation from West Bengal, I do not at present know how we could evacuate Darjeeling except by air from Baghdogra."

[*Source*: N Mansergh (ed), "Transfer of Power", Vol IX, London, Document No 395, pp 705, 707 and 708.]

## APPENDIX II

### Congress, Duars Planters Association and Indian Tea Planters Association

(1) *Extract from the Proceedings of the Special Meeting of the Executive Committee of the ITPA held on 13.4.47*

"Resolved that Trade Unions be encouraged to be formed on every garden under the Association on proper and non-political and healthy basis and the Association should help in forming such unions with model rules".

[*Source*: ITPA Annual Report for 1947, pp 102-03.]

(2) *Extract from the Proceedings of the Speical Meeting of the Executive Committee of the ITPA held on 2.8.47*

"The meeting considered the letter dated the 25th July 1947 from the Jalpaiguri District Congress Committee wherein the Congress informed the Association of its desire to organise Trade Unions amongst Tea Garden Labourers. The Congress in its letter made it clear that as designing parties were exploiting the labourers for purposes other than for real benefit of the labourers, it intended to establish Trade Unions which would be run on the proper Trade Union lines. The meeting also considered the report of an informal discussion held on the 25th July 1947 between the representatives of the DPA, the Congress and the Association on the subject . . . the meeting decided to advise member bodies to give every possible help and assistance to the Congress, it being the policy of the Association all along to promote all round welfare of the labourers . . . "

[*Source:* Ibid, p 112]

(3) *Extract from the Proceedings of a DPA Committee Meeting held on 11.8.1947.*

"The Labour Officer elaborated points brought up regarding Gurkha League and Congress Trade Unions. Agreed that Congress members with cards of identification will be given permission to hold meetings in gardens with a view to forming Trade Unions."

[*Source*: DPA Annual Report for 1947.]

(4) *Extracts from the Proceedings of the Nagrakata Sub-Dist Committee Meeting held on 17.9.1947.*

"Letter from Deven Sarkar, Secretary of Jalpaiguri District Congress Committee to the Chairman, Duars Planters Association dated 8.9.47 was read and discussion ensued. It was hoped by all members that Mr Jenkins [Labour Officer] would be able to arrange for a Senior Congress Official to be appointed by the Secretary, Jalpaiguri District Congress Committee."

[*Source*: Ibid, p 259.]

## Notes

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1 For early administrative history see J F Grunning, "Bengal District Gazeteers—Jalpaiguri" (hereafter Jalpaiguri DG); and "Census of India 1951", West Bengal; "District Handbooks: Jalpaiguri" (hereafter Jalpaiguri DH) by A Mitra, Calcutta, pp i-viii.

2 Ibid, pp viii-ix.

3 For population data see "Bengal District Gazeteers", B Volume "Jalpaiguri District Statistics, 1921-22 to 1930-31", Calcutta, 1933, Tables III and IV.

4 C C Sanyal, "The Rajbansis of North Bengal", The Asiatic Society Monograph Series, Vol XI, Asiatic Society, Calcutta, 1965; U N Barman, 'Rajbansi Kshatriya Jatir Itihas' (in Bengali), Jalpaiguri, 1370 BS; A K Roy, 'Some Notes on the Kshatriya Movement in North Bengal', *Journal of Asiatic Society of Bangladesh*, Vol XX, No 1, pp 47-71; Jalpaiguri DG, pp 34-5; and R Das Gupta, "Economy, Society and Politics in Bengal: Jalpaiguri 1868-1947" (forthcoming).

5 F O Bell, "Final Report of the Dinajpur Survey and Settlement Operations 1934-40", pp 35-6, 43; and A C Hartley, "Final Report of the Rangpur Survey and Settlement Operations 1931-38", pp 10-1.

6 "Jalpaiguri DG", pp 102-105; "Jalpaiguri DH". B C Ghosh, 'The Development of the Tea Industry in the District of Jalpaiguri 1869-1968', Jalpaiguri, 1970, pp 30-7; Shib Sankar Mukherjee, 'Emergence of Bengali Entrepreneurship in Jalpaiguri Duars (1879-1933)', unpublished Ph D Thesis, North Bengal University, 1978, Chapter II.

7 Ibid, Chapters 6 and 7.

8 Government of West Bengal, Labour Directorate, "Report on an Enquiry into the Living Conditions of Plantation Workers in Jalpaiguri (Dooars), West Bengal" by S K Haldar, Calcutta, p 1.

9 Labour Investigation Committee, "Report on an Enquiry into Conditions of Labour in Plantations in India" by D V Rege, (hereafter Rege Committee Report), Delhi, 1946, pp 74-96.

10 Ibid; Sarit Bhowmik, "Class Formation in the Plantation System", People's Publishing House, New Delhi, 1982, chapters 2 and 3; R Das Gupta, 'Structure of the Labour Market in Colonial India', *Economic and Political Weekly*, Special Number, 1981, pp 1785-87; and R Das Gupta, 'From Peasants and Tribesmen to Plantation Workers: Colonial Capitalism, Reproduction of Labour Power and Proletarianization', *Working Paper Series*, No WPS-090 (85), Indian Institute of Management, Calcutta, 1985.

11 D H E Sunder, 'Report on the Survey and Settlement of the Western Duars in the Jalpaiguri District 1889-1895', Calcutta; J A Milligan, "Final Report on the Survey and Settlement Operations in the Jalpaiguri District 1906-1916", Calcutta, 1919; B B Chaudhuri, 'The Process of Depeasantisation in Bengal and Bihar, 1885-1947', *The Indian Historical Review*, Vol 2, No 1 pp 105-65; Partha Chatterjee, 'Agrarian Structure in Pre-partition Bengal'; Asok Sen; et al, "Perspectives in Social Sciences 2", Oxford University Press, Calcutta, 1982; Adrienne Cooper, 'Sharecroppers and Landlords in Bengal, 1930-50", *The Journal of Peasant Studies*, Vol 10, Nos 2-3, January-April 1983, pp 227-55; and Das Gupta, 'Economy, Society and Politics in Bengal'.

12 Milligan, op cit, p 21.

13 For the impact of the Depression see Chaudhuri, op cit; 'Boudhayan Chattopadhyaya, 'Notes Towards an Understanding of the Bengal Famine of 1943, *CRESSIDA Transactions*, Vol 1, No 1, pp 112-53 at pp 112-27; and Saugata Mukherjee, 'Changes in Rural Credit Structure and Their Impact on Changing Class Relations in Bengal Agriculture 1933-1942' (mimeo).

14 Government of Bengal, 'Report of the Land Revenue Commission, Bengal', Vol I; and the Memorandum submitted by the Bengal Provincial Kisan Sabha in ibid, Vol VI, pp 3-72.

15 Ibid, Vol II, Appendix IX, Tables VIII (d), (e) and (f).

16 Das Gupta, 'Economy, Society and Politics in Bengal', Chapter III.

17 Das Gupta, 'Krishak O Rajneeti: Jalpaiguri 1938-1940', *Parichaya*, Novermber 1983, pp 39-79.

18 *Hindustan Standard*, November 19 and December 15, 1938.

19 National Archives of India: Home, Political, Confidential. Fortnightly Report on the political situation in Bengal for the second half (hereafter FR 2) of October 1942 and Fortnightly Report ... for the first half (hereafter FR 1) of November 1942.

20 Most of the leading elements later on joined various non-communist Left groups, such as Congress Socialist Party, Revolutionary Socialist Party (RSP) and Forward Bloc.

21a *Janamat* (a Jalpaiguri Weekly), April 23 and 30, 1945.

21b Of them particular mention should be made of Sachindranath Das Gupta, Gurudas Roy, Madhab Datta, Naresh Chandra Chakraborty, Biren Neogy, Parimal Mitra and Charu Majumdar, Radhamohan Barman, Kishori Ray, Bachcha Munsi, Uday Roy and Punyeswari Debi, the latter being affectionately called Buri Ma (old mother), were some of the leading peasant activists.

22 "Census of India, 1951", Vol VI, "West Bengal, Sikkim and Chandernagore", Pt IA-Report, p 263.

23 For evidence of distress in Jalpaiguri see reports published in *Janayuddha* (the CPI Bengali Weekly), October 28, 1942, December 1, 1943 and January 26, 1944.

24 See *Trisrota* (a Jalpaiguri Weekly), January 30 and February 27, 1944; and *Janayuddha*, March 13, April 7, 13 and 21, May 12, June 9, 1943 and May 10, 1944.

25 Interviews with Biren Neogy. He was a District Congress Committee Secretary in 1939-41 and joined CPI in late 1941(?). Later on he became the District Krishak Samiti Secretary.

26 Bimal Das Gupta, 'Duarser Rail Shramikra Jaglo', *Bichinta* (Calcutta), Vol 4, No 4, pp 212-4. Das Gupta was an Assistant Station Master and an important union leader.

27 FR 2, September 1942; FR 1 and 2, March 1943; FR 1 and 2, April 1943; FR 1 and 2, May 1943; FR 1, June 1943 and FR 2 October 1943 make specific references to the activities of the Jalpaiguri Communists.

28 Bengal, Home, Political; Rajshahi Divisional Commissioner's Fortnightly Confidential Report (hereafter Raj Div FCR) for March 1945.

29 Interviews with Sachin Das Gupta, the CPI District Committee Secretary, and Bidhan Sinha, a Jalpaiguri RSP leader, of those years; and written note from Dilip Ghosh who was a leader of the CPI-led Jalpaiguri District Students Federation.

30 Raj Div FCR 1, September 1945.

31 'Note' from Ghosh and interviews with Abdul Huda, Badal Sarkar, Prabhat Bose and Sinha all of whom were student leaders of those days.

32 Interviews with Biren Neogy.

33 *Swadhinata* (a CPI-run daily newspaper), January 9, February 7 and 10, 1946.

34 See reports on election meetings addressed by Bhowani Sen (the CPI Provincial Committee Secretary) published in *Swadhinata*, January 8, February 6 and 14, March 16, 1946.

35 Ibid, January 9 and February 8, 1946.

36 For details of these two agitations see the longer version of this paper in the NMML's forthcoming publication of seminar papers on 'The Struggle for Indian Freedom, 1945-47'.

37 "Rege Committee Report", pp 85-6; and also Sachin Das Gupta, "Cha Bagan Jatiyakaran Chai", a Jalpaiguri CPI publication, 1947.

38 *Capital* (a Calcutta financial weekly), November 14, 1946.

39 "Detailed Report of the General Committee of the Indian Tea Planters' Association for 1945" (hereafter ITPA Report), pp 21, 25-6, (courtesy: Chandidas Lahiri of Jalpaiguri).

40 "Detailed Report of the General Committee of the Duars Planters Association for 1946" (hereafter DPA Report), p viii, (courtesy: R Das, Secretary, DBITA, Binnaguri).

41 "ITPA Report for 1946", pp 26-7.

42 "DPA Report for 1946", p xxiv.

43 Ibid, 1946, p viii; "ITPA Report for 1945", pp 20-1.

44 Sumit Sarkar, "Popular Movement and 'Middle Class' Leadership in Colonial India: Perspectives and Problems of a 'History from Below', Calcutta, 1983, p 40. Sarkar makes this formulation in analysing the post-First World War popular movements.

45 FR 1, June 1946.

46 Hill's address to DPA Annual Meeting, "DPA Report for 1946", p xxx.

47 Ibid, 1946, p xxiv.

48 "ITPA Report for 1946", p 15.

49 B Das Gupta, 'Duarser Antarale', *Bichinta*, Vol 3, No 11, pp 32-3; also interview with Parimal Mitra who was the Vice-President of the union.

50 Among them most prominent were Deba Prosad Ghosh (Patal Babu), a wholetime union functionary, Mitra, Bimal Das Gupta and railway workers like Jadunath Singh, Lalbahadur Chhetri, Budhan, Man Singh, Guhi and Mahavir.

51 B Das Gupta, 'Duarser Tebhaga Andolan Prasange', op cit, pp 102-03. Also interviews with Jagannath Oraon and Sukdeo Oraon, two of the early worker militants who were employed in the Haiharpather TE adjacent to Mal.

52 *Swadhinata*, August 14, 1946. The union, registered in July 1946, had the No 246. (*Source*: DPA Labour Files, January 1948 to December 1948. Courtesy—R Das of DBITA.)

53 "DPA Report for 1946", pp 22, 235.

54 FR 1, July 1946.

55 FR 2, July 1946.

56 "DPA Report for 1946".

57 FR 1 and 2, August 1946.

58 FR 2, September 1946.

59 FR 2, November 1946.

60 *Ananda Bazar Patrika*, November 1946 and January 8, 1947. Also interviews with Chitta Bhattacharya, Pijus Mukherjee, Anil Ganguly, and Dudhkantha Roy of Salsalabari, Alipur Duars. Ray, a middle *jotedar*, was associated with both the Congress and Kshatriya Samiti and involved in the peasant agitation. (I owe thanks to Bana Behari Datta and Bimal Bose of Alipur Duars for help in conducting the interviews.) It is noteworthy that among the peasants involved were Rajbansis, Muslims, Rabhas, Meches, Oraons and Mundas.

61 FR 1, November 1945.

62 FR 2, February 1947.

63 Interview with Bira Dhwaj Rai. Rai was a prominent figure in the Dumchipara agitation and later on emerged as a major leader of the Socialist-led trade unions.

64 Interview with Pijus Mukherjee who was the Sub-divisional Congress President.

65 Interview with Badal Sarkar.

66 Nani Bhattacharya, "Chai Bagicha Mazdur Andolan Ka Itihas", Duars Cha Bagan Workers' Union, Kalchini; and interview with Suresh Talukdar, one of the RSP-led union leaders.

67 "DPA Report for 1946", p 104. A DPA Sub-Committee meeting held in August 1946 mentioned that the Gurkha League "had done good work during recent disputes" and recommended that "permission and sympathetic consideration should be given by managers to request from this organisation in the future" (Ibid).

68 "DPA Report for 1947" abounds with such reports.

69 For Darjeeling, see, Satyendra Narain Mazumdar, "Patabhumi Kanchanjangha", Manisha, Calcutta, 1983; and for Assam, Amalendu Guha, "Planter Raj to Swaraj", ICHR, New Delhi, 1977, pp 292-8, and R P Behal, 'Forms of Labour Protests in Assam Valley Tea Gardens 1900-1947', *Economic and Political Weekly*, Vol XX, No 4, January 26, 1985, pp PE-19 to 26.

70 NAI Home Poll (I), F No 18/7/46.

71 "DPA Report for 1947", p 148.

72 See Appendix I above.

73 See N Mansergh (ed), "Transfer of Power", Vol IX, London, Document No 552, p 994.

74 FR 2, September 1946.

75 The planters' reactions to wage revision and Rege Committee Report were adverse. See, "ITPA Report for 1946", p 13.

76 "DPA Report for 1947", p 148.

77 See Appendix I.

78 See Appendix II.

79 FR 2, November 1946.

80 Interviews with Abani Lahiri, Sunil Sen, Sachin Das Gupta, Biren Neogy and Biren Pal all of whom were important CPI leaders in Jalpaiguri and Dinajpur district.

81 Ibid.

82 Interviews with Neogy.

83 West Bengal State Archieve, Land Revenue Department, Land Revenue Branch, F No 6M-38/47 $\frac{\text{B of Dec-/48}}{\text{15-107}}$ of which 105, Para 4 (b).

84 *The Statesman*, March 9, 1947.

85 As in note 102, para 4 (e).

86 Interviews with Pal and Neogy.

87 Op cit, para 4 (e).

88 FR 2, February 1947.

89 See Sunil Sen, "Agrarian Struggles in Bengal, 1946-47", PPH, pp 47-8.

90 Ibid.

91 Op cit, para 4 (c).

92 *The Statesman*, March 9, 1947.

93 For details, see *Swadhinata*, April 10, 1947.

94 For *adhiar* exploitation in Duars, see Nani Bhowmik's report entitled 'Bikshubdha Duars', in *Swadhinata*, May 4, 1947.

95 See in this connection, among others, recent works by Partha Chatterjee, Ranjit Guha, Gyan Pande and Javeed Alam.

96 In Sunil Sen, op cit, p 56, and also Ranjit Guha, "Elementary Aspects of Peasant Insurgency in Colonial India", Oxford University Press, 1983, pp 169-70, such suggestion have been made.

97 Jadunath Singh, Lal Bahadur Chhetri, Man Singh, Budhan, Guhi and Mahavir Mistri were some of such railway workers.

98 The text of the Resolution is cited in B Das Gupta, 'Duarser Rail Srimikra Jaglo', op cit, p 215.

99 In understanding the mode of spread of *tebhaga* message guidance may be obtained from R Guha, op cit, chap 6.

100 Interviews with S Ganguly, Jagannath Oraon and Sukra Oraon.

101 Inteviews with Buni Oraon, Deocharan Nayek and others. I remain indebted to the late Anil Gupta, and to Biren Majumdar of Oodlabari, themselves local CPI leaders, for their help in taking the interviews.

102 ITA Report for 1947, p 41.

103 *Swadhinata*, May 4, 1947.

104 The suggestion made by one scholar that the tribal *jotedars* supported the movement (Bhowmick, op cit, p 147) is not borne out by available evidence. Tribal *jotedars* like Kitna Oraon of Mathachulka, Chuia Oraon of Oodlabari and Dhuma Majhi of Khagrabari opposed the movement and were affcted by it. (Interviews with Jagannath Oraon, Arjun Oraon and Sukra Oraon.) However, the number of Oraon, Munda or Santal *jotedars* was not large.

105 "DPA Report for 1947", p 41.

106 Ibid, p 148.

107 *The Statesman*, March 3, 1947; and interviews with Ganguly and Mitra.

108 Interviews with Ganguly and Mitra.

109 For details, see *Swadhinata*, April 11, 1947.

110 *The Statesman*, March 3, 1947; and *Swadhinata*, May 1 and 2, 1947.

111 For the statement of the Congress leaders, see *Amrita Bazar Patrika*, April 21, 1947.

112 *Swadhinata*, April 6, 1947.

113 From the above it must not be concluded that a new consciousness triumphed over primordial (ethnic/tribal/community/caste) loyalties once for all. The interaction between such loyalties and other forms of loyalties and consciousness requires further exploration.

114 The Punnapra-Vayalar upheaval in Kerala in October 1946 constitutes the most notable example of such an alliance.

115 See, D N Dhanagare, 'Peasant Protest and Politics—The Tebhaga Movement in Bengal, 1946-47', *Journal of Peasant Studies*, Vol 3, No 3, p 353.

116 Antonio Gramsci, "Selections from Prison Notebooks", New York, 1971, pp xiii, 53, 125-33.

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## Special Steels

SPECIAL STEELS has been showing significant improvements in production as well as productivity since the takeover of its management by the Tata Iron and Steel Company (TISCO). It ended 1984 with a small cash surplus, as against a cash loss of Rs 3 crore in 1983. There has been a further improvement in its performance in the current year. During the first 5 months, the output of the wire division increased by about 25 per cent and that of the wire rod mill by 60 per cent over the same period last year. Total turnover advanced by 65 per cent to Rs 37.3 crore. A further hike in steel prices has enabled the company to absorb the substantial increase in the prices of scrap, increase in wages and dearness allowance, and increases in the post-budget prices of fuel, transport and stores. In view of the good demand for wire rods and wires, the company is seeking endorsement of a higher capacity of 96,000 tonnes for the wire rod mill, as against the current licensed capacity of 60,000 tonnes. Also, in view of the sustained demand for PC wires from the power sector, and the railways for concrete sleepers and from the construction sector, the management is planning to revive a project that the company had begun some years back for manufacture of these wires at Tarapur, which had to be abandoned half way as a result of the financial stringency and collapse of the wire market. This project will result in significant productivity improvement because of a modern machine being installed and will also enable the company to fully utilise the licensed capacity of 75,000 tonnes per annum. Commenting on the company's prospects, the new Chairman, S A Sabavala, hopes that the demand for steel wire rods and wires will be maintained in the years to come. The Seventh Plan envisages continuing investment in core sectors like power. The company is a major supplier to the power sector for PC wires, cable armour and conductor wires.

# Classical and Contemporary Approaches to Agrarian Capitalism

**Shâpan Adnan**

*The classical sources on the 'agrarian question' were concerned with developing general theoretical principles as well as applying them to particular social and historical contexts. The recent discussion on the mode of production in Indian agriculture drew upon the theoretical categories and arguments developed in these earlier texts, in particular the paradigm of capitalist development.*

*The objective of this paper is to dwell upon certain key issues in the classical texts so as to show how these provide insights into, and in some cases anticipate, the controversies arising in the Indian debate. Equally it is to focus upon those aspects of the South Asian experience which have thrown up certain anomalies requiring critical reformulation of the paradigm itself.*

THE classical sources on the 'agrarian question' were concerned with developing general theoretical principles as well as applying them to particular social and historical contexts. The recent discussion on the mode of production in Indian agriculture, in its turn, drew upon the theoretical categories and arguments developed in these earlier texts, attempting to apply them to the historical experience of South Asia. In particular, it was the paradigm of capitalist development which served as an available ordering framework for evaluating Indian evidence.

At the same time, specific features of the South Asian agrarian structure, as well as its distinctive historical passage, meant that the paradigm as it existed could not 'accommodate' this case without certain critical extensions becoming necessary. The Indian debate, therefore, was not altogether free of a certain tension between uncritical acceptance of earlier texts—which by imposing their pre-existing patterns might underplay the significance of new patterns and problems—and the need for innovative 'breakthroughs' to reconcile old and new patterns within a consistent framework. As such, the advantage as well as the disadvantage, of applying the paradigmatic case to subsequent instances was in evidence—and explicit recognition of this consideration is both useful and necessary.

The objective of the discussion which follows is not, however, to provide 'another' critical review of the 'mode of production' debate *per se*. Rather, it is to dwell upon certain key issues in the classical texts so as to show how these provide insights into, and in some cases anticipate, the controversies arising in the recent Indian debate. Equally, it is to focus upon those aspects of the South Asian experience which have thrown up certain anomalies requiring critical reformulation of the paradigm itself. In particular, I have referred to evidence from the history of colonial Bengal to illustrate some of the difficulties involved. Overall, the method which I have followed has been one of 'reconstructing' aspects of the paradigm from first principles, rather than that of 'proof by quotation' from classical sources.[1]

## I

## The Issues

There is no unique version of the paradigm which is applicable to all cases—rather, there are different, and differing, accounts of the process of capitalist development in specific social and economic contexts. These differences arise not only from the diversity of historical experience, but also from contending interpretations of the causality at work. Marx's original account was in places amended and extended by Kautsky and Lenin; correspondingly, the subsequent debates on Europe and South Asia raised questions which were not all that apparent in any of the classical texts.

The essential core of the debate has revolved around the question of whether the growth of the market is the 'prime mover' of capitalist development in agriculture [Sweezy, 1976: 41-46, 103] or whether it is a conjunctural factor ('stimulant' or 'catalyst') [Postan and Hatcher, 1978: 27], such that its effective consequence depends upon antecedent determinants, and, in particular, the pre-existing class structure [Dobb, 1963: 38-42; 1976: 61, 166-167; Brenner, 1976: 43-45, 60; 1977: 41-47]. It is this particular question, central to the causality of capitalist development, which is taken up for discussion below. Only by defining the alternative ways in which the market relates to peasant production, and its conditions of reproduction, is it possible to specify the role which it can play in the differentiation of the peasantry. Correspondingly, whether such differentiation is historically followed by capitalist transformation depends upon whether the pre-existing relations of production are able to establish dominance upon the market and its incremental growth. In particular, whether or not the growth of the market necessarily corresponds to the development of capitalism, requires critical appraisal. The issues here subsume not only how (i e, in what forms?) but also why (i e, for what reasons?) capitalist development does take place.

A methodological consideration is also pertinent at this juncture. Capitalist development constitutes a particular outcome amongst manifold patterns of possible historical change. In attempting to identify the causality of the process, the possibility of alternative historical outcomes cannot be ruled out *ab initio*. To do so, far from strengthening the argument, weakens it. That is, the paradigm of capitalist development rests on a stronger analytical base if it does not rely upon any evolutionary or functional presuppositions regarding the inevitability of the process. Rather, it has to explain why such an outcome is, or is not, realised in practice. If what has to be explained is presupposed, then, even if capitalist development does take place in history, it will not be apparent from the argument itself why that should have been the case, rather than otherwise.

## II

## Peasant Production

Commenting on the development of capitalism in Russia, Lenin notes that the critical question was not "how fast?", but "how exactly? and where from? (i e, what was the nature of the precapitalist economic system in Russia?)" [Lenin: 1960a: 380]. In his view, "the precapitalist countryside constituted (from the economic point of view) a network of small local markets which linked up tiny groups of small producers, severed from each other by their separate farms, by the innumerable medieval barriers between them, and by the remnants of medieval dependence" (emphasis removed)[ibid, 381]. The scattered and isolated nature of peasant production and its weak, and only partial, integration through local-level markets are echoed in Marx's and Kautsky's respective accounts of the French and German peasantry [Marx, 1973: 238-239; Kautsky, 1976: 3].

What is of theoretical interest here are the categories to be applied to the economy in peasant agriculture. At one level of analysis, the classical texts make heuristic use of the concept of natural economy, i e, one involving transactions in kind rather than money.[2] The category of simple commodity production is somewhat more realistic because it incorporates some markets and provides specification of the productive units. Viewed as an ideal-type construct, the set of economic agents here consist of peasant families for whom "agriculture is wholly or mainly a part of [the] household economy" [Kautsky, 1976: 36]. Much of productive and distributive activities take place 'within' the productive unit, i e, do not enter circulation *via* the market [Kautsky, 1976: 35; Lenin, 1960c: 124-125]. To the extent that peasant households are unseparated from their means of production (primarily land), they do not need to participate in either lease or labour markets. They do, however, participate in produce markets, to sell part of their output and buy non-produced goods. In effect, they constitute a set of equal and independent agents, who are mutually interdependent *via* processes of commodity exchange [Kautsky, 1976: 12].

As both Dobb and Sweezy agree in the context of the decline of feudal Europe, simple commodity production does not (*sui generis*) constitute a separate mode of production [Dobb, 1976: 61-62; Sweezy, 1976: 51]. Rather, it is to be historically found, not in its pure form, but in 'mixed' states, subject to some other dominant mode of production, such as feudalism [Kautsky, 1976: 12]. In practice, therefore, simple commodity producers exist in subordination to exploiting classes, whether landlords, merchants or usurers. The construct of simple commodity production is accordingly modified: it becomes part of a class system, with the peasant or serf, *qua* simple commodity producer, subject to varied forms of coercion, as the very condition of the extraction of surplus product [Marx, 1981: 926-927; Dobb, 1963: 58].

In trying to capture the relationship between 'production and the market' as it obtains within this modified construct, the critical question is: 'why does the peasant come to the market'? This entails examination of how market participation fits into his conditions of reproduction, and whether these include pressures generated by exploitative arrangements (e g, if payment of precapitalist rent in the money-form makes participation in the product market unavoidable) [Marx, 1981: 933; Kula, 1976: 43]. A preliminary step in this direction is to specify the patterns of market participation (or its absence) of different classes of agents.

It is possible to extract from the texts of Kautsky and Lenin certain patterns which capture qualitative differences in market participation between classes [Lenin, 1960a: 70-141; 1961b: 380-388; Kautsky, 1976: 21-28]. These well-known categories, which may be termed as 'real types', can be summarily listed as follows. Amongst producing classes/farms are: (1) rich peasants (kulaks/large farms/capitalists, etc); (2) middle peasants (medium, even small farms); (3) poor peasants (semi-proletarians/proletarianised peasant households). In addition, there are two broad categories which do not operate farms (productive units) themselves, but obtain shares of the agrarian product *via* market or extra-market circulation processes; (4) the proletariat (full-proletarians); and (5) precapitalist exploiters, consisting of landlords, merchants, usurers, etc.

What is innovative about the analyses of Kautsky and Lenin is that, apart from providing this typology of agents, the ways in which the various types/classes come together in market relationships are also indicated. These can be sketched out as follows in terms of (i) the specific markets participated in and (ii) the transactional roles, i e, buyers and/or sellers [See Figures 1 and 2]:[3]

(a) Rich peasants hire wage workers from the ranks of the proletariat, poor peasants and, in some cases, even middle peasants.

(b) Poor peasants and the proletariat buy some or all of their means of subsistence from produce markets, where the sellers are predominantly rich peasants [Kautsky, 1976: 34].

(c) When tying of labour is necessary, rich peasants (or landlords) provide tiny allotments to the poor peasants, which may involve lease-labour interlocked market relationships [Kautsky, 1976: 39; Lenin, 1960a: 197-198].

(d) Pure landlords lease out to all categories of peasants; there is also some incidence of 'reverse' tenancy.

(e) Merchant-usurers, often rich peasant themselves, operating *via* credit and/or produce markets, establish rights on the product of middle and poor peasants, which may also involve credit-product interlocked market relationships [Kautsky, 1976: 25; Lenin, 1960a: 114, 285-287].

It is also possible to discern certain properties of the economy, which serve to bring out the complex relationship between production and the market:

(1) While market participation typically involves competitive relationships between producing classes, there is also significant incidence of complementary alignments between them: e g, rich peasants selling produce to, and buying labour power from, poor peasants [Kautsky, 1976: 34; Hussain and Tribe, 1981a: 108].

(2) Over and above the classical forms of precapitalist ground rent (based upon extra-economic coercion) [Marx, 1981: 925-949] a market-based form (to be distinguished from capitalist ground rent) has come into operation.

(3) The market sector as a whole displays considerable heterogeneity: it is unevenly developed, and displays some incidence of interlocked market relationships (with or without further dependency relationships).

(4) There is no necessary one-to-one correspondence between 'forms' of the market

MARKET RELATIONSHIPS BETWEEN CLASSES IN THE ANALYSES OF KAUTSKY AND LENIN

FIGURE 1

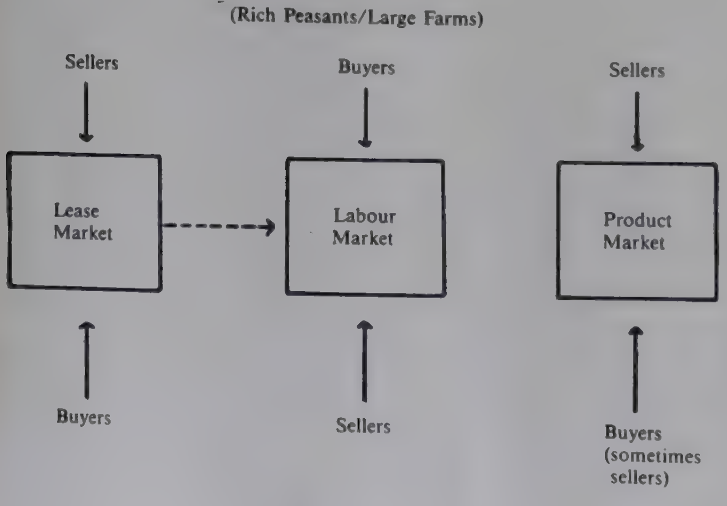
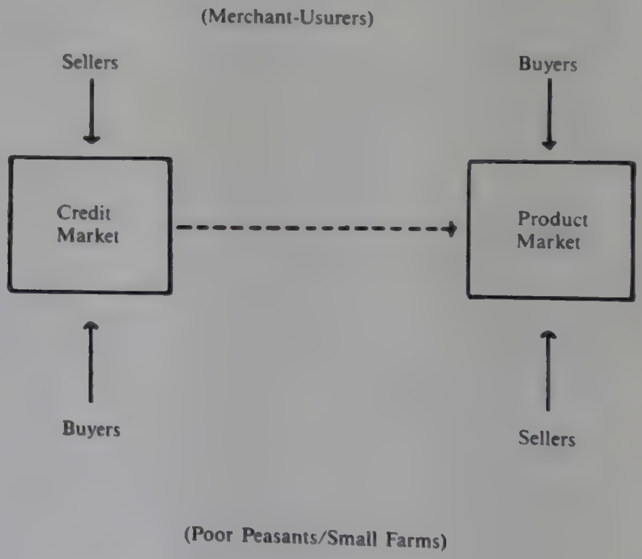

(Rich Peasants/Large Farms)
Sellers
Buyers
Sellers
Lease Market
Labour Market
Product Market
Buyers
Sellers
Buyers (sometimes sellers)
(Poor Peasants/Small Farms)

FIGURE 2



*Note*: --→ Denotes interlocked market relationships and 'forms' of production: e g, the lease market mediates both capitalist and precapitalist rent; interlocked market relationships are 'used' by both rich peasants *qua* capitalist farmer (for tying workers) and the merchant-usurer *qua* precapitalist exploiter.

(5) There are sectors of resource allocation where the market does not operate, i e, non-market sectors: firstly, the retention and deployment of resources 'within' the productive unit and secondly, where circulation is mediated by extra-market mechanisms, e g, varied forms of surplus extraction from the peasantry by feudal rent, 'customary' dues, or state revenue [Marx, 1981: 941; Kautsky, 1976: 36, 40; Lenin, 1960c: 124-125; 1964: 65].

Thus, what emerges from Kautsky's and Lenin's texts is a much more realistic theoretical construct of the economy in peasant (precapitalist) agriculture than, say, ideal-type simple commodity production. For, once the latter has served to distinguish the 'simple' from the 'capitalist' commodity producer, it fails to shed further light on the characteristics of real type peasant classes. It is also a decidedly part-market construct of the economy, in which production and distribution are interlinked by market as well as non-market mechanisms. Furthermore, it situates these varied mechanisms of resource allocation in the context of production relations, thus remaining sensitive to the distinction between capitalist and precapitalist production (as well as transitional forms which are analytically 'intermediate'). There is thus theoretical space for posing the problem of the transition to capitalism in the first place—a question which cannot even be raised within the framework of conventional economic theory.

## III

## Conditions of Reproduction

Real type peasant classes are thus distinguished by distinct patterns of participation in market and non-market sectors. For any particular type (class) of agent, these may appear as discrete strands of its economic activity, unless viewed in terms of its conditions of reproduction. The discrete strands then acquire a certain coherence constituting interdependent elements of an integrated strategy of reproduction. Correspondingly, classes are interdependent not only in terms of possible complementary (market) alignments, but also because their conditions of reproduction, as a whole, are interconnected in certain ways. The limits within which such interdependent reproduction can take place also help to indicate the conditions under which a given class structure can no longer be reproduced. The conditions of reproduction, therefore, bear upon the conditions of change.

### REPRODUCTION OF AGENTS

If the condition of simple reproduction is defined as the minimal requirements for the renewal of production from one cycle to another, then both Marx [1981: 935-942] and Kautsky [1976: 24-26, 34] specify these for (i) the capitalist and (ii) the peasant, considered as a simple commodity producer.

The capitalist, to start with, produces in a social context, where to justify undertaking production at all, he must obtain what he could get in other capitalist sectors of the economy, i e, the normal rate of profit, arising from the interaction of individual capitals on a social-scale. Furthermore, if he leases in land for production, he must pay absolute ground rent to the landowner, i e, a surplus above his normal profit must be generated.[4] If the capitalist produces in a milieu where precapitalist peasant producers co-exist, then both types of producers interact *via* common lease markets, and the opportunity cost of land for each is set by the other. If the level of precapitalist rent exceeds the (notional) level of capitalist rent, then it is the former which would also apply to the capitalist producer.

On this basis, the conditions of reproduction of the capitalist can be specified as follows: after meeting all costs of production, he must generate both a normal profit and a surplus for rent [Patnaik, 1979: 400-401]. Since he produces for profit alone, it is self-evident that he will cost all inputs, whether actually purchased on the market, or owned, but having realisable market value. However, the one resource which the capitalist cannot own, but must buy on the market, is labour power. He cannot, therefore, ignore or undervalue the costs of labour power, 'even if he were constrained to do so'—a consideration which, despite its counterfactual nature, is of significance in distinguishing him from the peasant.

In contrast, the peasant 'owns' labour power (in the sense of family labour) and can deploy it in 'own' production, i e, on-farm. What is crucial here is that, if it has not undergone prior alienation *via* extra-economic coercion (or market sale), then, family labour, deployed in an on-farm labour process, performs as non-alienated labour power.[5] Furthermore, the simple commodity producer does not undertake production for profit alone, nor is such production subject to the dictates of capital on a social scale (i e, social capital). In his conditions of reproduction, there is thus no systematic counterpart to the capitalist's normal profit [Marx, 1981: 941-942]. Nevertheless, this does not imply that he is not subject to other kinds of social pressure. If he does not own, or have direct access to, the means of production, he must of necessity resort to the landlord or merchant-usurer. In other words, reproduction may not be possible without becoming subject to exploitation.

The conditions of reproduction of the simple commodity producer can be defined accordingly: he reproduces provided he meets familial consumption requirements over the cycle of production and surrenders surplus to the exploiting classes to ensure renewal of his access to the means of production. In other words, to survive, he has to generate a minimal level of necessary and surplus product which (purely for the purposes of comparison) corresponds to the capitalist's 'surplus for rent' and 'costs for production' (inclusive of the 'wage' fund). Whether or not he can produce and retain an analogous component of 'normal profit' depends upon the degree of exploitation to which he is subject but, crucially, he survives even if he does not [Marx, 1981: 932].

Thus, what distinguishes the simple commodity producer from the capitalist is his access to non-market labour power and produce, which enables him, if so constrained, to undervalue, or ignore, the costs of family labour in terms of the retained product that serves as its ('factor') payment. This does not mean that such costs are 'fictitious'—they are, or can be, perfectly real, as pre-eminently manifested in the possible 'overwork and underconsumption' of family workers [Patnaik, 1979: 394-395].[6] This (actual or potential) capacity to transfer what would otherwise be market costs and returns to the capitalist implies that the simple commodity producer can survive under conditions which would compel the capitalist to 'go out of business'.

It follows that the simultaneous use of market and non-market resources by the simple commodity producer, far from being discrete and unrelated acts, are in fact interdependent elements of an integrated strategy of reproduction. He can participate and 'survive' in some markets precisely because he can avoid participating in others.

Thus even though the simple commodity producer participates in common markets with the capitalist, and to that extent is subject to identical price 'rules', both the quantitative extent and the qualitative nature of such participation differ. What impels them to 'come to the market' in the first place, is not the market *per se*, but the respective conditions of reproduction to which they are subject. Capitalist production based upon wage labour, with productive units competing with each other for survival, generates a unique relationship between production and the market, impinging upon the conditions of reproduction of the individual capitalist. As Brenner [1977: 32] puts it:

> Only under conditions of free wage labour will the individual producing units (combining labour power and the means of production) be forced to sell in order to buy, to buy in order to survive and reproduce, and ultimately to expand and innovate in order to maintain this position in relationship to other competing productive units. Only under such a system, where both capital and labour power are thus commodities ... is there the necessity of producing at the 'socially necessary' labour time in order to surive,

and to surpass this level of productivity to ensure continued survival [Cf Marx 1976: 739].

The simple commodity producer, on the other hand, participates in the market to have access to means of production which he does not possess and to acquire necessary goods which he does not produce. For him, 'making a profit' is a possible, but not necessary, condition of such participation. The circulation processes generated differ accordingly: while the simple commodity producer can reproduce *via* C-M-C', the capitalist must necessarily generate M-C-M' [Marx, 1976: 247-255].

Despite possible participation in common markets and subjection to identical price rules, the capitalist and the simple commodity producer are, in effect, involved in 'playing different games'. In other words, they undertake qualitatively different 'production problems', corresponding to their respective conditions of reproduction. These, in turn, reflect qualitatively different relationships between production and the market. Equally, since the simple commodity producer has the capacity to part with what would otherwise be normal profit to the capitalist, as well as to 'underpay' family workers in relation to what would otherwise be the capitalist's wage-bill, his economic calculations are qualitatively different, i e, the two have different 'calculation problems' to solve.[7]

A further implication regarding the level of productive forces used by the two categories follows from these considerations—as is noted by Kautsky [1976: 21-23] and cogently re-stated by Patnaik [1979: 401]. If the capitalist and the peasant (*qua* simple commodity producer) co-exist, then for comparable plots of land, the former must extract an additional element (normal profit) than the latter, in order to survive and reproudce. He must, therefore, use a technique which results in sufficiently greater land productivity to yield him this additional component—given that the peasant can be expected to be making the most productive use of land within the set of techniques available to him.

Kautsky is able to draw a crucial inference from this argument: namely, that the relative capacity to survive (reproduce) of the two categories of producers is a consideration analytically distinct from that of their comparative efficiency in terms of market-valuation and technical conditions [Kautsky, 1976: 24-26]. The peasant, *qua* simple commodity producer, survives, 'on the market', not because he is competitively superior to the capitalist, but because he addresses a different (and in some ways, a less 'demanding') production problem. Their relative capacity to survive cannot be necessarily reduced to any principle of 'natural selection', based upon the 'survival of the fittest' [Hussain and Tribe, 1981a: 111].

### REPRODUCTION OF THE CLASS STRUCTURE

It is crucial to distinguish between the conditions of reproduction of the individual agent and those of the class structure in which he is located—for, the individual agent may well cease to reproduce, while the structure persists, replacing him by another.[8] This requires focusing upon the division between necessary labour and surplus labour (the respective products of which accrue to classes of direct producers and their exploiters). While these two components combine into the conditions of reproduction of the individual agent (*qua* simple commodity producer), it is the distributive tension between the two—cutting across individual productive units, but along class lines—which assumes significance in the conditions of reproduction of the structure.

In Marx's [1981: 926] analysis of precapitalist ground rent, the structure of exploitation is viewed as 'parasitic', i e, one in which the burden of reproducing those who exploit them, as well as of themselves, fall upon the class of direct producers. In Dobb's [1963: 42-46; 1976: 165-166] and Kula's [1976: 65-66, 75, 118-119] subsequent analysis of feudalism, this is precisely the consideration which defines the fundamental contradiction underlying the long-run dynamic of the economy. If the direct producers as a class are unable to reproduce, then they cannot also deliver surplus. This, in turn, undermines the entire class structure of exploitation itself. There is thus a 'technical' limit to the intensity of exploitation which is compatible with the reproduction of the class structure as a whole. This technical limit corresponds to the minimal share of the produce which must accrue to the class of direct producers, if they are to reproduce their labour power (i e, the necessary product) [Marx, 1981: 926-928].

In practice, as Kula [1976: 47] notes, the encroachment of exploitation to this level of maximal intensity can be resisted by the overt or covert class struggles of the direct producers.[9] Thus, the 'social' limit to the extent of exploitation depends upon—in Kula's evocative phrase—the 'coefficient of realisable coercion' [ibid]. The essence of the conditions of reproduction of the precapitalist class structure, therefore, boils down to this: that the social limit of exploitation cannot exceed the technical limit. If it does, 'the system breaks down'—as is historically noted for feudal Europe [Dobb, 1976: 100, 165-169; Hilton, 1976: 111-117; Kula, 1976: 118-119; Brenner, 1977] and the agrarian system of Mughal India [Habib, 1963: 322-329; 1969: 40].[10]

While this argument is developed in terms of the 'normal' form of exploitation in precapitalist production (ground rent), it can be extended to subsidiary forms, of which exploitation by mercantile and usurious capital are the most notable instances. Marx regards these as forms of capital which historically predate the emergence of 'industrial' (productive) capital [Marx, 1981: 440-455; 728-735]. To a certain extent, these do prepare the ground for the latter through the twin mechanisms of usurious interest and mercantile profit, which can impoverish peasant producers as well as their rent-receiving exploiters. Nevertheless, mercantile and usurious capital confine themselves to 'mediating' between 'spheres' of (precapitalist) production without 'taking hold' of production itself and remain, in that sense, unproductive capital.

What is particularly relevant here is Marx's view that while mercantile and usurious capital can, and do, undermine the reproduction of individual agents, they do not necessarily undermine the prevalent relation of production itself which, as it were, constitutes their social premise [Marx, 1976: 1022-1023; 1981: 446-447, 729-732, 745]. That is, like the extraction of precapitalist rent, these forms of capital, too, have a 'parasitic' role which is confined to exploiting peasant production without transforming it. Thus, taken together, provided the social limit of precapitalist exploitation (rent, interest, mercantile profit) does not exceed the technical limit, the class structure upon which it is based has an 'on-going' rationality. Even though individual agents (whether direct producers or exploiters) may be ruined, there is no logical or historical necessity for the pre-existing relation of production itself to be transformed (e g, for capitalist development to take place). In fact, Marx further suggests that there is an inverse relationship between the development of productive and unproductive capital—that the predominance of the latter can, in effect, become a barrier to the historical emergence of the former [Marx, 1981: 445-446].

Now, as these propositions appear in Marx's (posthumously published) texts, they do not constitute a complete argument: what is available, in a sense, are the premises and the conclusions, without the intervening logical steps.[11] In the Indian debate, this has led to certain disagreements about the respective roles of productive and unproductive capital in the process of capitalist development [Chattopadhyay, 1972a: A-43; Banaji, 1977: 1375-1376; Bhaduri, 1973; 1974; 1976; 1977; 1981; 1983]. Some of these arguments are taken up in context below.

## IV

## Differentiation of the Peasantry

Marx's [1976: 863-875] original treatment of the differentiation of the peasantry and primitive accumulation was based on the English experience, where the forcible expropriation of peasant property (e g, through the 'enclosure movements') served as the mechanism of dispossession. This, however, could only be a special case because such outright dispossession is only possible if the affected peasant classes lack the necessary juridical property rights, and/or the political power, to resist. Where this was not the case, as for example in France, forcible dispossession could not serve as the premier mechanism of differentiation.[12]

Under such conditions market-based interaction provides an alternative mechanism of differentiation. Both Kautsky and Lenin extend Marx's model on these lines. However, for Lenin, market-based differentiation appears to be an unilineal process, leading inexorably to the eventual polarisation of the peasantry. In contrast, Kautsky takes account of the complex forms of market-based differentiation, and also provides a sophisticated analysis of the possible constraints limiting this process. In his classic treatment of the matter, Kautsky links differentiation with the process of capitalist transformation by looking at the possible barriers which confront 'outside' capitalists intending to 'enter' agriculture. (However, unlike Lenin [1960a: 32-33; 1962b: 238-239], Kautsky's analysis of the problem is concerned with 'outside' capitalists, rather than potential 'insiders' (e g, kulaks) amongst the peasantry.) It is this vantage-point which enables him to focus upon pre-existing property rights, and the peculiarities of land as a means of production [Kautsky, 1976: 17-19, 30, 38-39] which distinguish it from those in industry (e g, machinery):

(1) It is a non-producible good and in limited supply in the short-run (i e, a given stock).

(2) Its quality (e g, fertility) varies from plot to plot and is not transferable between them.

(3) It is (geographically) location-specific, i e, immovable.

(4) It can be 'pre-occupied' by systems of private property, whether of peasant producers or of exploiting classes.

Using these properties as 'premises', Kautsky is able to deduce certain 'barriers to entry' confronting capitalists who come in from the 'outside'. Such capitalists have to displace the pre-existing owners, or contract with them, in order to have access to land in the first place—the precondition of undertaking production at all. In contrast, emerging capitalists in industry do not have to 'capture' the prevalent stock of the means of production from existing owners (e g, the tools of artisans) in order to 'enter' productive activity. Essentially, differentiation of the peasantry, to be conducive to capitalist development, requires a class redistribution of the pre-existing stock of land in favour of actual or potential capitalists (insofar as incremental additions to stock are not possible).

Indeed, as Brenner [1977: 48-49, 73-75] points out, the control of land by precapitalist/peasant production results in complementary resources such as labour power and the means of subsistence remaining 'tied' into its particular (non-market) ways of organising production. Thus, in addition to land, even these co-operant inputs are not necessarily available on the market—to be bought and converted into productive capital. In effect, by simply 'pre-occupying' land, precapitalist/peasant production can set defined limits to the 'entry' of any new form of production, such as capitalism [Hussain and Tribe, 1981a: 124-125].[13]

In fact, Kautsky does not quite push through this argument to its logical conclusion. It is not simply geographical space (as he puts it), but more fundamentally, 'production-space' which is 'pre-occupied' by precapitalist/peasant production (subsuming land as well as co-operant inputs, such as labour power and the means of subsistence). Since this cannot be by-passed, as in industry, it is precisely the limited and 'pre-occupied' 'production-space' of agriculture which can become a critical barrier to possibilities of change. Capitalist development, therefore, is not simply a matter of having access to land through displacement of its direct owners or occupants. Rather, what is involved is the displacement and/or 'self-transformation' of the entire hierarchy of classes who have interwoven interests in maintaining the existing forms of property, inclusive of those who appropriate surplus on that basis (e g, landlords, merchant-usurers or even agents of the state) [cf, Lenin, 1962b: 239-242]. Reformulated thus, Kautsky's arguments apply as much to potential 'insider' capitalists amongst the peasantry as to 'outsiders': for no individual agent, whether peasant, landlord or merchant-usurer, can necessarily ensure that the specific commodities (e g, land or labour power) which he requires for undertaking (or expanding) capitalist production are available 'on the market', without facing possible hindrance from pre-existing class interests.

All the same, Kautsky is able to provide from his analysis a seminal treatment of the role of the market in generating a process of differentiation, as well as the possible limits to this process. In particular, he indicates how differentiation based upon market interaction can be retarded in certain ways.

Firstly, the peasant, *qua* simple commodity producer, survives on the market, not because of his competitive or technical efficiency, but rather because he 'plays a different game', i e, undertakes a different production problem than the capitalist. Secondly, to the extent that peasant producers are able to retain direct access to their means of subsistence,[14] the elimination process based upon product market competition—the mechanism *par excellence* by which capitalism undermines pre-existing production in industry—may not be able to come into play [Hussain and Tribe, 1981a: 108-109, 124-125]. Thirdly, even if peasant producers have to buy some of their means of subsistence from the market, their relationship with the classes which are the sellers, can be complementary rather than competitive. While these considerations are inter-related, they are still analytically separable—for, even if the peasant producer is forced into product market competition, he is not compelled to meet the particular conditions of reproduction applying to the capitalist.

If peasant producers are not necessarily subject to elimination by straightforward product market competition, then, in what other ways can differentiation take place? This is where the political and juridical underpinnings of peasant property rights assume significance. Kautsky [1976: 31] notes that, given "bourgeois property" rights, expropriation of land by direct coercion is not feasible. Under such historical conditions, only the mechanism of debt default in mortgage contracts (the credit-land interlocked market) provides the legally recognised basis of land alienation.

The implication of what Kautsky only hints at here is crucial: even if the peasant cannot be dispossessed, or eliminated by straightforward product market competition, his frequent cash needs—reinforced by interested surplus appropriating classes—can be manipulated to this end. In particular, the compulsion of cash needs can provide the entry-point for market-based contracts by merchant-usurers—the dynamics of which may eventually lead to the dispossession of land. In effect, what is involved is a view of differentiation *via* the market which is much more complex than that of straightforward product market competition (leading to the elimination of less 'efficient' producers). In the Indian context, this is precisely the thesis which has been advanced and extended by Bhaduri—namely, that it is 'forced commercialisation' [Bhaduri, 1983b: 41-42, 85-87, 106-107] initiated in the lease or credit-product interlocked markets, with possible adjustments in the lease (subtenurial) and land markets for debt settlement, which has been the prime mechanism of the differentiation of the peasantry.[15]

As Bhaduri [1976] has pointed out, the historical experience of South Asia displays further complexities which do not accord with the classical paradigm even in the amended version provided by Kautsky. The issues can be illustrated by taking a brief look at the historical evolution of landed property in Bengal under the impact of growing commercialisation and, in particular, the growth of lease, credit and produce markets [Sen, 1982; Chatterjee, 1982; Bose, 1982]. Unlike Kautsky's unproblematic notion of 'bourgeois' property rights, what actually emerged in colonial Bengal was a 'layered' pattern of hierarchical rights in rent, revenue and occupancy in which, typically, no single agent had complete rights on a given plot of land.[16] It was in this framework that peasants caught up in cycles of indebtedness were compelled to sell the particular right which they happened to possess at any given point of time. Over time, however, the pattern was one of indebted peasants going down (or up, as the case might be) along this hierarchy of rights. Only at the limit, when all subtenurial rights had been lost did an indebted peasant become a 'rightless' share-cropper, or a wage worker [Bhaduri, 1976: 51].

Now, while the emergence of wage workers accords with the classical paradigm, the existence of the 'rightless' share-cropper does not.[17] For, here is a class which is totally devoid of rights in the means of production, while not being 'owned' by others (*qua* serf) under extra-economic coercion, i e, "free workers in the double sense" [Marx, 1976: 874]. Nevertheless, the fact of alienation from the means of production did not result in this class being necessarily converted into wage workers. Rather, it appears that such 'rightless' share-croppers were 'retained' by the prevalent class structure as *de facto* 'base-tenants'—who had to undertake production on 'their own account', based primarily on family labour, while being compelled to surrender surplus to those with varied rights upon the cultivated land [Sen, 1982: 29-45; Chatterjee 1982: 145-181].[18] In other words, complete loss of occupancy or ownership rights on land did not mean that such a class was 'relieved of the burden' of organising production and being accountable for its outcome. This pattern, in which a segment of landless producers in colonial Bengal were compelled to survive *via* the lease, rather than the labour market, suggests that there is more to capitalist transformation than the emergence of a (potential) proletariat through the differentiation of the peasantry. However, before any attempt to explain this problematic pattern can be made, it is necessary to look at the distinctive ways in which the market relates to capitalist and precapitalist relations of production.

## V

## Forms of Agrarian Capitalism

The central problem addressed by Kautsky [1976: 2-3], and Lenin [1960a: 95-96; 1960b; 1960c] in his earlier works, is that of the phenomenal forms in which capital 'takes hold' of agriculture, i e, how does it 'penetrate' pre-existing peasant production? The task, as Kautsky puts it, is "to investigate whether capital is bringing agriculture under its domination and how it is dominating it, how it transforms it, how it invalidates old forms of production and forms of property and creates the need for new forms" [cited in Lenin 1960c: 112].

Given the apparent persistence of peasant production in Germany and Russia respectively, Kautsky and Lenin bring to bear the arguments noted earlier to propose that this appearance is deceptive, and that capitalist development is taking place in forms more complex than those specified in Marx's model [Hussain and Tribe, 1981a: 107-108; 1981b: 31-35]. The gist of their argument can be stated as follows. Since involvement in the market has become integral to peasant production, a significant proportion of resources (land, labour power and the means of subsistence) are available as commodities to be bought and converted into productive capital. Furthermore, a class of rich peasants, *qua* capitalist producers, exist in defined market linkages, complementary as well as competitive, with the other peasant classes—middle and poor peasants as much as full proletarians [Lenin, 1960a: 71-187]. Thus, in effect, for the circulation of productive capital to come into play, it is by no means necessary that the differentiation of the peasantry must proceed to the extent of complete polarisation, i e, the emergence of a fully-fledged proletariat in the classic sense used by Marx [Marx, 1976: 874; Hussain and Tribe, 1981a: 108; 1981b: 35].

Rather, what is sufficient is that there are requisite numbers of peasant households (particularly poor peasants/semi-proletarians) who are willing to sell their labour power and, perhaps, even buy capitalist produce on the market (for subsistence). The fact that they retain the phenomenal appearance of tiny 'enterprises', with miniscule holdings of their own, does not detract from the indubitably capitalist nature of their integration to off-farm activities. The constituent 'elements' of such peasant farms are integrated into the circulation of productive capital *via* the labour and produce markets. To that extent, their conditions of reproduction approximate to those of full proletarians.

Thus what Kautsky and Lenin demonstrate is that the actual locus of capitalist production, traced along the lines of the circulation of productive capital, is much more pervasive than would appear from a simple view of the distribution of farm-sizes.[19] Since capitalist relations of production penetrate the 'peasant' sector, the development of capitalism cannot be 'measured' by simply 'counting' and 'adding up' capitalist farms compared to peasant ones [Ennew, Hirst and Tribe, 1977: 304]. (This is a point which has been largely missed out by the Indian debate.)[20] Rather, the extent of capitalist development has to be evaluated by taking account of the conditions of reproduction of all classes of farms, inclusive of the interdependence between them. It is this innovative reconceptualisation of the complex forms in which capital takes hold of agriculture—extending the classic formulation provided by Marx—which constitutes the pre-eminent contribution of Kautsky and Lenin to the paradigm of capitalist development.

However, while this account of how capitalism takes root in peasant agriculture may well have reflected what was actually happening in Kautsky's Germany and Lenin's Russia,[21] there are other difficulties which they seem to leave out of account. Crucial, in particular, is the methodological point that they do not perceive market-based exploitation by precapitalist landlords and usurers as significant sources of resistance to capitalist development, and hence do not take account of alternative historical outcomes other than capitalism. These difficulties can be brought out by examining the premises of their argument as well as the historical patterns from Bengal noted earlier.

Crucial to this formation of Kautsky and Lenin is the fact of an already existing capitalist sector (i e, rich peasants/large farmers who are regarded as such). Thus, existing capitalists are viewed as striving to expand—but being constrained from doing so, by the properties of land and peasant production. Whenever incremental supplies of land, labour power, etc, from the peasant sector appear on the market as commodities, these are perceived to be readily taken up by the capitalist sector. That is, if, (i) a capitalist sector pre-exists, and (ii) all incremental commoditisation is functional to the expansionist requirements of such a sector, then, of course, no alternative outcomes are possible. In particular, the following theoretical problem cannot even arise: what determines that commodities entering the market from the peasant sector are systematically incorporated into the circulation of productive capital, rather than any other (forms of circulation)?

This problem has to be confronted in historical contexts such as South Asia, where a capitalist sector does not pre-exist; or, even if it does, where it co-exists with a 'residual' peasant sector which is subject to other forms of exploitation based upon the market, such as precapitalist rent or usury. When capitalist and precapitalist exploitation co-exist and interact *via* common markets—particularly where the resource is in limited supply, as is pre-eminently the case with land—their relative dominance over specific markets (as well as the conflict between their respective class structures), may well affect the possible historical outcomes. Thus, if markets are dominated by precapitalist exploiters, then incremental commoditisation from the peasant sector may well be incorporated into forms of circulation other than that of productive capital. To the extent that such exploitation is based upon small peasant producers, with distinctive production problems from those of the capitalist, much of the limited 'production-space' of agriculture may continue to remain 'pre-occupied'. Given the peculiar properties of land, precapitalist relations of production in agriculture may thus be able to deny production-space to emergent capitalism in a way that is not possible in industry.

Both Kautsky and Lenin do refer to Marx's view that mercantile and usurious capital can play a retrogressive role in the process of capitalist development, but difficulties arise because they do not actually take up the problem of how precapitalist forms of production and exploitation are subordinated by productive capital [Kautsky, 1976: 4, 25, 45-46; Lenin, 1960a: 78-79, 138, 177, 183-186]. In their analyses, the distinction between productive and unproductive capital becomes blurred. In some passages, Lenin [1960a: 138] treats mercantile and usurious capital virtually as extensions of productive capital. Nor is there an attempt to analyse how either of these may come to dominate the other: " . . . the threads both of merchant's capital . . . and of industrial capital . . . merge in the hands of the peasant bourgeoisie. It depends on surrounding circumstances, on the greater or lesser degree to which the Asiatic way of life is eliminated and culture is widespread in our countryside as to which of these forms of capital will develop at the expense of the other" [Lenin, 1960a: 79]. Similarly, in some places, it would appear that Kautsky treats the emergence of capitalist production relations as something which happens 'automatically'—as a matter of evolution: "At a certain stage of development, capitalist commodity production replaces simple commodity production, that is, the worker ceases to be the owner of his means of production . . . It is not difficult to see that instead of extorting products from the [simple commodity] producer below their value, the merchant may prefer to exploit the worker's precarious situation to convert him into a hired labourer . . . [Kautsky, 1976: 12-14].

Since different forms of market growth are equated to the circulation of productive capital—and the 'common' process is regarded as eventually leading to capitalism alone—Kautsky and Lenin are unable to avoid arguing in terms of the 'tendencies' of capitalist development [Hussain and Tribe, 1981a: 103-109]. What remains absent is the theoretical treatment of the possibility—noted by Marx—that the class structure of precapitalist exploitation may not necessarily give way to that of capitalism. However, in his later writings, when Lenin acknowledges the earlier 'overestimation' of capitalist development in Russia, he also goes on to argue how different class configurations can affect the pace and nature of capitalist development [Lenin, 1962b: 238-242, 291-292]. Not only is this stressed in his argument that the Prussian path to capitalism under the hegemony of the landed nobility is likely to be protracted and reactionary, but also his observation that the regional variations in capitalist development in Russia showed an inverse relationship with the strength of the 'survivals of serfdom' can be seen to anticipate the views subsequently put forward by Dobb and Brenner [Lenin, 1963a: 82-83; Dobb, 1963: 42; 1976: 61, 166-167; Brenner, 1976: 60; 1977: 45-47].

It is hardly surprising that the mere invocation of Lenin's earlier writings in the Indian context lacks conviction. For example, Chattopadhyay's [1972b: A-191] claim that capitalist development has been the 'tendency' is not backed up by analytical specification of the conditions under which such transformation did, or may, take place. Putting it another way, while it may well be the case that capitalist development has historically taken place in India, it is not apparent from the assertion of this fact, why that should have been so. In the absence of such analytical specification, the explanation of capitalist development becomes, by default, a function of time. In fact, Chattopadhyay [1972b: A-190 to A-191], regards capitalist development as the only possible historical outcome: what, therefore, concerns him is variations in the temporal pace of this process. Correspondingly, the processes of the (a) differentiation of the peasantry, (b) primitive accumulation and (c) capitalist transformation become part of a unilinear evolutionary sequence [Hussain and Tribe, 1981a: 103-105]. Such a view also exhibits strategic vulnerability to criticism: for, the proposition that capitalist development is the 'tendency' becomes either non-falsifiable (i e, a 'perpetual possibility'), or 'all-too-easily-falsified'—depending upon the time-frame of its critics.

Similar problems arise as well in other attempts at identifying forms of capitalist development in India. Indeed, these also serve to underscore the difficulties with the analyses of Kautsky and Lenin noted above. The matter can be sharply posed by taking a classic example of market-based exploitation, the credit-product interlocked market transaction—widely known in South Asia as *dadan*. The merchant-usurer establishes claims on the peasant's produce by lending to him in cash or kind, and may continue to permit debt-rolling by the indebted peasant, with the further objective of laying claims on his collateral (e g, land). While Bhaduri [1977; 1983] has viewed this as a mechanism of differentiation and primitive accumulation, Banaji regards it as a form of capitalist development. In a study of the peasantry in nineteenth century Deccan, he proposes that when the merchant-usurer permits debt-rolling, his control over the reproduction of the indebted peasant corresponds to "capitalist relations of exploitation", even though the "monied capitalist" is not the "immediate owner of the process of production" [Banaji, 1977: 1376].

This relation of production, where some (or all) of (i) the means of production, (ii) the produce and (iii) the means of subsistence, have become commodities, provides a test-case because of its apparent resemblance to the state of 'generalised commodity production' characteristic of capitalism [Marx, 1976: 733]. However, if the capitalist producer is identified with the merchant-usurer, and the wage worker with the indebted peasant, then it is pertinent to ask whether this formulation sheds light on capitalist development and the forms it may assume in a transitional context. In particular, it is necessary to examine whether it accords with the relation of production obtaining at the 'origins of capitalism', when capital "takes over an existing labour process, developed by different and more archaic modes of production . . . as it finds it" (i e, the formal subsumption of labour under capital) [Marx, 1976: 1021].

There is a certain similarity between the indebted peasant and the wage worker, to the extent that the former works himself, i e, is a direct producer involved in the labour process. However, unlike the wage worker, it is the indebted peasant who buys the inputs of production even though he has to borrow from the merchant-usurer to do so, and must repay both principal and interest. In contrast, the wage worker neither owns nor borrows the means of production—these remain the property of the capitalist and are provided to him for utilisation in the labour process.

Secondly, the share of the product accruing to the indebted peasant is a residual, after his obligations to the merchant-usurer have been met. Thus, the peasant must in this sense 'own' the product, in the first place, to be able to part with it as loan repayment. In other words, both purchase of inputs, and the means for their payment, are 'credited or debited' to his account. In contrast, the wage worker never owns the product, and his wages are not a residual category, but a fixed amount stipulated by contract. His means of subsistence are bought in exchange for his share of the product (wages)—they do not take the form of usurious advances to him by the capitalist.

Thirdly, to the extent that the peasant has to buy and sell on the open market, and/or with the merchant-usurer in accordance with interlocked market stipulations, his absolute and relative share of the product is determined by either prevalent market prices or the 'accounting prices' stipulated by the merchant-usurer. Thus, the outcome of production for him is affected by the prices at which his product is realised. In contrast, the wage worker is not even concerned with the realisation of the product (which belongs to the capitalist), nor do the prices which they eventually fetch affect his money wages as determined in the wage contract. Unlike the indebted peasant, the risks and uncertainties of production outcomes, arising from market interaction, are not borne by the wage worker.

Thus, the burden of 'ownership' of the 'process of production' is systematically 'inflicted' upon the indebted peasant in manifold ways.[22] It is in this sense that he is the "immediate owner of the process of production": he who bears operational accountability [Marx, 1976: 1023]. Such accountability implies that the peasant, *qua* operator, cannot be indifferent to the outcome of production, nor to the efficiency of the labour process, because his share of the product depends upon it. This, then, is also what distinguishes him (and his non-alienated labour power) from the wage worker. For the latter, labour power is alienated, and hence unburdened by operational accountability—it is this which impels the capitalist to supervise the labour process [ibid, 1011]. It follows that the indebted peasant cannot be reduced to a wage worker. Equally, the merchant-usurer cannot be analytically equated to the capitalist, because he appropriates surplus without assuming the accountability of production outcomes.[23]

In fact, far from being capitalist, here incremental growth of the labour market is neither a necessary, nor a systematic, consequence of the relation of production at work. For, whatever the extent of commoditisation of other resources, the one resource which is systematically not required to be a commodity is labour power.[24] If labour power has to become a commodity, then it is necessary that someone other than the direct producer himself 'buys his labour power', i e, 'takes over' as the organiser of production, bearing the accountability of its outcome. It is in this sense that such relations of production have a rationale which is diametrically opposite to that of capitalism and, on this basis, can be analytically distinguished as precapitalist.[25] Banaji's approach conflates diametrically opposite relations of production, i e, that which systematically generates the incremental growth of the labour market with that which does not. There is thus not even theoretical space for posing the question of capitalist transformation: it becomes, by default, a 'continuous' function of time and cumulative indebtedness.[26]

The argument above would appear to vindicate Marx's perceptive insight, noted earlier, that the development of unproductive capital stands in an inverse relationship with that of productive capital. While only one particular relation of production has been discussed above, much the same arguments can be advanced with respect to extraction of precapitalist rent *via* the market (in cash or kind).[27] What differs between the two instances is the mechanism of surplus extraction: whether it is the lease market, or the credit-product interlocked market. However, what is common to them is that, unlike the capitalist, the exploiting classes do not have to buy the commodity labour power, and are thus able to remain distanced from the accountability of production outcomes.

Given these considerations, it is possible to indicate the conditions under which the growth of the market may not correspond to the development of capitalism. Thus, if precapitalist relations of production are able to establish dominance over incremental growth of the market, then it is perfectly conceivable that the 'rise of commerce' goes hand-in-hand with the non-commoditisation of labour power. Indeed, the 'retained family labour' of the producing classes may even be subjected to greater coercion—corresponding to an intensification, rather than erosion, of the pre-existing relation of production.[28] Here, growth of the market (commercialisation) can be divergent from capitalist development, because, while all other resources can be commoditised, labour power must be systematically excluded.

On this basis, the following explanatory hypotheses may be put forward regarding the problematic historical patterns in colonial Bengal, noted earlier: the significant bias against converting the class of 'rightless' share-croppers into wage workers was the necessary consequence of prevalent relations of production under which market-based exploitation took the form of (precapitalist) rent, usurious interest and mercantile profit.[29] At the same time, because individual agents (e g, share-croppers) could be ruined as producers altogether—to be replaced by others—a stratum of actual or potential wage workers could, and did, emerge in colonial Bengal. The point to note, however, is that such emergence of wage workers could not have been functional to pre-existing relations of production which were based upon making 'family workers' accountable for the outcome of production. On the contrary precisely because it was dysfunctional, it constituted an unintended consequence of that historically evolving agrarian structure, reflecting (the 'dialectics' of) its contradictory dynamics. The limited, if undoubted, growth of the labour market over this period was not thus the result of any "capitalist relation of exploitation", but rather took place despite the absence of capitalist production relations—laying the basis for its possible emergence in subsequent periods.

Assessment of both classical and contemporary (Indian) discussion indicates why the explanatory framework of capitalist transformation must be made free of any functional or evolutionary presuppositions. This allows the paradigm of capitalist development to be not only more sensitive to diverse historical experiences, but also theoretically more defensible. In particular, the question of why (rather than how) the capitalist sector emerges must be posed. This is crucial, for the second part of Kautsky's and Lenin's argument depends upon it: it is only if the capitalist sector pre-exists and dominates the market in relation to precapitalist exploitation, that the growth of the market (in land, labour power, means of subsistence, etc,) becomes systematically 'functional' to the expansionist dynamic of capitalism.

## VI

## The Logic of Capitalist Transformation

It is not until the debate on the 'transition from feudalism to capitalism' in Europe that that the question of 'why capitalist production relations emerge' is squarely posed [Sweezy, 1976; Dobb, 1976; Brenner, 1976; 1977]. The problem here is that of explaining how a given economic system changes into another. This is not simply a matter of the transformation of individual agents, but rather that of the transformation of the relations of production in which they come together, i e, not only why a landlord or merchant-usurer becomes a capitalist, but also why the relationship capitalist-worker displaces those such as usurer-debtor, and does so in a systematic manner. What is involved is the historical transformation of class structures, subsuming the individuated relationships constituting the 'system' as a whole.

The stock argument used here—by Marxist and conventional economists alike—is that of the comparative 'rates of return'. However, a sophisticated exponent is Patnaik, who attempts to explain the historically limited development of capitalism in Indian agriculture by the argument that the potential rate of profit from capitalist production has been lower than the corresponding rates of 'return' through mercantile profit, usurious interest and/or precapitalist rent [Patnaik, 1971a: A-126; 1972: A-146]. Correspondingly, the necessary condition of capitalist development, if and when it takes place, is specified as an increase in the rate of profit from capitalist production of the requisite order [Patnaik, 1979: 401].

This argument has an intuitive appeal, particularly if viewed in a static framework. However, it pitches the logic of capitalist transformation at the micro-level, i e, choices made by individual agents, and displays some methodological inconsistency. Two analytically distinct problems are placed on *par*: (i) how capital flows between sectors within a well-behaved capitalist economy and (ii) how capital flows between capitalist and precapitalist avenues. In effect, both sets/classes of agents (capitalist and precapitalist exploiters) are assumed to be subject to the dictates of comparative profitability, in the capitalist sense of the term. This raises the following questions: if both sets/classes of agents are subject to the same decision-making rules, then (i) what is there to distinguish between them, in the first place? and (ii) how can the transformation of one to the other be posed? In fact, the invariance in decision-making rules of agents in the *ex ante* and *ex post* states can only be arrived at by ignoring qualitative differences in the respective conditions of reproduction. This amounts to a presupposition which is inconsistent with the explicandum. The method cannot, therefore, explain the dynamics of how the *ex ante* state is transformed into the *ex post*.

However, this does not mean that the comparative rate of return (and/or profit) has no place in the chain of causation underlying capitalist development. Rather, the condition under which the logic of comparative profitability, invested with the primacy characteristic of capitalist production, can come into play has to be theoretically established. To do so, however, it is first necessary to distinguish between the ways in which 'profitability' impinges upon capitalist and precapitalist classes—a distinction which, in turn, must be derived from their qualitatively different conditions of reproduction.

Under capitalism, profitability is not simply a quantitative magnitude but has a social-relational character, as enforced by the dictates of social capital. The normal profit received by the individual capitalist is determined by the social interaction between individual capitals (and sectors of production) and the working class. Since capital is mobile between sectors of production, this social-relational character is manifested in the dynamic tendency of profit rates to equalise. To say that the individual capitalist 'maximises profits' is a truism, for the perpetual threat to competitive elimination (i e, 'going out of business') leaves him little choice in the matter.[30] Furthermore, the average profit rate of productive capital, as the normal form of the surplus product (here surplus value), determines the capitalist rent received by landlords as well as the 'aliquot' share of total surplus value accruing to that fraction of social capital which serves as commercial and interest-bearing capital [Marx, 1981: 398-403, 776]. It is this interactive discipline imposed upon the various forms and fractions of surplus value by the normal form which is the distinguishing social-relational trait of capitalism, and imparts a certain primacy to the logic of comparative profitability.[31]

In contrast, when peasant production is subject to precapitalist exploitation, it is rent (and in some cases usurious interest or mercantile profit) which constitute the normal form of the surplus-product, determining what accrues to the class of direct producers, and not *vice versa*.[32] The exploiting classes extract surplus, not by organising production themselves (and being accountable for its outcome), but by their class monopoly of the means of production or the means of payment (e g, money advances which do not serve as capital in the process of production itself). Since capital does not organise production on its 'own account', there is no systematic counterpart to the average rate of profit, which can impose a corresponding interactive social discipline upon the varied forms of the surplus-product.

As noted above, the qualitatively distinct social condition of reproduction bearing upon such classes is that the intensity of exploitation cannot be such as to jeopardise the capacity to deliver surplus of the direct producers (as a class rather than as individual agents). Barring this consideration, they 'do not go out of business', even if they do not match (i) actually realised profit rates in other capitalist sectors of the economy (if any) or (ii) counterfactual rates of (capitalist) rent and profit which could be obtained, if they were to 'become' capitalist.[33] Mere revelation of 'inefficiency' neither undermines the reproduction of the individual exploiter, nor compels him to become transformed into a capitalist [Lenin, 1961a: 129-133; Brenner, 1977: 42].

Given these qualitative differences in the conditions of reproduction, the choice between capitalist and precapitalist avenues of surplus appropriation cannot be treated as if 'other things are equal' (i e, *ceteris paribus* assumptions cannot be made). It is not only that there is no social imperative which systematically impels capital flows between capitalist and precapitalist sectors according to the dictates of comparative profitability. Whether or not the 'rate of return' in precapitalist avenues—even if it could be computed as a rate[34]—can be warrantedly compared (i e, treated as additive and commensurable) with rates of profit and rent under capitalism, cannot be presupposed.[35]

Indeed, historical evidence suggests that considerations of comparative profitability may well be suspended in the short-run, so as to meet the long-run requirements of a class of emergent capitalists. As Marx [1981: 736-740] and Dobb [1963: 123-135] have noted, confronted with the dominance of pre-existing mercantile and usurious capital, the historical response of emergent capitalism has been to create new commercial and financial institutions geared to its own requirements. For example, by charging lower (rather than higher) rates of interest, finance-capital (e g, banks) can undercut and loosen the grips of pre-existing usurious capital—thus permitting the dynamic of industrial capital to come into play (cf Abdel-Fadil [1975] on Egypt). This is not simply a matter of capital flows (free or otherwise), but rather one of direct contentions between classes, with possible state intervention having a crucial role to play [Dobb, 1963: 23-25]. Since long-run considerations of capturing agricultural production-space from precapitalist relationships may be at work, the historical emergence of capitalism may not be necessarily predicated upon short-run considerations of greater profitability.

Viewed in this light, the 'rate of return' argument remains essentially static. Furthermore, as in the Kautsky-Lenin formulation, once a significant capitalist sector has emerged, its very operation may undermine the social premises of precapitalist exploitation.[36] If, during the historical passage, the 'rate of return' in precapitalist avenues is forced down by shifts in the bargaining power of classes, then the rate of profit in capitalist production may concomitantly rise (e g, when the level of precapitalist rent falls, capitalists no longer have to match the 'hunger'-rents of poor peasants, and can retain some of the 'surplus-profit' for themselves). Thus, given a dynamic, rather than static, view of the causality of the process, any initial differential between the 'rates of return' in precapitalist and capitalist avenues may well be 'squeezed out' by the contrary trends of the two.[37]

Indeed, it is only when shifts in the balance of class forces leads to capitalists progressively subordinating merchant-usurers, as well as the owners of landed property, that the pre-existing forms of the surplus-product give way to the rate of profit of industrial (productive) capital as the normal form (here, surplus-value). In other words, as precapitalist rent, usurious interest and mercantile profit become subject to the interactive social discipline of the normal rate of profit, they also undergo a social metamorphosis, becoming transformed into the counterpart categories under capitalism [Marx, 1981: 735, 935-936]. It is thus that a social basis for systematically impelling capital flows, in accordance with the dictates of comparative profitability, is established.

It follows that the emergence of this kind of social-relational profitability is the consequence rather than the condition of capitalist development. It cannot thus be used to explain capitalist transformation: on the contrary, its very emergence requires explanation, i e, it, too, becomes part of the *explicandum*. With respect to the logic of capitalist transformation, if Rk and Rp stand for the 'rates of return' in capitalist and precapitalist avenues respectively, then Rp > Rk does not explain why capitalist development has not taken (or did not take) place. Nor does Rk > Rp explain why capitalist development has (or will) come about. Rather, the theoretical problem becomes that of specifying the conditions under which the primacy of comparative profitability can come into play.

The logic underlying capitalist development cannot thus be grasped in terms of a market-based explanatory frame. Such an approach fails to shed light on the historical transformation of structures precisely because it treats economic rationality as being invariant under qualitatively different relations of production [Dobb, 1963: 28-32]. Viewed in this framework, economic agents remain neither capitalist, nor precapitalist, but bear an uneasy resemblance to the familiar *homo oeconomicus* of conventional economic theory. Shifts from one relation of production to another are reduced to unproblematic choices between alternative 'contractual arrangements'. Correspondingly, economic rationality is pegged on the notion of an innate, and omnipresent, propensity to maximise 'profitability' in quantitative terms, irrespective of qualitative differences in the relations of production.

In order to explain capitalist development (or its absence), it is first necessary to establish whether a shift to capitalist relations of production is at all feasible—given (i) the pre-existing class relations, (ii) the extent to which labour power, the means of production and the means of subsistence, have become commodities as well as (iii) the possible limits to the development of productive forces. Secondly, even if this possibility is technically feasible, there is the distinct consideration of whether it is systematically necessitated [Brenner, 1977: 32]. If precapitalist classes—whether direct producers or exploiters—have to shift to capitalist relations in a systematic manner, then it cannot be simply a matter of the voluntary choice of individual agents. Rather, the factors must be such as to compel individual agents to produce in a different way, because they cannot continue to reproduce otherwise. This requires that the social bases of precapitalist relations of production be undermined in a way such that exploiters, as a class, are no longer able to distance themselves from the accountability of production outcomes—while direct producers are able to shed off this 'burden' in the manner of wage workers.

Such 'systemic' changes come about only through technical progress (development of productive forces), demographic shifts, class contentions (leading to collectively resolved changes in rents, wages, interest rates, etc) as well as interventions of the state.[38] It is only such shifts on a social scale, cutting across individual productive units and contractual arrangements, which can compel classes of micro-agents, who share common conditions, to make adaptive changes which are systematic and *en masse*. In other words, capitalist development cannot be explained as the 'cumulation' of (voluntary) decisions by individual agents to 'play a different game' (i e, switching from precapitalist to capitalist options), but rather as their constrained adaptation to macro-level changes in the 'rules of the game' (i e, transformation of the conditions of reproduction).

## VII

## Perspectives

In postulating the process of capitalist development, the classical sources on the agrarian question take as their 'starting-point' a construct of precapitalist/peasant production which incorporates both market and non-market sectors. Furthermore, they indicate that the relationship between production and the market is by no means unproblematic, but varies in complex ways, in accordance with the relations of production. It is on this basis that Kautsky and Lenin are able to argue that capitalist development in agriculture can take place in complex forms, despite the apparent resilience of peasant production. Nevertheless, when it comes to exploring the systematic bases of capitalist transformation, both of them give insufficient weight to other barriers to capitalism which operate *via* the market, and the possibility of alternative historical outcomes. This results in disparate forms of market-growth being equated to the development of capitalism, so that the process is perceived as unilineal and as a function of time. Such a critique applies as well to some of the contemporary discussion in India.

The agrarian history of colonial Bengal helps to bring out this aspect of the problem, because here precapitalist exploitation based upon the purely economic coercion of the market has been of much greater historical significance. It is possible to suggest now prevalent relations of production structured the growth of the market, such that 'commercialisation' in other markets could take place without necessitating the systematic growth of wage labour. At the same time, the undoubted, if dysfunctional, growth of the labour market over this period assumes significance as an unintended consequence of the prevailing agrarian structure. Such an interpretation may help to explain how the class structure of a given economic system undergoes historical transformation—without having to take recourse of any functional or evolutionary presuppositions.

The need for an explanatory frame on these lines is also evident from the limitations of the 'rate of return' argument in explaining why capitalist development may or may not take place in a given instance. While different relations of production may have superficial resemblances in terms of market-based contracts, the crucial distinction lies in whether the class which extracts surplus is systematically compelled to be accountable for production outcomes. When this is not the case, the necessary precondition of capitalist transformation is that the conditions of reproduction of the pre-existing class structure must be undermined, because, otherwise it can continue to occupy the limited 'production-space' of agriculture without 'going out of business'. It is in this context that factors of change at the macro-level, subsuming technical and demographic shifts as well as state and class actions assume significance.

The classical texts of Marx, Kautsky and Lenin put forward what might be regarded as a 'nineteenth century' paradigm, which orders patterns of resilience and change in precapitalist/peasant production in terms of a process of capitalist development. Despite certain anomalies brought out by subsequent historical experience, what is striking is that a framework laid down nearly a century ago continues to be relevant to much of the discussion on the agrarian question today. Nevertheless, as I have tried to point out, there remain questions which are not raised, or which are not satisfactorily resolved, in classical and contemporary approaches to agrarian capitalism. Before such problems can be tackled, these have to be correctly identified and clearly stated. The specificity of historical experience provides pointers towards what the relevant and correct problems are in a given case. It is only such reciprocal interaction between theoretical ideas and empirical evidence which holds the possibility of shedding light on historical experience. Critical extension of Marx's views on these lines are in evidence in the writings of Kautsky and Lenin; correspondingly, subsequent debates on capitalist development in Europe and South Asia have underscored the limitations of the latter. If this tradition of critical reformulation can be kept alive by contemporary discussion of the 'agrarian question', then it will serve to make the paradigm of capitalist development not only more sensitive to the diversity of historical experience, but also theoretically more defensible.

## Notes

1 Invocation of Marx or Lenin as 'holy writ'—bearing an uncanny resemblance to clerical pedagogy—has plagued much of the Indian debate. It does both of them little justice since neither Marx nor Lenin could be imagined to be 'citing himself' as 'proof' of the argument. Both changed their views over time, and as rational thinkers, did not hesitate to acknowledge when they felt they had been wrong. On Marx's changing views (on India), see Anderson [1974: 473-495]; on Lenin, Lenin himself [1962b: 291-292].

2 However, as Hussain and Tribe [1981a: 114-115] point out, devoid of markets and specification of the nature of productive units and property relations, this construct is far too slender to approximate meaningfully to any precapitalist economic formation.

3 For convenience of exposition, a two-class model has been used in both the illustrative figures.

4 Differential rent may also accrue to the landowner—but this is not of relevance to the present argument [cf Marx, 1981: 941-942].

5 In contrast, precapitalist rent in the form of labour-service of serfs or bonded labour involves deployment in an "off-farm" labour process under extra-economic coercion [Marx, 1981: 926].

6 Non-alienated family workers can overwork and underfeed themselves to an extent which the capitalist cannot induce voluntarily amongst alienated wage workers—who labour according to the stipulations of their market-based wage contracts, and not beyond. Kautsky's view that family labour is ". . . . taken to cost nothing" is inconsistent with his other observations on the 'overwork and underconsumption' of family workers [Kautsky, 1976: 36, 26-27]. This is because he equates costs to only monetised inputs, so that non-monetised (more accurately, non-market) costs are ignored.

7 The calculation problem is not simply a matter of the 'scales of measurement' (e g, whether non-market resources are to be valued at market prices), but also, more fundamentally, a matter of the 'measurement exercise' in which the 'scales of measurement' are to be deployed. See discussion of economic calculations in Bettleheim [1976: 33] and Adnan [1984: 117-180].

8 See Cohen [1978: 35-37] for analysis of the distinction between (i) the structure and (ii) its constituent elements.

9 Of relevance here is the peasantry's "working definition of exploitation—their view of which claims on their product were tolerable and which intolerable" [Scott, 1976: 3].

10 It is not necessary that the social limit has to go up to the technical limit: the class resistance of direct producers may well be activated prior to that stage.

11 I have attempted to reconstruct this argument elsewhere, by filling in the intervening steps [Adnan, 1984: 189-233]. See discussion below.

12 Brenner [1977: 73-75] notes in this context the emergence of a strong freeholding peasantry in France following the fall of serfdom, which further had a relationship of mutual dependence with the absolutist state [Brenner, 1976: 70-75]. This, he argues, retarded the development of capitalism in France compared to England.

13 Furthermore, even if capitalism does get a foothold in agriculture, its subsequent

expansion, if based upon contiguous farm-area, may come up against the barrier of the location-specific property of land [Kautsky, 1976: 30-31; Patnaik, 1979: 414; Adnan, 1984: 28]. Kautsky presents this argument in the context of the accumulation of capital rather than the differentiation of the peasantry. He draws the important inference that unlike industry, accumulation of capital in agriculture must proceed *via* prior concentration of capital (in terms of consolidating land), rather than *vice versa*. However, it is clear from the context that the problem he is dealing with is not the accumulation of capital *per se* (involving the elimination of less efficient capitalist productive units 'going out of business' *via* market competition) but that of differentiation of the peasantry/primitive accumulation (the demise of precapitalist/peasant productive units). The point to note here is that Kautsky's argument applies as much to primitive accumulation (a condition of capitalist development) as to the accumulation of capital proper.

14 That is, without having to acquire it *via* product market exchange, as for artisans [Brenner 1977: 52, fn].

15 The argument also indicates that, in this instance, the role of the market constitutes an intermediate link in the chain of causation—for what underlies its particular form (a certain kind of interlocked market relationship), and the end to which it is deployed, are class relationships and the pressures exerted by the corresponding forms of exploitation.

16 It is not possible here to go into a detailed discussion of the nature of property rights in colonial Bengal. See Bagchi [1981], Sen [1982], Chatterjee [1982] and Bose [1982].

17 A sizeable stratum of wage workers did exist in colonial Bengal [Sen, 1982: 82-83; Chatterjee, 1982: 160-181] as well as other parts of India [Patnaik, 1972: A-147 to A-148].

18 For example, the practice of settling 'rightless' share-croppers is observed widely in the early twentieth century—frequently, it is the erstwhile occupancy *ryot*, who having sold his rights to the merchant-usurer, is 're-settled' on his earlier plot, but with enhanced rental rates [Chatterjee, 1982].

19 The use of farm-size as a 'proxy' for the scale of production is subject to extensive critique from both Kautsky [1976: 32-33] and Lenin [1960c: 132-133; 1964: 67-71] [cf Patnaik, 1979: 410-411]. This point goes even further: that is, the statistical distribution of farm-sizes does not, by itself, provide any understanding of the social relations of production between the size-groups.

20 A crucial implication is that the unit of analysis in the evaluation of capitalist development cannot be the individual enterprise or productive unit. In the Indian debate, however, both Rudra *et al* [1970: A-85 to A-87] and Patnaik [1971a: A-123 to A-128], in their differing ways, treat the individual enterprise as the unit of empirical investigation: i e, the problem is reduced to that of identifying that 'elusive animal'—the capitalist farmer. While Frank [1973: 36-37] does point this out, his analysis (elsewhere) shifts the unit of analysis to the other extremity—that of capitalism on a 'world-scale' [Frank, 1967: 1-12]. The result is that the interdependent relationships between classes within the same agrarian formation cannot be captured, nor the bearing of the 'world capitalist system' upon such relationships, by analytically specified.

21 For a contrary interpretation of Russian evidence, see Chayanov [1966] and Shanin [1982].

22 This does not necessarily imply actual legal ownership of the means of production which are used, e g, land can be leased-in by both peasant and capitalist operators.

23 A preliminary version of this argument is provided in Adnan [1980]. The alternative conditions under which the form of this market relationship can correspond to capitalist relations of production is taken up in Adnan [1984: 226-231].

24 This does not mean that wage labour may not be hired by the peasant operator to supplement family labour—but this is qualitatively different from the generation of wage labour as a necessary consequence and condition of capitalist production [Marx, 1976: 716].

25 As presented here, this proposition is definitional. It thus accords with what Bhaduri makes a matter of assumption in defining precapitalist exchange [Bhaduri, 1974]. However, it is possible to argue that precapitalist exploiters must systematically disassociate themselves from the accountability of production outcomes as the very condition of their reproduction [Adnan, 1984: 192-196]. To reach this conclusion, however, other premises become necessary—and these cannot be presently taken up.

26 In fact, Banaji [1977: 1375-1376] does not argue from first principles, but simply cites Marx as 'proof' of his argument. Ironically, Marx says exactly the opposite [Marx, 1976: 1022-23]. The critique applies to those who follow Banaji in this line of argument [Pearce, 1983; Gupta, 1980].

27 Constraints of space do not permit a fuller discussion of this point here [see Adnan 1980; 1984: 192-197].

28 Cf Marx [1981: 449]. This is exemplified by the onset of the 'second serfdom' in Eastern Europe [Dobb, 1963: 38-42; 1976: 61; Kula, 1976; Brenner, 1976; 1977]. For some parts of Bengal, Bose [1982] notes the inverse instance: namely, that the collapse of the credit and produce markets in the depression of the thirties undermined the bases of precapitalist exploitation by merchant-usurers.

29 For assessment of nearly a hundred years' evidence from the mid-nineteenth to the mid-twentieth centuries, see, in order, Sen [1982: 42-44], Chatterjee [1982: 122, 190] and Bose [1982: 39-209].

30 Note the sharp contrast with conventional economic theory in which the propensity to maximise profits by the individual agent (implicitly presumed to be capitalist) is taken as axiomatic, rather than being derived as a corollary of the particular conditions of reproduction applying to the capitalist.

31 Marx [1981: 918] regards the average rate of profit as the "overall regulator of production" which "presupposes very elaborate mediations".

32 It is the inverse of the relationship between profit and rent under capitalism [Marx, 1981: 929-932].

33 Cf Marx [1981: 942] and Engels' editorial comment [in Marx 1981: 860], as well as Kautsky's subsequent discussion of the inability of German capitalist farmers to compete against precapitalist exporters in the international grain market in the closing decades of the nineteenth century [Kautsky, 1976: 42-43; Hussain and Tribe, 1981a: 20-28].

34 The notion of a 'rate' requires specification of a determinate relationship between definable 'costs' and 'returns'. In the context of peasant production and exploitation, these are far from being clear-cut. See discussion in Adnan [1984: 192-194].

35 In a later contribution, Patnaik [1980: 486], commenting upon Sau [1979], does note the non-commensurability of capitalist and precapitalist rent. This, however, is inconsistent with the 'rate of return' framework she continues to retain in her argument.

36 For example, increased opportunities of wage employment in industry and agriculture give alternative avenues of reproduction to poor peasants and proletarians, simultaneously decreasing their dependence on landlords and merchant-usurers [Lenin, 1960a: 208].

37 There is no need to presuppose the outcome of the process. Rather, the point is to simply work out the possible causality underlying capitalist development (or its absence) in dynamic terms. It is this 'domain of contingency', in the macro-level interaction of productive and unproductive accumulation, which is captured by Bhaduri [1981], though he, too, presupposes a 'rate of return' framework.

38 See, for example, Kula's graphic account of the collapse of the feudal economy in Poland [Kula, 1976]. Some of these processes can be integrally related to industrialisation of the economy, transforming it as a whole [Kautsky, 1976: Lenin, 1960a; 1963a], while others such as the parameter of land-man availability are affected by the pace and nature of demographic change [cf Postan and Hatcher, 1978]. See Adnan [1984: 210-233] for further discussion.

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# The Kaniatchi Form of Labour

**Mihir Shah**

*Marxist writing on Indian agriculture has, in recent years, tended to concentrate on the question of the mode of production. The development of capitalism in agriculture has been the major focus of the discussion. This emphasis is quite understandable since for over the last two centuries, capitalist forces have had an unprecedented, profoundly transformative impact on the indigenous cultures of millions of people, not only in India but throughout the continents of Latin America, Africa and Asia. To arrive at a conception of the nature of present-day agrarian relations in these areas, therefore, it becomes vital to study the process of this transformation.*

*The debate on the mode of production in Indian agriculture, however, can hardly be said to have contributed to our understanding in this regard. This paper argues that owing to the adoption of a fairly crude Eurocentric model, the debate seems to have got bogged down in a series of false problematics with a number of extremely important questions getting neglected in the process. The paper attempts to chart only a bit of the way in bringing to the fore just one such question. It seeks to highlight the possibility that there could be important differences between the agrarian structures of pre-colonial Indian and feudal Europe quite apart from significant regional variations within the Indian sub-continent itself. Variations which could imply that peasant differentiation and a growth in landlessness may not be the only or even the most important indicators of change following capitalist transformation and that the process may take very diverse forms in different parts of the country. Thus, in many areas the much more significant process may be the qualitative transformation in the relationship between agricultural labourers and their employers.*

*This proposition cannot be fully understood, however, unless we have some conception of the nature of these relations in the immediately pre-colonial period. Although they show a remarkable diversity of form across different regions, there is hardly any detailed study of these relations in even a single region or district in pre-colonial India. The following account drawn from immediately pre-colonial and early colonial Chingleput is an attempt—doubtless still quite fragmentary—towards filling this lacuna.*

## THE MODE OF PRODUCTION CONTROVERSY

MARXIST writing on Indian agriculture has, in recent years, tended to concentrate on the question of the mode of production.[1] The development of capitalism in agriculture has been the major focus of the discussion. This emphasis is quite understandable for over the last two centuries, capitalist forces have had an unprecedented, profoundly transformative impact on the indigenous cultures of millions of people, not only in India but throughout the continents of Latin America, Africa and Asia. To arrive at a conception of the nature of present-day agrarian relations in these areas, therefore, it becomes vital to study the process of this transformation.

The debate on the mode of production in Indian agriculture, however, can hardly be said to have contributed to our understanding in this regard. This has much to do with the kind of approach adopted by most of the participants in the debate. A major preoccupation of the discussion has been with specifying the necessary and sufficient conditions which would allow one to speak of the existence of capitalism in Indian agriculture. This has given rise to an excessive concern with questions of characterisation, identification and measurement. Thus, the task has widely been understood to be one of assessing, *at a point of time*, whether capitalism can be said to exist, how far it has developed, etc. And so a major portion of the debate has been devoted to arguments over the adequacy of different criteria of measurement. The method followed, with minor variations in criteria, has been to estimate the proportion of farms which may be said to be capitalist at a given moment of time. This is then used as a basis to arrive at an approximate measure of the *extent* of capitalist development at that point of time.

Such a narrowly quantitative, basically static, at best comparative-static approach is obviously inadequate for the study of a social process which involves *time* and *qualitative change* in an essential way. It could, of course, be argued that some of the measurement criteria being used do suggest an implicit conception of a social process which has also been explicitly put forward by some participants in the debate, *viz*, the process of the differentiation of the peasantry and the growth in the proportion of wage labour as a result of depeasantisation. What we need to recognise, however, is that this conception is based on a model of the transition from feudalism to capitalism in Europe, the implicit assumption being that the process of capitalist transformation in India fundamentally mirrors the European process.[2] For one thing, an identity of points of departure is presumed. What is overlooked thereby is the possibility that there could be important differences between the agrarian structures of pre-colonial India and feudal Europe, quite apart from significant regional variations within the Indian sub-continent itself.[3] Variations which could imply that peasant differentiation and a growth in landlessness may not be the only or even the most important indicators of change following capitalist transformation and that the process may take very diverse forms in different parts of the country.[4] The contrast with Europe becomes even sharper when we recognise that the impact of capitalist forces on agrarian relations begins to be significantly felt in India following colonialism and not through the growth of an indigenously engendered rural bourgeoisie—once again in a manner characterised by significant inter-regional diversity. Thus in India the process that has to be studied is that of the transformation of agrarian relations after the advent of colonialism—how the conditions of reproduction of these relations were altered—in particular, through the unprecedented penetration of market relations and the rise of the institutions of the bourgeois state, first in the colonial and then in the post-colonial period. An essential element of this study would be the conflicts within the relationship of the state and the dominant rural elites, and those within rural society between the latter and their tenants and labourers. The resultant qualitative transformation in agrarian relations may then be seen as a complex product of these struggles, each set of relations being subtly redefined in the process.[5]

The very manner of our posing the central question, therefore, differs sharply from what it would be in a historical context where capitalist development occurs under the aegis of a local rural bourgeoisie. This is all the more reason why it would be a serious error to reduce the study of the process in India to a "search for the capitalist farm or farmer"—one would, rather, in the spirit of Kautsky's appeal, attempt to document the entire gamut of transformations occurring in the antecedent agrarian structure, once the process of penetration of bourgeois forces begins to occur. The tracing of the rise of an agrarian bourgeoisie, as and when it takes place, would be only one, *albeit* an important part of this attempt.[6]

The final implication of the contrast with Europe is that one cannot study the process of capitalist transformation in India with a fixed, linear, teleological, Eurocentric conception of what agrarian capitalist relations must "ultimately" look like. Such a view could give rise to facile arguments of changelessness or could make one characterise production relations, at any point of time, as necessarily "semi-capitalist", or worse, as "semi-feudal", even if important changes following capitalist penetration have occurred. For, after all, compared to a certain fixed notion of a 'pure' capitalist form, (which in any case does gross injustice to the European experience[7]), Indian agrarian relations are perhaps destined forever to remaining semi-capitalist. Not only are the "semi" prefixes utterly inadequate in capturing crucial *qualitative* aspects of and the *diversity of forms* in which the impact of capitalist development occurs in different parts of India, they also convey the misleading and erroneous impression that a 'greater' development of capitalism would lead to the emergence of 'fuller' or 'purer' capitalist forms.[8] Such terminological quibbling ultimately evades the very real complexity and specificity of agrarian relations in our context. Its teleological character does not allow for the possibility that capitalist relations could well be *overthrown* before they come to "fruition" in any Eurocentric sense—that what we are witness to in India may be a unique *form* of penetration of capitalist relations, a distinctive trajectory of rural proletarianisation, which given the specificity of the historical context, defies encapsulation in European teleologies.[9]

## AGRARIAN RELATIONS IN PRE-COLONIAL INDIA: A DISTINCTIVE ELEMENT

Elsewhere (M Shah, 1984a and 1984b) I have attempted an elaboration of each one of these propositions. In this paper I limit myself to providing a preliminary and partial substantiation of just one of them by highlighting a distinctive element of the agrarian structure of pre-colonial India.

Evidence from large parts of India suggests the existence of a highly differentiated agrarian structure in the immediately pre-colonial and early colonial periods. While the quality of the evidence is variable, there in no doubting the general direction in which it points, First we have the evidence for high levels of inequality in the structure of land control—for North India broadly in I Habib (1984) and S Chandra (1974), for Rajasthan in D Singh (1976) and M Tandon (1978), for the Deccan in H Fukazawa (1984), for Punjab in I Habib (1963, p 119), for Uttar Pradesh in E Stokes (1975) and A Siddiqi (1973, pp 32-41), for Bengal in R Ray (1979, Ch 3) and for South India in D Kumar (1975) and M Shah (1984b, p 48). At the same time we have wide-ranging evidence from all over late 18th-early 19th century India, of the existence of a fairly substantial stratum of individuals who had access to little or no land and who relied on agricultural labour for the major part of their livelihood. In a series of classic studies on agrarian relations in pre-colonial, especially Mughal India, Irfan Habib (see especially I Habib, 1963 and 1983) has stressed the unique significance of such a stratum of labourers in Indian history. Most recently, he has suggested that in North India during the Mughal period this labour-force could have formed as much as 20-25 per cent of the rural population (I Habib, 1984, p 249). The most decisive demonstration of this phenomenon is provided by Dharma Kumar (1965) for South India. In her view, agricultural labourers might have formed as much as 17-25 per cent of the agricultural population of the Madras Presidency around 1800 (D Kumar 1965, p 181). Supportive evidence for these views may be found for North India generally in T Raychaudhari (1984, p 12) and S Chandra (1974, p 51), for Uttar Pradesh in A Siddiqi (1973, pp 49-54), for the North-West Provinces in L Alaev (1976), for Gujarat in J Breman (1974), for Maharashtra in H Fukazawa (1974), for Rajasthan in H Mukhia (1977), D Singh (1976) and M Tandon (1978), for Bengal in R Ray (1979, pp 266-271), for Bengal and Bihar in B Chaudhari (1984, pp 164-166), for South India generally in B Hjejle (1967), and for the districts Shimoga in E Harper (1968), Tirunelveli in D Ludden (1978) and Thanjavur in K Gough (1981).

Moreover, most of these authors relate this high level of agrarian differentiation and the presence of a significant proportion of agricultural labourers to the operation of strictures associated with the caste-system. A vast majority of these labourers, in particular, belonged to castes occupying the lowest rungs in the social hierarchy.[10] Thus, both the order of magnitude of these phenomena and their social origin imbue the agrarian structure of immediately pre-colonial India with a definite distinctiveness which must seriously modify the way the question of transformation following capitalist penetration is approached. For one thing, this should displace somewhat the centrality of the question of peasant differentiation. For an already highly unequal agrarian structure may not show too remarkable a rise in differentiation even after capitalist development, especially if checks operate on the differentiation process within agriculture and the rate of growth of the non-agricultural sectors is not very high. The very definition of change has to be radically altered in this context. Again the pre-existence of a high proportion of agricultural labourers means that the way we study the process of rural proletarianisation must be altered. The latter would no longer be reducible to the process of depeasantisation alone—it would much more be reflected in the *qualitative* transformation of the relationships of these labourers with their employers.[11]

This last proposition cannot be fully understood, however, unless we have some conception of the nature of these relationships in the immediately pre-colonial period—which would provide an indication of the principal elements in which we would subsequently trace a qualitative transformation. What is immediately obvious here, even from a preliminary sifting of the available evidence, is the remarkable diversity these relationships show across different regions in India. The widely reported existence of *jajmani*-type relations from all over India does suggest a possible unifying framework for analysing these relations.[12] But beyond this unity their inter-regional variedness is undeniable. In any case there is hardly any detailed study of the relations between agricultural labourers and their employers in a single region or district in pre-colonial India. It should be obvious that without several such studies, any all-India generalisations regarding the nature of these relations could scarcely be considered credible.[13] The following account drawn from immediately pre-colonial and early colonial Chingleput is an attempt—doubtless still quite fragmentary—towards filling this lacuna.[14]

## THE KANIATCHI FORM OF PROPERTY

Control over land in Chingleput in this period was exercised collectively by a group of *kaniatchikars* (or holders of *kaniatchi* right), who were also known as *mirasidars* (or holders or *mirasi* right) since the advent of the Mughals.[15] These landholders, a large majority of whom were Vellalas and Brahmins, did not generally cultivate their lands on their own. They either leased them out to tenants or directly employed labourers to cultivate them. Our focus is on the latter relationship, to understand the character of which we need to get a picture of the nature of scope of the *kaniatchi* form of property as also the place and role of the *kaniatchikars* in village life.

The *mirasidars* derived their control over land, as also a position of overall pre-eminence in village affairs, through their collective ownership of the total number of principal shares (*pangus*) into which the village output was divided, once certain deductions had been made. The village output was regarded as a unit from which various shares were allocated to participants in the village economy in accordance with customary norms governing the allocation. Some deductions called *swatantram* were made before the gross produce was estimated: "Some are taken while the grain is in straw, some by computation and some by measurement: the same person receives different fees in as many different ways" (Letter from Place, Collector of the Jaghire to the Board of Revenue, October 6, 1795, para 33). While their number and value varied greatly across villages they were extremely important in assuring the subsistence of different participants in the agrarian system, given especially the collectivity of the property form. Place indicates this when he remarks:

> besides that they define the property of individuals, they have a further utility, in constituting the temporary subsistence of the inhabitants, till the final division of the crops takes place. First they are received whilst the grain is cutting; and, secondly, when it is beat out, and between these two stages of the harvest and the ultimate disposal of the crops, various inevitable delays occur, which would make the privation of these fees a real hardship. (Place's Final Report on the Jaghire, June 6, 1799, para 204.)

From the gross output itself several deductions were made which included the *calavasam* or the share of the agricultural labourers and different kinds of *murai* or customary payments made to the village artisans, the temples, for the maintenance of irrigation tanks and sometimes also to *kaniatchikars* and to certain chosen individuals favoured by the state. Once these deductions had been made, the state share or *mel-varam*[16] was set aside. The striking thing about Chingleput is that the overwhelming proportion of land-revenue was paid *collectively* by each village, in *kind* and as a *proportion* of the total output.[17] The remaining village output, the *kudi-varam* or *kil-varam*[18] was shared among the *mirasidars* and their tenants.[19]

The number of *mirasi* shares remained fixed even if the number of shareholders (*pangalis*) increased or decreased over time. Thus for example, Place found that the village of Poolatoor, divided into four shares, was in his time held by thirty shareholders, while in the village of Damerlah only 23 *mirasidars* held the 160 shares (Place's 1799 Report, op cit, para 69). The interesting thing is that the current shareholders would still be recorded to be holding a certain fraction of the fixed number of principal shares—the summation of their various holdings adding up to the original number of shares. Thus, as Place says of the village of Poolatoor:

> Ask any of the thirty, into how many shares his village is divided, he will say, four; ask him how much *mirasi*, or how much landed property, he has in the village, he will say a half, a quarter, or a sixteenth, or any other fractional part of a share (loc cit).[20]

The *mirasi* right was, of course, exceptionally secure. On the basis of a review of ancient legal texts, Ellis expresses the view that:

> *Mirasi* right is not forfeited by the discontinuance of cultivation for a single year, or any longer period, during the life of the *mirasidar*, his son, or his grandson; it would become forfeitable, that is, the claimant could not regain it, if it had passed into the possession of another, by the Hindu law after the third generation, or after the lapse of the *period of memory*, determined to be one hundred years (Replies from F W Ellis, op cit, Reply to the 3rd question).

*Mirasi* shares were inherited patrilineally and this was a potential source of inequality among *mirasidars*. Under such a system "a man's land shares like his personal property, were inherited equally by his sons, by a chosen daughter's son if he had no son, or by an adopted son if he had neither daughters or sons" (K Gough, 1981 p 209).[21] Thus, the larger the number of sons a *mirasidar* had, the smaller would be the size of each son's *mirasi* share. Whether or not inequality would have grown over time, of course, cannot be asserted *a priori*, depending as it would have on the differential rates of partitioning of different sized shareholders. The joint family system would in any case have acted as a check. Another potential source of inequality was the fact that *mirasi* shares could be bought and sold but again little can be said *a priori* without knowing more about the trends in direction of sale.

What is interesting however, is that a well-developed institutionalised mechanism existed in most villages which kept the growth of inequality among *mirasidars* greatly within limits. Cultivation in *pasancarei* or *samudayam*[22] villages took place collectively on the fields of the *mirasidars* who bore the joint responsibility of organising cultivation in the village. In most villages, however, cultivation generally took place on fields separately allocated to each *mirasidar* in proportion to his share, the fields themselves being subject to redistribution at regular intervals of 8, 12, 27 or 30 years (K M Gupta, 1933, pp 63-65). Such villages were known as *karaiyidu*.[23]

On the basis of a village-survey conducted in 1817 in a village in Chingleput district yet untouched by British rule, Hodgson (1830) provides a fascinating account of how this redistribution occurred in *karaiyidu* villages. According to Hodgson, this practice was common in villages where crops such as rice, which needed a lot of water, were important. In Hodgson's village there were four principal shares, each divided into 16 parts, making in all 64 shares. The distribution procedure is described thus:

> the names of each lot and each shareholder are written on pieces of the leaf of the palm tree, such as is used for village records, and the names of each division of land to be allotted are placed in a row. A child, selected for the purpose, draws by lot a leaf with the name of a principal shareholder, and places it under a number thus:
>
> | 1 | 2 | 3 | 4 |
> |---|---|---|---|
> | TANNAPPA | NINA | NARRAPPA | MALLIYAN |
>
> It is thus settled, by chance or lottery, that Tannappa and his under-shareholders, are entitled to cultivate the land of the principal share lotted under No 1. Tannappa next proceeds to settle in the same way each under-shareholder's portion included in his principal share; and so on till the 64 shareholders receive each his allotment.
>
> The lots are not drawn for all the land at once, but in sub-divisions according to quality; for instance, for the division nearest to the reservoir, as being less liable to the effects of drought, first; then for the next division, as being further removed from the reservoir; and then for the third, which perhaps receives an adequate supply of water one in two or three years only. It is thus apparent, that the object in drawing the lots for the annual or periodical occupation of the land, is to secure to each person interested a proportion of each description of land, *viz*, of the best, the good and the indifferent; in other words, of the best watered, second best, and so on. Each of these subdivisions has an appropriate name in the village register (J Hodgson, 1830, pp 80-81).

There were a few villages, however, where one could expect a greater tendency for inequality among *mirasidars* to grow over time. These were the so-called *arudi-carei or palabhogam*[24] villages. Here the land was *permanently* distributed among the *mirasidars* in proportion to their shares. However, even in these villages, "all other rights and privileges are held in common: in most of these also, land reclaimed from the waste since the *general division* is *samudayam* or common property" (Replies from F W Ellis, op cit). We do have some evidence on inequality among *mirasidars*. Place notes at one point that land held by *mirasidars* ranged roughly from 2.67 to 2,667 acres (Place's 1799 Report, op cit, para 344). Ellis' data on the value of *mirasi* shares from 11 villages covering nearly 200 *mirasidars* shows that the average range was in the ratio 1:3 (Replies from F W Ellis, op cit, Reply to the 8th question). The much more significant inequality, as I show in a moment, was, of course between the *mirasidars* as a whole and the rest of the village. This immediately came to the fore in the early colonial period following the introduction of the British *raiyatwari* system. Thus, the Lorenz ratio for inequality among landowners in Chingleput in 1853-54 was as high as 0.57 (M Shah, 1984b, p 48). This high figure for inequality *among landholders* had nothing to do with the classical differentiation process—on the contrary it was a reflection of the already existing inequality in rural Chingleput and resulted from a dual process—(a) the dominant *mirasidars* obtaining *pattas* for vast areas of land, and (b) the acquisition of small fragments of land by non-*mirasidars*. There was little rise in this already high figure in the rest of the colonial period (ibid, Ch 4).

In any case, whatever may have been the level of inequality among *mirasidars* in the pre-colonial period, we must crucially take note of the deep bonds of collectivity that knitted the *mirasidars* together and which provided a distinctive form to the dominance they exercised over the village. Thus, the privileges that each *mirasidar* enjoyed by virtue of his holding the *mirasi* right derived from his being a member of the collective *mirasi* body. Moreover, the entitlement to *mirasi* right was conditional upon the payment of the *mel-varam*. Sancaraya describes the mechanism by which a defaulting *mirasidar* could be divested of his right although he does add that this was a rare occurrence. In such an event the government "may call upon other shareholders of the village to pay the balance due by the defaulting *Mirasudar* and allow them to execute for his share a *Sabhacharya Sasanam*". (Sancaraya, op cit, Reply to the 3rd question). In a footnote here he adds: "In this case the whole of *Mirasudars* of the village assemble and execute a joint deed divesting the defaulter of his share in the *Mirasu*, and investing it, according to their several proportions, in themselves: It does not appear to be necessary for the person, whose share is thus transferred, to be party to the deed" (loc cit).

The collective sanctions to which the exercise of *mirasi* right was subject are also reflected in the strict and detailed specification in the Village Register of the use to which different parts of the village land were to be put. The total description of the village land was carefully recorded in the *Terapadicanacu* which was "the first part of the general Village Register recording the extent and description of the several kinds of land of which the whole is composed" (replies from F W Ellis, op cit, footnote 23). Thus, "on the *nattam* they must build their houses and nowhere else, they cannot cultivate it or appropriate it to any other purposes; in the *peramboke* they have no right to fill up tanks, stop water courses, or obstruct roads" and so on (Ibid, reply to the 2nd question). The *mirasidars* had no "inherent right" to make changes in the distribution of land specific in the Tarapadi accounts but such changes could be made in special cases with the consent of the "Circar". In all such cases the Tarapadi accounts had to be suitably altered incorporating the changed allocation. Again, the customary norms governing the distribution of the village output were noted in the second part of the Village Register:

> The *Pangumalei-Canacu*, which may be considered the second part of the general Village Register, states the number of *careis*, or fixed shares into which the whole *Mirasi* is divided; the proportions possessed by each *Mirasidar*; the lands held by *Ulcudis*; all mutations of these; and the actual distribution, in detail, of the culvitable lands, *Manyam* or *Varapet*,[25] for the current year, among every description of cultivator, *Mirasidar*, *Ulcudi* or *Paracudi* (Ibid, footnote 21).

The conditional and collective character of the *mirasi* right is also well illustrated by considering the question of its alienation (which was a distinctive feature of this right, distinguishing it, for example, for the occupancy right of the *ulkudis* which was not transferable). According to Ellis, the *mirasi* right could "only be transferred by written deed, accompanied by certain prescribed formalities, tending to give the act general publicity and with the consent of six stated descriptions of persons" (Ibid, reply to the 12th question, para 19)[26]. Additionally, "by the custom of the country the bill of sale must be drawn up by the *curnum* of the village; it must be witnessed by two or more creditable persons, and countersigned by all or at least the principal *mirasidars*" (loc cit). The last was essential because the *mirasidars* of a village were generally *mureicars*, possessing the rights of pre-emption with respect to eath other. Thus "the execution of a bill of sale by one only, though good against himself, could not bar the rest from assertion of this right" (Ibid, remarks appended to sale-deeds of slaves). The deed itself "must state the exact share transferred (or, when land and not right is sold, the boundaries towards the four cardinal points, sometimes also it shows the measurement and produce); it must contain a distinct date and the name of the persons of the transferer and the transferee must be clearly designated by the insertion of their father's name, their caste, tribe and place of residence; and the transfer must be regularly recorded by entry of the new *mirasidar's* name in the *Pangu-malei* register" (Ibid, reply to the 12th question para 19). Various kinds of transfer of *mirasi* right were possible. Broadly these could be sales, mortgages or gifts but within each of these three categories there were a number of variations.[27]

A distinctive feature of the villages of Chingleput in this period was the absence of a village headman which once again underlines the collectivity of the property form,. apart from showing the dominant position occupied by the *mirasidars* in village life. The duties of the village headman were discharged by the *grama pravarticam* or the village assembly. This assembly was responsible for the conduct of the internal and external affairs of the village. And the membership of this body was restricted to the *mirasidars*. Thus as Ellis says, "in this assembly every proprietor has a seat and a voice, each posessing a right to the management of the general business of the community, as to every other privilege, in proportion to his share in it" (Replies from F W Ellis, op cit, Appendix).[28]

Smalley, the Collector of Chingleput, in a letter to the Board of Revenue (4.11.1820) also brings out the role of the *kaniatchikars* in the maintenance of the *grama-silavu* or "a fund provided for the general concern and public convenience of the village" (Ibid, para 18). The fund was derived from the various fees and *maniams* received by the *kaniatchikars* "and whatever remains after defraying the whole village expenses is divided amongst the *mirasidars*. Should the charges exceed the income, the *mirasidars* must pay their portions of the deficiency" (loc cit). This fund is also referred to in Ellis' letter to the Board of Revenue (25.6.1817) where managing "the general purse of the village (*grama-shelevu*) according to custom" (op cit, reply to 3rd question) is mentioned as an aspect of the *kaniatchi* privilege. The *mirasidars* also took the lead on all important social occasions of the village, including festivals, as also at times when important dealings with state officials were involved.[29]

Quite apart from this general preeminence in village affairs, the *mirasidars* also held a disproportionately high share of the village output.[30] Thus, beyond their share in the *kudivaram*, they received a variety of fees from various sources. This included the *swatantram* they received before threshing, the *cuppattam* and *murai* they received after threshing as also the output from the *manyam* land held by them. Finally, they were entitled to receive the *tunduvaram*,[31] "a certain proportion of *cudivaram*, fixed by custom or agreement, rendered by the *payacaries* (tenants) from the produce of all lands cultivated by them to the *mirasudar*" and *swami-bhogam*, "rent paid for land held on farm from the *mirasudar* for a fixed period" (Sancaraya, op cit, footnote 6).

Even more important is the fact that holding a *kaniatchi* share meant far more than a mere share in output.

> If a village be divided into 16 shares and an individual hold half a share, he is entitled to 1/32nd part of the annual produce of the Caniyatchi-Manyams and Mereis; of the total productive Varapet lands, *he must provide for the cultivation of 1/32nd part* and participates to that extent in the total profits from them; 1/32nd part is his share, also, in all advantages derived from forests, wastes and water; and in fine, he has an interest equal to 1/32nd part in all profits belonging to the village, tangible or intangible (Replies from F W Ellis, op cit, reply to the 12th question, para 19).

According to Ellis, the right also extended to waste-land. The *seycal-carambu* or cultivable waste was as freely available to the *mirasidars* as a varapet for direct cultivation or leasing out to tenants. In the *anadicarambu* or immemorial waste, the *mirasidars* "possess the exclusive right of cutting firewood, working quarries, etc" (Ibid, Reply to 2nd question). The sample deed of sale presented in the Appendix provides a very good indication of the vast scope of the *mirasi* right.[32]

## THE KANIATCHI FORM OF LABOUR

Indeed, what is truly remarkable and directly pertinent for our purposes is that the *kaniatchi* right included in its purview, a claim to agricultural labour, the claim varying in proportion with one's share. The labourers, like the land, were collectively held by the *kaniatchi* body. Thus, whenever the *kaniatchi* right was transferred they went along with it. So like the *kaniatchi* right, *mirasidars* could sell, mortgage or gift labourers or rather in the context we are dealing with, the one generally implied the other.[33]. In the deed of sale I have appended to this paper, they are mentioned as many as *four* times: first, when the seller proclaims what he intends to sell, secondly, when he declares what he has sold, then, when he informs the buyer all that he will become proprietor of and finally when he informs the latter what he will be entitled to sell, mortgage or gift. The reference actually is to be *Paracheri* and *Tider Pareiyer*, which suggests that the Paraiyans and the places where they live are together being sold.

The Paraiyans were the overwhelmingly important caste of agricultural labourers generally called *adimai*. One of three most important castes of the district in numerical terms (the other two being Vellalas and Vanniyars), the Paraiyans could never become *mirasidars*. Caste sanctions strictly prohibited them from control over land. As Place wrote in 1799, the Paraiyans "can by no means acquire property in land, and I have not yet met with an instance of their having done so" (Place's 1799 Report, op cit, para 75). In fact, almost all members of this caste were employed as agricultural labourers. Thus, almost all Paraiyans were agricultural labourers and virtually all the agricultural labourers were Paraiyans.

As a caste, there were severe social sanctions arrayed against the Paraiyans. We have the following contemporary description of the wide range of social disabilities to which Paraiyans were subject:

> They are prohibited from drawing water from the wells of other castes, but have particular wells of their own near their habitations, round which they place the bones of animals, that they may be known and avoided. When an Indian of any other caste permits a Paraiya to speak to him, this unfortunate being is obliged to hold his hand before his mouth, lest the Indian may be contaminated with his breath; and if he is met on the highway he must turn on one side to let the other pass. If any Indian whatever by accident touches a Paraiya, he is obliged to purify himself in a bath. The Brahmans cannot behold them, and they are obliged to fly when they appear. Great care is taken not to eat anything dressed by a Paraiya, nor even drink out of vessel he has used; they dare not enter the house of an Indian of another caste; or if they are employed in any work, a door is purposely made for them; but they must work with their eyes on the ground; for if it is perceived that they have glanced at the kitchen, all the utensils must be broken (E Thurston, 1909, Vol 6, pp 78-79, citing Sonnerat's "Voyage to the East Indies 1774 and 1781").

Thurston adds that "a Brahman considers himself polluted by the touch, presence or shadow of a Paraiyan, and will not allow him to enter his house, or even the street in which he lives, if it is an agrahara" (Ibid, p 86). A striking illustration of the low social status of Paraiyans is provided in the local Tamil proverbs cited by Thurston. Most of them reflect a severe contempt for the Paraiyans: for their low social status—"If a Paraiya boils rice, will it not reach God?" (implying that God will notice all piety even that of a Paraiyan); for their morality—"The Palmyra palm has no shadow; the Paraiyan has no decency" or "When a Paraiyan woman eats betel, her ten fingers (will be daubed with) lime"; and for their alleged servility and lack of intelligence and initiative—"Though a Paraiyan woman's child be put to school it will still say Ayye" or "Though seventy years of age, a Paraiya will only do what he is compelled" or "Not even a Paraiyan will plough on a full moon day" (Ibid, pp 117-118).

Paraiyan labourers were subject to extensive control by their employers. This control extended to their families. The wife and children of a male labourer were expected to work for the *mirasidar*, undertaking a variety of agricultural and non-agricultural tasks. Again a female labourer was not at liberty to marry her daughter to anyone without her master's consent and all the children from such a marriage belonged to her master. When she got her son married, however, the son's children went to his wife's master, not to his own. Or as the Collector of Chingleput describes the situation from the male labourer's point of view, "in the event of his marrying with one of the females belonging to his master the children all became his (master's) property but should he marry with a female slave of another person the children of such marriage mostly became the property of the female's (master) though in some villages the custom is otherwise" (Letter to Board of Revenue, July 31, 1819). It was also noted that "the power was vested in them (masters) of inflicting very severe corporal punishment or confining them (labourers) for neglect of the duties assigned to them" (loc cit). E Thurston (1975, part 2 Ch 5) contains a vivid account of the gruesome forms of torture to which they were liable in such instances.

The control that the *mirasidars* wielded over their labourers is strikingly evident in the manner in which they sought to use them as an instrument in their resistance to the colonial state's incursions on their authority. In November 1785, in the middle of the growing season, Paraiyan farm labourers *withdrew* from cultivation demanding their usual *calavasam*. At Poonamallee they were all found to have gathered in one place and threatening violence unless their demands were met. The context for the "insurrection" (as it was described in contemporary British records) was a move by Richard Dighton, Superintendent of Jaghire, to curb Nattar privileges. A locally powerful Vellala *mirasidar* was discovered to have instigated the agitation. Letters written by him advocating the action, were found by the British. The time of the year when the labour of the Paraiyans was indispensable was chosen so as to most effectively threaten government revenues (E Irschick, 1982, pp 223-25).

The confrontation between the *mirasidars* of Chingleput and the colonial state came to an even greater head during the Collectorship of Lionel Place. In 1795, while making the annual revenue settlements in Tripassore and Poonamallee, Place found considerable resistance to his proposals from the *mirasidars*. His subsequent threat of sequestrating their *mirasi* right only made their resistance greater. Once again in February-March 1796, Paraiyan labourers went on a 'strike', refusing to harvest the crop, unless they were given a higher calavasam share. Place wrote:

> There are mamool places for beating out the grain in every village but owing to a general disregard of all prescribed rules of revenue management, the Paraiars either will not be confined to them or reject the regulation that these spots should be previously cleared of grass which is purposely allowed to grow in order that the greater quantity of grain may be concealed under it (Place to Board of Revenue, 1.3.1796).

The *mirasidars* had this time evolved a novel method of instigating the agitation. They had forged a letter supposed to have been written by Paraiyan caste-heads in Madras city to their caste-fellows in Karanguli urging them to come away to Madras or face the threat of being outcasted. Company servants later learnt from Paraiyans in Madras that two of the alleged signatories of the letter had been dead for more than a year. And one Paraiyan caste-head in Poonamallee told Place that "unless persuaded and allowed by their masters, the Paraiars would never have thought to assemble in the manner they did" (Place to Board of Revenue, 29.3.1976). Finally, a Vellala *mirasidar*, seeking to cultivate Place, revealed the names of the *mirasidars* who were behind the disturbance.

It would be quite incorrect to see in these instances, evidence of collective village solidarity against an external regime. The dealings of the Vellalas with the colonial state were (as the just mentioned instance of a 'loyalist' reveals) based on a complex strategy of manipulation, supplication and resistence. And though they may have sought their labourers' help in fighting some of their battles with the British, the *mirasidars* at the same time felt no hesitation in betraying them if it became necessary or if it could prove useful in their dealings with the Company. Thus Dighton acknowledged the favour done them by the supplicant Evalappah Mudali in revealing some of the methods which the Paraiyan labourers used in order to cheat the Company—methods which Evalappah himself probably urged them to deploy in the first place! Dighton describes the "taking away without measuring that part of the paddy that remains under the heap on the spot where it is beat out, a practice very prejudicial to government since it allows fraud which is very difficult to prevent *and which fraud Eevappah Moodelly was active in pointing out*" (Irschick, op cit, p 224, emphasis added).

We must also note that once all the facts of the 1796 case were revealed, the one's who suffered were the Paraiyans and not the Vellala master-minds. Despite Place's recommendation of exemplary punishment, the chief Vellala responsible was let off lightly. But the Paraiyans involved were chained and subject to forced labour in road-gangs in the lean season.

At the same time it is clear from all contemporary accounts that Paraiyan labourers were entitled to a range of customary privileges. While the actual share of the labourers in gross output came to a mere pittance (Place's estimate based on evidence from a survey of 898 villages in 1795 was 3-11 per cent), it was generally regarded incumbent upon the *mirasidars* to supplement this, especially in times of dire need. As Ellis says, "custom, however, allows them certain indulgences, which, if withheld would be *thought disgraceful to the master, and occasion inconvenient discontent*" (Replies from F W Ellis, op cit, Remarks appended to sale deeds of slaves). These included additional allowances of grain in particular seasons, gifts, mainly cloth, at the major festivals and family wedding expenses. According to Ramaswami Naidu, a contemporary writer, the last generally included the expense for the *kura*, or the cloth worn in nuptials and *tali*, the small gold plate tied around the bride's neck by the bridegroom (R Naidu, 1834, p 296). Indeed, the Collector of Chingleput found in 1819 that the labourers were given "a proportionate subsistence for each of their children or others of the family; they are housed and clothed and during the principal festivals certain other allowances are made to them both in money and articles requisite for their ceremonies and their marriages are also performed at the charge of their masters and when reduced by infirmity they are also supported by their proprietors" (Letter to Board of Revenue, July 31, 1819). Hodgson in his village-survey also made very similar observations. He states that labourers "are remunerated or supported by allowances of grain and donations of cloth for clothing: their families have the benefit of gleanings and of the sweepings of the treading floor . . . and have presents on marriages or births in their families or on the new year" (J Hodgson, 1830, p 81). In any case as already noted, collectively from the village output they received the *swantantram* fees which were paid before the gross produce was estimated.[34]

The Paraiyan labourers also possessed a set of customary rights which they were supposed to have enjoyed through generations. To begin with, there was the right to hereditary employment. Thus, as Ellis puts it, while these labourers could not "be sold separately from the Mirasi *nor can the Mirasi be sold separately* from them" (Replies from F W Ellis, op cit, Remarks appended to sale deeds of slaves). Place, provides a fascinating account of the ritual by which labourers entered employment and then "withdrew" at the end of each year, only to be re-employed by their *mirasidar*:

> The servant engages in the service of the cultivator at the beginning of the year, on the customary terms of the village to which he is conciliated and binds himself by the acceptance of betel . . . his servitude expires with the year during which it seldom happens that he is guilty of desertion if those terms are faithfully observed towards him . . . yet the ceremony of withdrawing themselves at the end of the year and recontracting themselves for their labours is invariably renewed; for the disposition of each party towards the other is so well understood, that this retirement is never further than the adjoining village and if under such disposition one should not allow reasonable time or the other refrain to offer a renewal of the contract within that time, the complaint would be equally heavy" (Place's 1795 letter, op cit, para 36).

In his 1799 Report, Place cites an example from Madhurantakam of hereditary servants claiming back their jobs even after a break in service for some length of time: "Maduranticum affords a very curious example of the preservation and assertion of this right. Previous to the repair of the tank—it is not known how long—the lands had been uncultivated, but so soon as this work was completed, the descendants of many families who had been the hereditary servants of the Brahmins, claimed, and were admitted to their inheritance, although, in the intermediate time they had taken up other occupations" (Place's 1799 Report, op cit, para 75).

The labourers could, of course, be transferred from one *mirasidar* to another but they remained entitled to all the customary privileges they had enjoyed previously. These included the *paracheri*, the part of the village where they built their huts, and the backyards attached to these huts. These were held rent-free and no taxes were levied on them. At times they were also allotted small plots of land by their *mirasidars* for cultivation on which the latter provided them seeds, cattle and implements, although most of the output from these plots went to the *mirasidars*. In addition, they hereditarily held the village offices of *Taliyari* or the village watchman who, among other things, guarded the heaps of harvested grain, and *Totty, Kumbokutti* or *Vettiyan* who performed the functions of watering the fields, measuring grain, delivery of messages and burning the dead.[35] Finally, we may note the existence of an annual ritual of status-reversal which could be considered yet another dimension of the customary rights of the Paraiyans. This ritual seems to have characterised their relations with their employers in Chingleput till as late as the advent of the British:

> At the close of the Tamil month *Auni*, with which the revenue year ends, and the cultivation of the ensuing year ought to commence, the whole of the slaves *strike work*, collect in bodies outside of the villages, and so remain until their masters, by promising to continue their privileges, by solicitations, presents of betel, and other gentle means, induce them to return. The slaves on these occasions, however well treated they may have been, complain of various grievances, real and imaginary, and threaten a general desertion; this threat however they never carry into execution, but after the usual time, everything *having been executed according to namul*, return quietly to their labours" (Replies from F W Ellis, op cit, Remarks Appended to Sale deeds of Slaves).

## REFLECTIONS ON THE FORM OF POWER

What I have been describing so far is clearly a relationship of power a relationship involving two social strata at opposite ends of the village hierarchy. On the one hand we have the *mirasidar* collective whose members, though performing no agricultural labour, controlled a disproportionate share of the village produce, indeed, exercised a remarkably comprehensive kind of proprietary right over village land (including a claim to labour services) and thereby dominated the conduct of village affairs. At the other end, there are the Paraiyans, a whole stratum of people held in general social contempt, subject to severely degrading kinds of social disability, including pollution by touch, sight, speech and shadow, and permanently restricted to earning their livelihood mainly through onerous forms of agrestic servitude-forms involving detailed control by the *mirasidars* over their lives and of their families, which included a say in such personal decisions as marriage. They were attached to the *mirasidars* collective through generations, had little say in the choice of their employer, could be bought, sold or mortgaged within the collective, and were liable to brutal physical punishment in case they neglected their assigned duties.

In trying to understand this *form* of power, however, at least two kinds of stumbling blocks can be imagined. For one thing, it is obvious how Eurocentric categories would prove utterly inadequate. It is, of course, quite conceivable for someone seeking to fit these forms into a feudal mould to onesidedly focus on the fact that labourers were inseparably attached to the soil. On the other hand, the fact that they were bought and sold, could suggest their being likened to the slaves of Classical Antiquity. Finally, the collective dimensions of their unfreedom recall to mind Marx's references to "the general slavery of the Orient" in the Grundrisse (K Marx, 1973, p 495). It should be fairly evident however, that any such partial view would be completely ahistorical for it would lose sight of the integral interconnection of these relations with the *kaniatchi* form of property. None of these three features can really be isolated for emphasis in this manner since each one of them is equally an inextricable element of the *kaniatchi* form of labour. In any case, unlike in feudal Europe, the attachment here is not to individual lords but to a collective. The contrast with feudal Europe is, of course, already evident in the overall agrarian structure itself, for in Chingleput, as almost throughout pre-colonial India, labourers existed as a third significant stratum distinct from the landlords and the tenants.[36] It may, perhaps, also be necessary to stress that the collective dimensions of the *kaniatchi* form of property and the practice of the periodical redistribution of land should not mislead one into construing this as some kind of a "primitive communist" society. For the crucial contrast with other parts of the world where such forms prevailed is that here the collectivity existed among *landlords*, not *peasants*. A deep social divide separated the *mirasidars* from and pitted them against the rest of the village. This was no peasant commune; in fact, this deeply unequal rural society is best described as a system of *collective landlordism*. One would actually be hard-pressed to identify who in the *kaniatchi* agrarian system could accurately be described as a peasant proprietor—landlords, tenants, labourers, yes, but peasant proprietors?[37]

Yet another kind of difficulty could arise for those who find it impossible to reconcile the existence of the customary rights and privileges of Paraiyans with a characterisation of this relationship as a form of power. In such conceptions the presence of these features either implies a denial of power itself or at least a mitigation of it. We can find these kinds of views being expressed in the discussion around the *jajmani* system both by those who regard *jajmani* relations as essentially characterised by harmony and reciprocity and by those who consider them relations of exploitation. Thus, Wiser, who could be regarded as the classic exponent of the former view, is able to sustain it only by one-sidedly focusing on these aspects of *jajmani* relations, while Beidelman who makes the most detailed argument in favour of the latter view, is at pains to show that *jajmani* is "an economic system" (T O Beidelman, 1959, p 81) or that it is "the economic aspect of caste" (ibid, p 15), as if the admittance of "non-economic features" would lead to a denial of exploitation. It should be evident that these views, by no means uncommon,[38] and normally considered to represent diametrically opposed positions on *jajmani* relations, actually *share* the same implicit conception of power.

The common operative idea seems to be that the more overt or perhaps more directly "economic" the forms of domination, the more exploitative they are, in some sense. This must, however, be regarded as too "bourgeois-centred" a view of power in the specific sense of considering "naked, economic bourgeois domination" as the most violent form possible.[39] A certain kind of overtness seems to get identified with brutality. On the contrary, it has been remarked about pre-capitalist societies that "it would be a mistake to see a contradiction in the fact that violence is here both more present and more hidden" (P Bourdieu, 1977, p 191). Without immediately presuming a hierarchy in the degree of violence in either epochal direction, one must acknowledge the strength of Bourdieu's argument that simply by appearing more hidden or subtle *to our eyes*, violence certainly does not become less present. These are, indeed, "forms of domination which may strike the modern observer as more brutal, more primitive, more barbarous, or at the same time, as gentler, more humane, more respectful of persons" (loc cit). Indeed, what these views fail to recognise is that in the social context one is examining, the relation of power had to necessarily involve such features which, moreover, in no way precluded the possibility of conflict or even tyranny. The fact is that the dominant discourse laid down the kind of attributes, in terms of which alone an *effective* relation of power could be constituted. To develop this crucial proposition we need to reflect awhile on the relationship between those who exercised control over land and the Brahmins in the Indian historical context.

It is by now fairly well-established that this relationship was extremely important in several parts of India both at the village and at the state level, once the ascendancy of Brahmins had been established in the sacredotal order.[40] A crucial element of this relationship was gift-giving, to Brahmins and Brahminical institutions. This practice has a long ancestry in South Indian history. Till around the late 7th century sacrifice remained the central defining feature of kingship, with royal *danas* being made within the constitutive framework of the royal sacrifice. However, through inscriptions from about the beginning of the 8th century AD, it becomes increasingly obvious that around this time sacrifice disappears and is replaced by divine origin and noble conduct, reflected essentially in munificent gift-giving, as the constitutive characteristics of kingship (N Dirks, 1976).

In the Pallava period the most important such royal activity was the setting up of *brahmadeyas*, revenue-free villages in which Brahmins exercised collective control over the land and where "brahminical learning and canonical ritual were supported" (B Stein, 1977, p 19). Stein (Ibid, pp 19-26) provides inscriptional evidence to show the importance of Pallava support to *brahmadeyas* as also the continuation by the Cholas of this tradition. Considerable support was also given to the construction and maintenance of temples (see B Stein, 1980, ch 7; also A Appadurai, 1977). While the role of medieval South Indian kings in this was crucial, the fact that dominant landed groups also played a crucial part has been emphasised by some writers (D Ludden, 1978, p 109: G Spencer, 1968: B Stein, 1977, pp 19-26). Stein's mapping of *brahmadeya* villages shows that of the four major clusters in which these settlements are found, central Tondaimandalam, in the basins of Palar and Cheyyar rivers is one (B Stein, 1980, Map IV-1 and p 67). Many of these villages survived till the point of colonial intervention, gradually undergoing a decline thereafter.

The process of analysing the form of power involved in the relations we are examining must, therefore, include an understanding of the relationship between land-controllers and Brahmins. Louis Dumont, in his profound work on the caste-system (*Homo Hierarchicus*), correctly poses this as the central question and criticises those who wish it away by positing "a high degree of coincidence between politico-economic rank and the ritual ranking of caste" (L Dumont, 1980, p 76, quoting F G Bailey). He is also right in speaking at the same time of "a solidarity between them which opposes them conjointly to the other social functions" (ibid, p 75). However, the manner in which he conceives of this relationship, this conjoint solidarity, and the notion of power and of the religious or ideological that this entails, seems seriously open to question.

For Dumont, the question is one of relationship between "hierarchy" and "power". Now hierarchy is "purely a matter of religious values . . . the opposition between the pure and the impure" (Ibid, p 66). while "territory, power, village dominance, result from the possession of the land" (Ibid, p 153). The caste-system, according to Dumont, "in its nature, is religious, or if one prefers, a matter of ultimate values" (Ibid, p 106). Thus, "by keeping to the level of power, one is prevented from understanding the essential characteristic of the Indian system. This characteristic is the subordination of power" (Ibid, p 76). "Dominants and dependents live under the sway of a system of ideas in which the 'power' aspect we have isolated is in fact encompassed" (Ibid, p 107). Power "is located in a framework of ideas and values, confined within the limits of this framework but distorting it to some extent" (Ibid, p 153). More precisely, it "is force made legitimate by being subordinated hierarchically to the brahman" (loc cit).

Now, the very attempt to ascertain even

if not necessarily pre-judge (Ibid, p 38) "essential and subordinate aspects" in this manner could be regarded as vulnerable to the sort of objections E P Thompson has raised in the opposite direction *vis-a-vis* the Marxist metaphor of base and superstructure.[41] Centrally problematic, however, are the implicit notions of power and ideology in this conception. Because for Dumont the ideological seems to have a purely non-power connotation, or to put it the other way around, power is restricted singularly to the politico-economic sphere. One may, however well ask whether "the plane of ideology" (loc cit) or of the religious is really as clear, as empty of power as Dumont makes it out to be. What, indeed, happens when a certain mode of religious discourse establishes its dominance over all others and thus *governs* what are regarded as "ultimate values" in that social situation? Or to express it the other way, how does the "framework of ideas and values" which Dumont emphasises centrally, get constituted, established and hold "sway" in any given social context? Does this not itself entail a relationship of power? Additionally, we must recognise that the effective existence and reproduction of any relationship of power presupposes the simultaneous operation of hegemonic discourse. This would suggest a rather different way of conceiving the nature of the relationship we are trying to understand from the one suggested by Dumont.

Thus, with Michel Foucault we must direct our attention to the implication/impregnation of truth in/with power. We must recognise that in any society, "relations of power cannot themselves be established, consolidated nor implemented without the production, accumulation, circulation and functioning of a discourse. There can be no possible exercise of power without a certain economy of discourses of truth which operates through and on the basis of this association. We are subjected to the production of truth through power and we cannot exercise power except through the production of truth" (M Foucault, 1980, p 93). Thus, "in the end, we are judged, condemned, classified, determined in our undertakings, destined to a certain mode of living or dying, as a function of the true discourses which are the bearers of the specific effects of power" (Ibid, p 94). And the process of the constitution of "true discourses", Foucault argues, is itself a process of *hierarchisation* and *struggle* and involves the *subjugation* of other discourses which are marginalised in the process (Ibid, pp 81-85).

Within the Marxist tradition, it is Gramsci's conception of hegemony which could help us grapple with our central question.[42] However, as Raymond Williams has argued, our account of the notion must be a complex one which "allows for its elements of real and constant change. We have to emphasise that hegemony is not singular; indeed that its own internal structures are highly complex, and have continually to be renewed, recreated and defended; and by the same token, that they can be continually challenged and in certain respects modified" (R Williams, 1973, pp 37-38).

Thus, when we examine Indian history we must see in the rise to dominance and sustained hegemony of Brahminical discourse, a process of continual contention with and suppression of alternative forms of discursive practice. One must not, however, conceive of suppression in the sense of pure elimination: much more accurately it is seen as a subtle process involving assimilation, incorporation and modification in the face of fresh challenges.[43] It needs also to be recognised that the features of the relation of power which we are seeking to understand, found their detailed codification precisely in the Brahminical law books of successive centuries, a virtually unbroken chain of hegemonic discourse. Thus, the disabilities to which the labourers were subject was a part of the definition of the overall social order that was to be found in these texts, which specified the social function and place of the various *varnas* and *jatis* within the social order. The ritual aversion of the "higher" *varnas* to defiling manual labour was part of the same codification. At the same time, Brahminical texts indicated the kind of attributes and practices which would be regarded as edifying for those in a position of power. As Nandi has argued,

> the avowed purpose of the performance of medieval *dana* rites was to acquire religious merit *(punya)* which would instantly purify the *jajmana* of the different types of pollution and help him to retain, consolidate and even improve the degree of his ritual purity and his corresponding social status . . . these practices enabled him to circumvent many an impure situation and thereby avoid loss of a pure status, and consequently of caste. The loss of caste particularly for those who occupied eminently 'pure' positions in society amounted to a denial of benefits and privileges ordinarily available to persons belonging to the concerned group or caste" (R N Nandi, op cit, p 93).

Ludden (1978, p 109), Spencer (1968) and Stein (1977, pp 19-26) who provide evidence of the support given to *brahmadeyas* and temples by landlords in medieval South India also stress the "religious merit" derived by the latter in the process. But the munificence of the landlords was expected to extend not only to the Brahmins but also to their subordinates. In terms of the dominant discourse, it was obligatory on their part to assure certain customary benefits to their labourers. If they were not to be "disgraced", if they were to retain a certain position of "honour" , to be recognised as "worthy" holders of power, the maintenance of what has been termed a "clientile" was absolutely vital for the dominant castes. And to sustain an *effective* "patron-client" relation, to engender the loyalty of one's clientile, necessitated the existence of these kinds of features in the relationship.[44]

It would, therefore, be a serious error to place the features of these relations on a balance sheet as it were, and attempt, through an arithmo-morphic netting procedure, to gauge the "magnitude" of power involved in these relations. For the crucial fact that must be recognised is that all these features put together *simultaneously constitute* the form of power we are dealing with. The customary privileges of Paraiyans, far from implying, a denial or an alleviation of power, on the contrary, constitute precisely the conditions of possibility of the latter. In terms of the governing discourse one could not exist without the other. The *jajmani* character of the relations is as integrally tied to Brahminism as is the social ostracisation of the Paraiyans. They simultaneously constitute the language of power and truth in the social context we are examining. Thus, we may say as Bourdieu does in his context that "it is as false to identify this essentially *dual* economy with its official reality (generosity, mutual aid, etc), i e, the form exploitation has to adopt in order to take place, as it is to reduce it to its objective reality, seeing mutual aid as a corvee, the *khammes* as a sort of slave" (ibid, p 192).[45] It is imperative in other words that "the analysis holds together what holds together in practice, the *double reality* of intrinsically *equivocal, ambiguous* conduct" (Ibid, p 179).

Possibly the most evocative illustration of Bourdieu's argument is provided by the annual custom of status-reversal I described earlier. First of all we need to recognise that the ritual does not imply an alleviation or negation of power—it is rather, integrally constitutive of it imbuing it with a distinctive form. Its annual repitition is a necessary dimension of the reproduction of the relationship of power. At the same time, however, the situation must not be shorn of its essential ambiguity in the near-functionalist interpretation of these rituals as necessarily some kind of "safety-valve devices". For the "successful" completion of a ritual of status-reversal cannot always be taken for granted. Its outcome depends crucially upon a variety of contingent factors which constitute its setting-factors governing, broadly, the degree of social tension within which the ritual occurs. Indeed in the very necessity of its annual repetition lies the indication of the enduring possibility of the relationship being challenged, even overthrown. Thus, to be true to its intrinsic "double reality", we must acknowledge that a ritual of status-reversal in a hierarchical social context, which may generally operate as a mechanism for the reproduction of the relations of power, could also, on occasion, become the site for their overthrow.[46]

### CONCLUSION

The point of departure for this paper was the discussion on the mode of production in Indian agriculture. Its main concern was to suggest that owing to the adoption of a fairly crude Eurocentric model, the debate seems to have got bogged down in a series of false problematics, with a number of extremely important questions getting neglected in the process. The paper has attempted to chart only a bit of the way in bringing to the fore just one such question. I argued at the beginning that the study of the qualitative transformation in the nature of the relationship between agricultural labourers and their employers, following capitalist penetration in India, is an important task as yet largely unattempted. Such a study, however, requires as its basis an understanding of the nature of this relationship in the pre-colonial era. I have tried in this paper to move towards such an understanding in a small area in pre-colonial and early colonial India.

Let us, then, attempt a summary of the key features of *kaniatchi* form of labour that emerge from the account given in the paper. To begin with, let us note that the relationship was generally always between male Vellala, Brahmin or some other "high"-caste landlords (who themselves never laboured on land) and Paraiyan labourers. These landlords formed a collective which governed the village and controlled the village land through its ownership of the *mirasi* shares. The collectivity was extensively evident in the collective holding of the *kaniatchi* right, in the periodic redistribution of land, in the collective management of the affairs of the village by the *mirasidars* (the absence of a village headman) and in the collective obligation to pay land-revenue. It could also be discerned in the way the Village Register specified the precise allocation of village land to different uses and the share of each participant in the village output—neither of these being alterable without collective sanction. Again the transfer of the *kaniatchi* right could occur only under stringent, collectively specified conditions. Finally, the power of the collective shows in the process through which a defaulting *mirasidar* could be divested of his right by the body of shareholders.

The scope of the *mirasi* right extended to a right over the labour of the Paraiyans in proportion to the extent of one's share. Paraiyan labourers were attached to these shares through generations and were bought, sold and mortgaged as and when the share was. The *mirasidars* exercised an extremely comprehensive control over the life and labour of the Paraiyans and their families. In a sense, the *mirasidars* represented for their labourers a nodal point for several dimensions of their relations with the rest of the world. The remarkably unmediated, detailed, personal, even corporeal relationship of the *mirasidars* to their labourers served as the vital mediation for the relationship of the latter with the outside world. The *mirasidars'* presence was felt everywhere at work, in providing subsistence, at the most important social occasions in the life of the labourers' families, at the time of major disputes or in any larger matter concerning the village as a whole—an omnipresence which makes their being designated *swami* by their labourers fairly suggestive. The involvement of the labourers was also wide-ranging: in general, the entire family would share in duties for the *mirasidars'* households, duties spanning every activity considered ritually admissible. Thus, for both the labourers and the *mirasidars* the relationship spanned several vistas beyond the agricultural labour-process which suggests that it would be an error to regard it merely as a "landowner-labourer" relationship.

One must, finally, note the connection of the form of power involved in this relationship with the dominant Brahminical discourse. This is evident in the existence of this relationship within the moral framework of the *jajmani* system which meant the assurance of certain customary, hereditary rights for the labourers, most importantly subsistence and employment. It is also reflected in the range of social disabilities to which the Paraiyans were subject as a consequence of their occupving the lowest rung of the caste hierarchy.

The descriptions of this paper have, of course, been limited to a very small region, while these relations showed a great diversity of forms across regions in India which still await detailed study. This emphasis on variations within the country should not, however, be construed to imply a kind of empircism which ultimately degenerates into saying that every village was different. Most certainly one can conceive of a process of typological synthesis taking off from these variations.[47] The richness of this synthesising movement, however, would depend crucially on the availability of detailed region-wise studies, unblinkered by dogmatic adherence to inappropriate unifiers and sensitive to the specificities of the situation being examined. Chingleput and *kaniatchi* should hopefully become, and are best seen as, elements in this synthesising effort.

## Appendix

### DEED OF SALE OF KANIATCHI RIGHT

In the year Sarvari of the cycle of sixth, following the year 1642 of the era of Salivahana (AD 1720), on Sunday the 21st of A'ni, under the lunar constellation Barani, on the day this *Sasanam* was written: Arjuna Mudeli, the son of Rakiyappa Mudeli, one of the Mudelis of Tandeiyarpet, and his parceners, in the Nayeru Nadu, the Puzhel *Cotam*, in Tondamandalam acquired by conquest, in the Kingdom of Chandragiri pronounces Om! Having proclaimed aloud in public auction—"Are there any who will purchase one-third of my *Caniyatchi*, being one of the ten shares of the village of Tondeiyarpet, including *Manei,*[a], *Nilam,*[b], *Pulam,*[c] *Nir,*[d] *Collei,*[e] *Topu,*[f] *Turavu,*[g] *Kinaru,*[h] *Cani-peru,*[i] *Cani-manyam,*[j] *Checcu-mutteri,*[k] *Tarei-cadamei,*[l] *Para-cheri,*[m] and *Tider Pareiyar,*[n] *Pizhacadei,*[o] and all other privileges whatsover?"—The words thus proclaimed were heard by Surappen, the son of Tiruvellapillei Malayappa Mudeliyar of Connur of the *Nadu* of Ambattur, of this *Cotam* and *Mandalam*, who answered, saying aloud "—I will purchase. "—I, Arjunen, the proclaimer, the son of Rakiyappa Mudeliyar of the Gotram of Mayilakizhan, and the answerer Surappen, the son of Maleiyappa Mudeliyar, having agreed between ourselves and settled to our mutual satisfaction, in the presence of rulers of the land and householders of Tondeiyarpet, sold one-third of my one share out of the ten, with the grounds, lands, fields, homestead, water, plantations, large wells, small wells, the rights of inheritance and rent-free lands thereto belonging, dues from oil presses, and *the Pareiyar of the suburbs and the plains*, backyards and all other privileges whatsoever, thereto appertaining for 50 new Pagodas of Madras, and received the full amount of this the settled price; for the second time, and the third time, this is the price, this is the established price, so it has been fixed, and I have decidedly received the full amount. The one-third of my share, it is ground, land, fields, waters, homestead, plantations, large and small wells, the rights of inheritance and rent free lands, dues from oil presses, and looms, *the Pareiyer of the suburbs and plains*, backyards, and all privileges appertaining thereunto, you are to enjoy, you and your descendants lineally, as long as the sun and moon endure. There is no claim to the one-third of my share: if it be thought that there is any, I will stand forth and bring it to a decision. You are entitled to sell, transfer, mortgage, and to bestow as a gift, or in charity, the ground, fields, waters, homestead, plantations, large and small wells, the rights of inheritance, and the rent free lands thereto belonging, the dues from oil presses and looms, the *Pareiyer of the suburbs and the plains* and backyards, and all privileges appertaining thereunto—Thus with my free consent I have executed this deed of sale. Arjunen, the son of Rakiyappa Mudeli, and his parceners, agreeing with Surappen, the son of Maleiyappa Mudeli, pronounced Om:- All blunders in this deed arising from the quality of the *cadjan*; errors in writing, mistakes in words, and interlineations, and from its being cut, split, or worm-eaten, from erasements, or breaks are not to be regarded.

Witnesses: PU'D'UR PREYA CATCHIYAPPA MUDELIYA'R, CANNU'R

NAMASIVAYA MUDELIA'R NAIYINIYAPPA MUDELIYA'R, POYA'D VIRARA GAVA MUDELIYA'R

With the knowledge of these the integrity of this writing is attested by the signature of Pudaven, the son of Guruva Pillei, the Village Accountant.

(Signed) Varadappen, the son of Rakiyappa Mudeliyar, Tiya' Gappen, the son of Toppei Mudeli, Tiya' Gappen, the son of Culla Mudeli, Nallen, the son of Shinnanna Mudeliyar, Periya Muttiyappen, Periya Mudeli, Periya Tambi, Arjunen, Tiya' Gappen, the son of Shinna-tambi Mudeliyar[p]

### Ellis' Notes to the Deed

a *Manei* means here ground as divided or divisible into lots for building, or small enclosures, or the ground forming the site of the *Nattam*, contradistinguished from the rest of the village.

b *Nilam*, land in general; the whole soil of the village, or that part under tillage in particular years. This word means that which is fixed, permanent, durable.

c *Pulam*, a field of corn.

d *Nir*, waters in general, tanks, large and small watercourses, and c, or, as here used, a share in all public water.

e *Collei* which may be rendered *homestead*, is any small enclosure near the house, the difference between this term and *Pizhacadei, backyard*, is that the latter immediately adjoins the dwelling, whereas the *collei* may be at some distance from it.

f *Topu*, groves, orchards and plantations.

g *Turavu*, large wells.

h *Kinaru*, small wells either of brick or earthen rings burnt in the kiln, commonly called *pot-wells*.

i *Cani-peru*, consequence or dignity derived from the possession of hereditary landed property.

j *Cani-manyam*, rent-free lands held jointly by the Caniyatchicars as a type of their proprietary right.

k, l *Checcu-muttei*, and *Tarei-cademei*, the first of these terms (*Checcu-muttei*) is derived from *checcu*, an oil press, and *muttei* an egg, and signifies the quantity of an egg-shell full of oil; the second from lit, a *weaver's reed*, but used for the whole and *Cademei*, tax, due, fee. The first of these dues is always paid in kind, while the second is paid in money.

m, n *Paracheri and Tider Pareiyer; tider* signifies *an open barren space*, and the whole sentence, therefore, means the *Pareiyer* who reside in the regular *Paracheri* or suburb set apart for them, and those whose habitations are scattered over the wastes. These terms are intended to comprehend generally the whole of the Pareiyer slaves attached to the soil of the village, and to express especially that right to a participation in their labour inherently attached to the one-third share of *Caniyatchi* transferred.

o *Pizhacadei*, the back-yard immediately adjoining the houses.

p In this deed the exordium eulogising the Vijayanagar kings with which all such deeds begin, has been omitted.

## Notes

[This paper is drawn from the first three chapters of a PhD dissertation "Capitalist Development and the Transformation of Agrarian Relations in Chingleput District, c 1780-1983" written at the Centre for Development Studies, Trivandrum (M Shah, 1984b).]

1 Comprehensive surveys of this discussion are found in J Harriss (1980) and A Thorner (1982).

2 It may also be pointed out that the model of the differentiation process being used is a highly simplistic one, overlooking as it does the significance of the specificities of the agricultural sphere of production: in particular the implications of the unique use-value characteristics of land which make peasant differentiation a far more complicated process than is usually imagined. I have argued this in detail in a separate paper (M Shah, 1984a) and partly also in M Shah (1984b, Ch 4).

3 The presumed identity of starting-points between Europe and India appears to derive at least partly from the proposition that according to Marx, all human societies were destined to pass through the same succession of stages from Primitive Communism to Slavery to Feudalism to Capitalism. In actual fact, Marx criticised attempts to "metamorphose my historical sketch of the genesis of capitalism in Western Europe into an historico-philosophic theory of the general path every people is fated to tread, whatever the historical circumstances in which it finds itself" (K Marx, 1877, in K Marx and F Engels, 1979, pp 272-273). For a severe Marxist criticism of attempts at "transposition of the standard P-S-F-C pattern to every society without exception", see I Habib (1974). In any case Marx's strong opposition to characterising Mughal India as feudal is well-known (See L Krader, 1975, pp 343-412 for Marx's critique of Kovalevsky's attempts in this direction). Marx struggled almost throughout his intellectual life to grapple with the specificities of Asian history. That his conception of the Asiatic Mode of Production has several weaknesses (I Habib, 1974) and that he appears, as Said argues, almost despite himself, to have remained trapped in the hegemonic structure of 'Orientalist discourse', is, of course, yet another matter (see E Said, 1978, pp 153-156).

4 It is fairly ironical that at times these criteria are sought to be derived on the basis of something called the "Kautsky-Lenin laws of capitalist development in agriculture". Neither Kautsky nor Lenin claim to have developed such laws. What we find in their work are concrete studies of the process within the specific historical contexts they were examining. Indeed Kautsky appears to warn against precisely such rigid conceptions when he says: "the marxist theory of capitalist production does not reduce the development of capitalist production to the simple formula: 'disappearance of the small holding before the big', as if such a formula were a key to the understanding of modern economy. To study the agrarian question according to Marx's method, we should not confine ourselves to the question of the future of small scale farming; on the contrary we should look for all the changes which agriculture experiences under the domination of capitalist production. We should ask: *is capital, and in what ways is capital, taking hold of agriculture, revolutionising it, smashing the old forms of production and poverty and establishing the new forms which must succeed*" (K Kautsky, 1899, pp 2-3). For Lenin also the specificity of the historical context carried paramount importance and he emphasised the possibility that the process may take fairly diverse forms: "The essence of the problem of 'the destiny of capitalism in Russia' is often presented as though prime importance attaches to the question: how fast? (i e, how fast is capitalism developing?). Actually, however, far greater importance attaches to the question: *how exactly*? and to the question: *where from*? (i e, what was the nature of the pre-capitalist economic system in Russia?)" (V I Lenin, 1899, p 385).

5 This is an essential corrective to studies of the so-called "dependency theorists" which while correctly rejecting transplantation of European teleologies to other historical contexts, tend generally to ignore the concrete specificities of the latter, and their resistance to capitalist penetration.

6 The argument being made here is not against a comparative-historical approach *per se*. It only insists on the specificities of each element in the comparison being recognised in their fullness, so as to prevent the obliteration of the uniqueness of one historical experience by the imposition upon it of another.

7 To cite only *one* example, as many as 52 per cent of farm workers in England lived in tied-cottages, even as recently as 1972. The proportion had indeed gone up from the 34 per cent figure in 1954 (H Newby, 1977, p 180).

8 Equally problematic, therefore, also is the teleological recourse to models of formal and real subsumption of labour under capital, for understanding non-European experiences, as for example, in M Shah (1980). This is particularly so because the continued significance of land as an element in the production process even in advanced capitalist agriculture implies that the transformations in the agricultural labour-process resist schematisation into the formal-real subsumption frame. In agriculture, unlike in industry, it is virtually impossible to identify a *specifically capitalist* form of the labour-process. These arguments are developed in some detail in M Shah (1984a).

9 It could be argued that the way I am proceeding would leave untackled the question of a precise definition of the prevailing

mode of production. Briefly my response would be to say that modes of production can only be identified through an understanding of their dynamics. This point is well argued in J Banaji (1977). For this, the kind of studies I am suggesting would be essential. It would be useful here to reflect a little on the way Marx "defined" anything, to heed Engels' warning not to "look in Marx for fixed, cut-and-dried definitions that are valid for all time" (Preface to Vol 3 of Capital, K Marx, 1979, p 103), to recognise the connection between Marx's use of language and his view of the world. For a thoughtful discussion on this difficult question, see B Ollman (1971, Part I). At any rate, one needs to be wary of the facile notions of "precise definition" implicit in the mode of production discussion. The initial chapters of N Georgescu Roegen (1970) greatly helped me to understand this but, of course, little could be better than a careful reading of L Wittgenstein (1968). For one view of the relationship between Marx and Wittgenstein, see D Rubinstein (1981).

10 The process through which these castes came to occupy this place as well as the rough ancestry of the process in both North and South India is outlined in M Shah (1984b, Ch 2).

11 A substantiation of these propositions is provided in M Shah (1984b, Ch 4, 5 and 6).

12 I Habib (1983, p 50), T Raychaudhari (1984, p 9), L Dumont (1980, p 102) and B H Baden-Pawell (1892, Vol I, pp 149-151)—widely different writers, all attest to the veritable universality of *jajmani* relationships in immediately pre-colonial rural India.

13 This, however, is not the only sense in which I regard a district-level study relevant. Indeed, one of the major conclusions of my Chingleput study is that a limited regional analysis contains the possibility of throwing up new questions which could have significance far beyond its own geographical purview—and that some of these questions could have been brought to light only through such a micro-study.

14 Chingleput is a district on the east coast of South India which surrounds the city of Madras. It corresponds to the area known as the Jaghire which was under the Nawab of Arcot's rule in the mid-18th century and which came under *direct* British rule in 1782. (For details see M Shah, 1984b, p 106). The information on which this paper is based has been collated from historical manuscripts, inscriptions and field-survey reports, some pertaining to the Madras Collectorate also. Many of these were collected and conducted by British administrations in the area during this period. Lionel Place (Collector of Chingleput, 1794-1798), F W Ellis (Collector of Madras 1810-1819) and Colin Mackenzie (Surveyor-General of Madras in the early 19th century) are particularly worthy of mention. Appreciations of Ellis are found in B Hjejle (1967, p 77) and J D M Derrett (1968, pp 258-259), of Place in C S Crole (1879, pp 240-73) and of Mackenzie in T V Mahalingam (ed) (1972, Vol I, pp i-xxii). A comprehensive account of Mackenzie's work is found in the Journal of the Royal Asiatic Society (1834, Vol I, pp 333-364). Even so I have sought to move with an awareness of the problems underlying an uncritical reliance on what may be described as "Orientalist discourse" (See E Said, 1978).

15 *Kaniatchi*, from the Tamil, '*kani*' (or property, possession, right of possession, hereditary right) and '*atchi*' (or power, domination) (B A Saletore, 1934, Vol II, p 446). As Ludden says, '*kani*' "a basic Tamil word for resource control in production also means 'land' a measure of land, and a 'hereditary right' in general, to land, office or position of control over resources" (D E Ludden, 1978, p 172) See also A Appadorai (1936, Vol I, pp 120-21), for an explanation of the term. *Mirasi* from the Arabic, '*miras*' (hereditary right, property, inheritance).

16 From the Tamil '*mel*' (or upper) and '*varam*' (share). According to Stein, "the particle *mel* means not only 'higher', 'upper', or 'major' but also 'superior' in the sense of priority of entitlement and 'first' in the sense of that which is taken first" (B Stein, 1980, p 169).

17 This was the case right upto the advent of the British revenue systems, except for a brief period between 1770 and 1780, in a few villages on the south, south-west border, where money assessment on dry fields was introduced by the Nawab of Arcot. What is most remarkable is that even when a money assessment became generalised on all the lands in the Tuluva and Carnatic Provinces of the Vijayanagar empire, this did not happen in Tondaimandalam (an ancient territorial division which includes the modern districts of Chingleput and North Arcot and parts of South Arcot, Nellore and Chittoor), except to some extent in its southern part (which appears to have largely excluded Chingleput) (Replies from F W Ellis, Collector of Madras to the Mirasi Questions, 30th May, 1816, Appendix, footnote 27).

18 *Kudivaram* or share of the 'resident' (or 'cultivator' in this context). '*Kil*' (Tamil-lower), hence 'lower share' (*kilvaram*).

19 These were mainly *ulkudis* (occupancy tenants) or *parakudis* who moved from village to village, their right to cultivate generally being annually renewable.

20 In a footnote, Place adds, "the division could only be made according to the fractions recognised in Tamil arithmetic such as 1/2, 1/4, 1/8, 1/16, 1/32, 1/64, etc, etc. Fractions not forming multiples of one of these could not be *mirasi* shares, and were called *kandams*, or detached pieces which carried no *mirasi* privileges" (loc cit). Place also found that villages of equal area were sometimes divided into an unequal number of shares. He tries to account for both this and the fact of fixed shares by suggesting that the number of shares in each village was fixed at the time of its original settlement and that it varied across villages "according to the number of original settlers, or of labouring servants that they brought with them" (loc cit).

21 This meant of course, that women could never become *mirasidars*. "Women had rights only to maintenance from the land. Unmarried girls lived under the guardianship of their fathers; married women, of their husbands and fathers; and widows of their sons, or if there were no sons, their husbands' closest *dayadis*, or patrilineal kin" (Ibid, p 208). Gough's account relates to the *kaniatchi* system in Thanjavur.

22 From the Tamil '*pasan*' (fair), '*carei*' (shares); and '*samudayam*' (undivided or common).

23 Literally in Tamil, 'field-division'. While Gupta bases himself on inscriptional evidence, Sancaraya, the Sheristadar to the Collector of Madras, describes the intervals as 7, 10 or 12 years, from his first-hand experience (Translation of Answers to the Questions enclosed in Secretary Hill's letter to the Board of Revenue, 2nd August 1814 by B Sancaraya, late Sheristadar to the Collector of Madras, Reply to the 12th Question).

24 Tamil, *Arudi-carei* ('final or decisive division'), *palabhogham ('divided enjoyment').*

25 Tamil, *Manyam* or revenue-fee land and *Varapet* or land paying revenue in kind, shares of output. Of course, the *mirasidars* could and did misuse their position to tamper with the village records. Place cites examples of this in both his 1795 Letter and 1799 Report. See M Shah (1984b, p 7).

26 In a footnote Ellis describes how the ceremony would commence with the delivery of gold, the delivery of water, the consent of townsmen, of kindered, of neighbours, of heirs and of the king or of his resident officer (loc cit).

27 A large number of deeds of sales, gifts and mortgages of *mirasi* pertaining to the Chingleput area in the 18th century were collected, translated and catalogued under Ellis' supervision. A careful examination of these reveals the remarkable intricacies involved in the question of the alienation of *mirasi* right, the wide variety of conditions under which so many different kinds of transfers occurred. For details, see M Shah (1984b, pp 74-80). A sample deed of *sale* of a portion of a *mirasi* share (with Ellis' footnotes) is presented in the Appendix to this paper.

28 Several inscriptions dating from the late 8th century A D onwards provide details of various collective bodies responsible for all important affairs of the village in different parts of South India (K A Nilakanta Sastri, 1932, Ch 3-6; A Appadorai, 1936, Vol I, pp 135-152; B Stein, 1980, Ch 4). Some of the most famous of these inscriptions come from Uttaramerur in Chingleput district (Nilakanta Sastri, op cit, p 100). On the basis of these, Appadorai demonstrates the close connection between the collective form of property and the existence of these committees and shows that a major qualification for their membership was the holding of a *kaniatchi* share in the village (op cit, pp 151-152). The inscriptions indicate the wide range of functions performed by these committees. It may also be noted that Stein in his survey of "locality governance" across the "Chola macro region" finds that "in the central portion of the Kaveri basin and

Tondaimandalam the *nattar* seemed to operate as an assembly without a single, local, executive chief" (B Stein, 1980, p 110). (Elsewhere *nadu* chieftainships prevailed). The *nattar* generally comprised the dominant Vellala landed strata of the *nadu*. They "classified and registered lands within the locality and took prime responsibility for effecting changes in the distribution of income from cultivated land" (loc cit). They were the ones who received and executed royal orders.

29 "Whatever estate a man may possess in money in countries above mentioned, the holding of *Mirasu* is always considered as more honourable by the people. The *Mirasudar* looks on himself as entitled to direct the affairs of the village, to stand forward on all occasions when the affairs of the *Sircar* are in discussion, and to receive any *Tasrif* given by it, and the pre-eminence thus claimed is allowed him by others" (Sancaraya, op cit, Reply to the 15th Question). Sancaraya explains the term Tasrif as "honorary presents at the time of forming annual settlements" (loc cit).

30 I have made an attempt, albeit somewhat approximate, to estimate the share of the state and the distribution of the remaining village produce among different participants in the village economy (M Shah, 1984b, pp 65-66) which supports this claim quantitatively.

31 Tamil, '*Tundu*' a piece cut off, a bit, portion.

32 "The eight incident of ownership in land are stated in the following Sanscrit verse—*(1) Nidhi (2) Nikshipa (3) Pashanam (4) Siddha (5) Sadhya (6) Jalamvitam (7) akshiny (8) agame samiyuktam ashta-bhoga samamvitam*. (1) treasure trove (2) property deposited in land not claimed by another (3) mountains, rocks, and their contents, mines, minerals, etc (4) all land, etc, yielding produce (5) all produce from each land, etc (6) rivers, tanks, wells and all other waters (7) all privileges actually enjoyed (8) all privileges which may be conferred; these are expressed by the general term *ashtabhogam*, the eight rights enjoyed by the owner of land" (Ibid, Reply to the 12th Question, footnote).

33 Althought somewhat less common, there were some labourers who were held by *mirasidars* independently of the *kaniatchi* share. These labourers who mainly did agricultural work could be bought and sold independently of the share. The most common form of this kind of transfer traditionally seems to have been of whole families of labourers called *cottu-adumai* (R Naidu, 1834). It is, however, very difficult to say what proportion either form of labour constituted or whether any other form was also important.

34 This suggests the existence of a "subsistence ethic" or the notion of "subsistence as the fundamental right", a feature the *kaniatchi* agrarian system appears to have shared with several other pre-capitalist societies all over the world (J Scott, 1976, p 176). The existence of this ethic in the context of the caste-system, however, imbues the *kaniatchi* relations with a certain specificity. This argument is developed below.

35 Indeed, a Paraiyan's knowledge of village boundaries is said to have been highly regarded. There was apparently a custom "of making a Paraiyan walk the boundaries of a field with a pot of water on his head, when there is any dispute about their exact position" (E Thurston, 1909, Vol 6, p 86).

36 Ultimately, however, the point is not merely that in terms of a number of elements Europe was different from India. Much more crucially we must recognise (a) that even societies which at a certain moment in history exhibit somewhat similar characteristics could be involved in essentially different dynamics and trajectories and (b) that even very similar elements could add up to very different systems in different historical contexts.

37 Possibly the *ulkudis*, who were tenants holding occupancy rights, would come closest to such a description. The several problems in so describing them should, however, be apparent. It is only after the British introduced the *raiyatwari* system in this area that one can really speak of peasant proprietorship.

38 See, e g, H Orenstein (1962) for a more moderate revision of Wiser's position (in terms of mitigation rather than negation of power). Such notions of mitigation/alleviation of power are found even in the writings of those who otherwise appear to have a fairly subtle appreciation of the nature of *jajmani* relations (J Breman, 1974, p 20 and K Gough, 1960, pp 90-91).

39 Not that bourgeois domination in any actual situation is ever purely "economic" or so blatantly expressed either. It is often overlooked that there is a very specific system of values, "a moral order" so to speak, that characterises relationships even in a capitalist society, and that it is an order that is as *historically limited* as capitalism itself. Once this is recognised, i e, once a conception of "human nature" as an eternal given is rejected, domination associated with non-bourgeois ideologies should not occasion too much wonder or invocations of irrational behaviour. On the contrary, one could perhaps say that capitalist domination should itself become an object evoking a somewhat greater degree of astonishment than it usually does!

40 The discussion here concentrates on South India. For the North, R S Sharma (1980a) and others have brought out the significance of the phenomenon of land-grants to Brahmins. All over India this was a major mechanism for drawing tribal groups into the ambit of caste-society (see especially R S Sharma, 1980b, Appendix II and B Stein, 1980, p 84). R N Nandi (1979-80) describes the growth in significance of *dana* rites in rural North India from around the 6th century A D, which were performed by Brahmins who were supported by the dominant landowners.

41 See footnote 42 below, although one must recognise that Dumont's is not a model of determination.

42 A series of suggestive remarks on the notion can be found in Gramsci's Prison Notebooks (see A Gramsci, 1971, especially "Notes on Italian History", "The Modern Prince" and "State and Civil Society"). I have relied heavily on the interpretation in R Williams (1973). One of Williams' major aims here and in several other writings (see especially R Williams, 1977, pp 75-82) is to argue that adherence to the 'base-superstructure metaphor' is a serious problem in Marxist approaches to culture and ideology. At the same time he stresses the need for any materialist approach to culture to recognise the *materiality* of the process of cultural production. The strongest Marxist critique of the use of this metaphor is however, found in the work of E P Thompson. As Thompson says, "this metaphor from constructional engineering ... must in any case be inadequate to describe the flux of conflict, the dialectic of a changing social process" (E P Thompson, 1965, p 79). More fundamentally, he questions "the notion that it is possible to describe a mode of production in "economic" terms, leaving aside as secondary (less "real") the norms, the culture, the critical concepts around which this mode of production is organised ... No agrarain system could be continued for a day without complex concepts of rights of use and access and ownership: where are we to put such concepts—in a "basis" or a "superstructure"? Where are we to put customs of inheritance—patrilinear or matrilinear, partible or impartible—which are tenaciously transmitted in non-"economic" ways and yet which profoundly influence agrarian history? Where are we to put the customary rhythms of work and of leisure (or festival) of traditional societies, rhythms intrinsic to the very act of production and yet which are often ritualised, whether in Hindu or Catholic societies, by religious institutions and according to religious beliefs? There is no way in which I find it possible to describe the puritan or Methodist work-discipline as an element of the "superstructure" and then put work itself in a "basis" somewhere else" (E P Thompson, 1977, pp 261-62). In the Indian context, the problems posed for the metaphor by the caste system are brought out in M Shah (1984b).

43 An account of this process is, of course, way beyond the scope of this paper. The breaking down of this hegemonic position of Brahminical discourse has been a major thrust of the non-Brahmin movements of the last hundred years or so. It is encouraging to note that Talal Asad in his recent writings has proposed an approach to religion which comes very close to the one being suggested here (see T Asad, 1983a and 1983b).

44 Lest any misunderstanding may arise, I would like to clarify that what I have said so far does not amount to an explanation for the existence of certain features in these relationships, i e, I am not arguing, for instance, that "this was the form of power because Brahminism was dominant"? For this would obviously beg such questions as "Why was Brahminism dominant?", "Why did post-tribal Indian society taken on a caste character?" , etc. All I have attemp-

ted is a demonstration of the connection between the dominance of Brahminical discourse and certain features of these relationships. Indeed, I really wonder what kinds of answers can be proposed to such questions. Beyond stating what may be called their "negative determinants" or conditions which set the limits to the range of possible outcomes, I think one can only try to the extent possible, to describe how these processes occurred. A materialist interpretation of history could usefully take off from the proposition that "the *ultimately* determining element in history is the production and reproduction of real life" (Engels to Bloch, September 1890), while recognising that "the human essence is no abstraction inherent in each single individual. In its reality it is the ensemble of the social relations" (Marx's 6th thesis on Feuerbach, in K Marx, 1975, p 423). One would then study the conditions of reproduction of the various existing social relations, their breakdown and transformation, always remembering that any relation of power involves a process of struggle. But I doubt very much if any general law asserting the primacy of "economic" factors can be sustained. For a fascinating account of Marx's concept of determination, see D Elson (1979).

45 Bourdieu is here describing the relationship between masters and *khammes* (sharecroppers) in rural Algeria in the 1950s, a major difference between which and caste society is the much more rigidly hierarchical character of the latter. Even so many of his observations carry force in our context too. It may be noted that Bourdieu's use of 'dual economy' is to be sharply distinguished from its use in development economics literature.

46 This is a rather compressed account of a much more elaborate argument in M Shah (1984b, pp 97-101) where I bring out the significance of *liminality* in understanding such rituals, drawing upon van Gennep (1977), V Turner (1969), N Z Davis (1975) and H G Gadamer (1975) among others. R Guha (1983, pp 30-36) contains an interesting review of evidence on these rituals from various parts of the world.

47 For instance, we have evidence for the existence of the *kaniatchi* form of property from Thanjavur, Tirunelveli, Tiruchirapalli, Ramnad, Salem and North and South Arcot (B Hjejle, op cit, pp 86-87 and B J Murton, 1973, pp 169-70). The *bhaiachara* villages of North-West Provinces and Punjab (B H Baden Powell, 1892, Book III, Part I, Ch 2 and Part IV, Ch 2), and the *narva* or *bhagdari* villages of Gujarat (Ibid, Book IV, Part II, Ch 2) exhibit strikingly similar features. In any case the *jajmani* system is an extremely suggestive, partially unifying framework.

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## Asea

ASEA has received its first contract from NTPC for high voltage direct current (HVDC) equipment. This is the first such project in the country for the construction of a complete back-to-back convertor station. It is scheduled to enter into service at the beginning of 1988. According to Mantosh Sondhi, Chairman, the 500 MW convertor station is intended to interconnect, without any transmission, the 400 KV grids of the northern and western regions. The convertor station will be built in the Vindhyachal, close to the border between UP and MP. Although in the first contract the role which the company has to play is somewhat limited, it is bound to grow in the future in an area which is technologically most advanced. The company is also actively engaged in formulating several plans for expansion and diversification. Of these, the decision to manufacture medium voltage SF6 and vacuum breakers in the Switchgear Division at Nasik will help it to maintain its market share in the power industry. Circuit breakers and other apparatus for extra high voltage upto 420 KV will be taken up for manufacture in the next phase of expansion at Nasik. The company has also been receiving several interesting enquiries for the supply of induction melting furnaces and suitable arrangements have been made to fabricate these furnaces locally with active assistance of ASEA, Sweden, with whom a revised formal collaboration agreement has been proposed and is pending with the government for approval. Consolidation and expansion of the Electronic Division's activity at Bangalore is also being actively pursued. Besides, active steps are being taken to develop the necessary engineering and project management capabilities within the area of power transmission technology, a field which will receive increased importance in the next five-year plan.

# Food Consumption and Size of People

## Some Indian Evidence

### A Vaidyanathan

*The arguments and evidence presented in this paper suggest that size of human beings being one of the major indicators of nutritional status merits closer attention; that differences in size are to some degree, perhaps to an important degree, a reflection of differences in sustained food intake; that differences in mean food intake as between households/groups do not affect the size of all age-sex categories uniformly; and that intra-family distribution may be systematically related to the overall supply of food per capita but in ways considerably more complex than the hypothesis of purely sex-based discrimination would suggest. In all these respects, the evidence is sufficiently suggestive to warrant more detailed analysis.*

THE significance of the level and quality of food intake of a population as indices of its health and well-being has been the subject of a lively debate in recent years. One major focus of the discussion is the question raised by Sukhatme (1978, 1981, 1982) about the possibility of defining objectively the quantum of calories, protein and other nutrients necessary for people of specified age, sex and activity levels to maintain normal health. He argued that apart from the variation in food requirement between individuals falling within the same age-sex activity category (which has been well recognised), there are self-regulatory mechanisms for adjusting energy expenditure to intake which enable a given individual to maintain a normal level of activity without any significant change in body weight or loss of health despite day-to-day and week-to-week variation in the level of food intake or, to be more precise, calorie intake. Sukhatme has also cited some evidence to show that intra-individual differences are much more important than inter-individual variations. On this basis he questioned the use of *average* nutritional norms as the basis for judging the incidence of poverty and under-nourishment, and for deciding the policy intervention appropriate to alleviating these conditions. While the existence of intra-individual variation is now generally accepted, the factors responsible for them and, even more so, their implication for the use of average nutritional norms for measuring poverty and under-nourishment continue to be matters of controversy. (See, for example, Dandekar, 1981; Krishnaji, 1981; Srinivasan 1977; and Gopalan, 1983.)

Specifically, there is some question whether the claim about intra-individual variation being more important than variations between individuals is valid for a group which does not normally get enough to eat. Mechanisms by which individuals can maintain weight, health and normal activity in the face of day-to-day variations cannot be independent of the long term mean level of intake. In any case, as Sukhatme himself recognises, the importance of intra-individual variations falls as the period over which intake observations are taken increases till eventually we are left only with variations between individuals. It has of course been suggested that biological adaptation arising from inter-actions between genetic and environmental factors can take place even over the long-run, i e, in the face of changes in the sustained level of food intake by individuals. "If nutrient constraints are encountered at a given rate of growth, the rate is slowed down to bring the nutrient demand into equilibrium with nutrient supply. By thus regulating the speed of the internal physiological 'clock' short-run equilibrium is established and the ultimate size and shape of the adult may be moulded to its environment" (Seckler 1979:5). Low levels of sustained intake may on this reasoning result in a population of smaller physical stature which may nevertheless show no greater signs of ill health or clinical malnutrition than a better fed population. But clearly this is a long term process and one which has definite limits. Whether indeed sustained low levels of intake or significant reductions in the sustained level of intake leads to mere adaptation in size without impairing health or activity is an important question of fact but one which has not been adequately explored and certainly not conclusively.[1]

This paper examines, on the basis of some Indian survey data, the relation between sustained mean food intake of population in different regions and their mean size and health status. We recognise that these relations are inherently complex and the relevant information of the requisite quality necessary to unravel them empirically is also difficult to get. Nevertheless some information is available, and the question of how sustained low intakes and significant reduction in mean intakes affects people is particularly important in our context because a very high proportion of the population live close to the margin of subsistence and the per capita food grain production (the major component of food) has shown a declining trend in as many as eight major states during the last two decades.[2]

### THE AVAILABLE DATA

The National Institute of Nutrition (NIN) has conducted several detailed field surveys of food intake, nutritional status and anthropometric measurements in different parts of India over the last 2-3 decades. Some of these enquiries are of limited scope being confined to particular towns/villages or sections of the population. But the Institute has also carried out two large-scale sample surveys which give anthropometric data for a number of states at two points of time. This body of data provides a basis for studying the size-intake relation and, with heavy qualification, changes in size over time.

The first of these surveys, covering 11 states, was done between 1956 and 1965, different states being covered in different years. Its scope was limited to collecting data (based on actual measurement by trained investigators) relating to height, weight and a few other anthropometric indices for children aged 1 to 21 years. While the survey did not collect any data on food intake, it did classify the children by socio-economic background (in terms of religion, caste and broadly defined per capita income class) of their families. A detailed report of its findings giving the mean values and standard deviations of anthropometric measurements by sex and age for each state and tabulations to bring out the differences in height, weight, etc, of children from different socio-economic classes for the pooled sample have been published (ICMR, NIN, 1972). The major limitation of this set of surveys, apart from the lack of data on food intake, is that the procedure for selection of children raises questions about the representativeness of the sample.[3]

Unlike in the earlier survey, those conducted by the National Nutrition Monitoring Bureau (NNMB) pertains to a sample of households in rural and urban areas of different states selected on the basis of a well defined procedure.[4] It ascertains by weighment and, for a small fraction of the sample, by oral enquiry, the actual food intake of the family for one day. Anthropometric measurements (including height and weight) are taken for all members of the household who are also screened clinically for signs of nutritional deficiency according to a certain number of explicitly stated indicators. For eight states these surveys have been done every year since 1974; two more have been added to the list in 1977 and 1978. Published reports giving summary results of the surveys by state are available upto 1980 (ICMR, NIN, 1980). Our analysis is necessarily limited to these published tabulations which give only mean value of height, weight and intake for the rural sample by states. The number of sample households in each year being too small to permit analysis of individual age categories, we have used the pooled estiamtes for five years (1974-79).

A major difficulty in using the NIN data is the inadequacy of information on food intake. The first round of surveys (1956-65) did not collect any data on this aspect. The more recent surveys collected intake data for each household (and for a portion of the sample by individuals) but only for a single day. If the daily food intake of each family were reasonably stable, or if the sample were large and the enquiry properly designed to capture seasonal variations in consumption, this would give a pretty good idea of the normal average annual intake of the population. But in fact there are wide variations in the food intake of families and of individuals from day-to-day and season to season. There is no indication that NIN surveys used any systematic procedure for getting at the mean sustained intake of the population. Indeed it is not even clear that the surveys were designed with this end in view.

These problems do not arise in the case of the National Sample Survey (NSS) which is explicitly designed to measure the level, pattern and distribution of consumer expenditure by state and by rural and urban areas. The NSS collects data on consumption for a 30-day period from each household and the survey is so arranged as to capture seasonal variation. Its estimates therefore give a better idea of the mean annual intake at the state level than the NNMB. There are of course several questions about the accuracy of NSS data on food consumption and in particular on the nature and extent of non-sampling errors therein (Vaidyanathan, 1983). Nevertheless, on the assumption that the magnitude and direction of errors (especially non-sampling) are not systematically related to the level of consumption—and this does not seem unreasonable—we could use the NSS to define the *relative position* of the states in respect of sustained mean intake. We have state-wise estimates of per capita calorie intake for rural and urban areas separately in respect of 1961-62 and the early seventies.

Even this procedure raises two difficulties in the case of the first NIN survey: Since it was conducted at different times in different states spread over a 10-year period there is the problem of deciding which round of the NSS is to be used for ranking. In any case such ranking is possible from published data only for one year, namely 1961-62. There is also the problem that the NIN tabulation relates to a sample which includes both rural and urban areas, the coverage of the latter being disproportionately large. While these difficulties do not pose a problem in the case of NNMB surveys, there are, for reasons cited, doubts about the reliability of their estimate of intake as a measure of the sustained mean intake for the households or for the population. Therefore, we have taken the simple average of per capita calorie intake in rural areas of each state as estimated by the NSS for three years (1971-72, 1972-73 and 1973-74) as the basis for ranking.[5]

State-wise data on mortality by sex and age is available for the late sixties from studies under the Sample Registration Surveys conducted by the office of the Registrar General. Fairly detailed data, state-wise with rural-urban breakdown, or morbidity (measured in terms of 'incidence' and 'prevalence' of illness) by age and sex is available from the 28th round of the NSS. The Rural Labour Enquiry gives information on the number of days for which male and female workers remained unemployed due to illness—but this may not be sufficiently reliable for our purpose.

Given the errors in the data, the high level of aggregation at which the relation between food intake and size/health is being examined and the fact that the estimated mean intakes and size are derived from different sources relating to two different points of time, the results of our efforts to explore the size-intake relations cannot but be tentative. Nevertheless they are sufficiently interesting to merit reporting.

## FOOD INTAKE AND SIZE OF PEOPLE

In the Indian context, given the low levels of intake, our expectation is that for a given age-sex category (and controlling for climate, activity, genetic differences and health environments) higher levels of intake will be associated with larger size both in terms of height and weight. It is not possible with available information to control for factors other than food intake which affect size. However, if genetic differences and variation in the health environment were dominant, and are not related to the level of intake, then we would find that there is no strong relation between food intake *per se* and size. It is, however, possible that size could be maintained in the face of low intake by working less and/or working less diligently. There is no way of verifying how important the latter adjustments in fact are.

For the purposes of the present study 'food intake' will be measured by per capita calorie consumption and height, weight and weight for height will be used as the indices of size. Since size is a function of age and sex, the focus will be on differences in mean height and weight between people of the same age and sex categories.

Ideally the analysis of the food intake-size relation requires data on food consumed individually by people in each age-sex category. However, such information, as is well-known, is very difficult to get. Typically the basic unit for food consumption/nutrition surveys is the household which consists of persons of different age, sex and activity status. It is not possible to infer from the household level information the consumption of individual members.[6] Under these circumstances, the only course open is to relate the size of particular age-sex categories to the average per capita consumption of

TABLE 1: MEAN HEIGHT AND WEIGHT OF MALE AND FEMALE CHILDREN OF FAMILIES WITH DIFFERENT LEVELS OF PER CAPITA INCOME, INDIA 1956-65

| PCY* Class | Height (cms) | | | | Weight (kg) | | | |
|---|---|---|---|---|---|---|---|---|
| | Males | | Females | | Males | | Females | |
| | 4 Years | 19 Years | 4 Years | 19 Years | 4 Years | 19 Years | 4 Years | 19 Years |
| I | 93.6 | 162.7 | 93.1 | 149.0 | 12.9 | 46.9 | 12.4 | 39.6 |
| II | 94.7 | 162.9 | 93.2 | 150.5 | 13.0 | 47.0 | 12.4 | 42.2 |
| III | 94.8 | 163.2 | 93.4 | 151.7 | 13.2 | 47.4 | 12.4 | 40.4 |
| IV | 95.8 | 163.6 | 95.0 | 151.7 | 13.3 | 48.1 | 13.0 | 41.2 |
| V | 98.1 | 164.9 | 95.9 | 152.9 | 13.9 | 49.4 | 13.1 | 43.2 |
| VI | 98.4 | 165.8 | 97.7 | 152.9 | 14.1 | 49.5 | 13.9 | 43.3 |
| VII | 100.5 | 165.6 | 98.9 | 153.5 | 14.8 | 51.4 | 14.2 | 44.5 |

*Note*: * In ascending order.
*Source*: ICMR, NIN: 1972.

TABLE 2: AVERAGE HEIGHT BY SEX AND SELECTED AGE-GROUPS IN INDIAN STATES*, 1974-79

*(Centimetres)*

| | Per Caput Intake* | Males of Age | | | | | Females of Age | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 4 | 19 | 20-24 | 40-44 | 55-59 | 4 | 19 | 20-24 | 40-44. | 55-59 |
| 1 Kerala | 1616 | 93.5 | 160.0 | 162.4 | 161.8 | 160.0 | 92.6 | 149.5 | 150.1 | 148.3 | 146.7 |
| 2 West Bengal | 1820 | 94.1 | 160.3 | 161.7 | 161.4 | 160.5 | 92.7 | 149.4 | 149.4 | 148.0 | 146.5 |
| 3 Maharashtra | 1909 | 91.1 | 162.6 | 163.0 | 162.7 | 162.6 | 88.4 | 150.1 | 151.1 | 149.7 | 148.2 |
| 4 Tamil Nadu | 1996 | 94.3 | 161.6 | 162.2 | 163.1 | 162.1 | 90.8 | 151.5 | 151.2 | 149.8 | 149.4 |
| 5 Orissa | 2017 | 93.3 | 161.9 | 161.1 | 161.1 | 160.2 | 92.5 | 148.8 | 149.4 | 149.4 | 147.2 |
| 6 Gujarat | 2052 | 93.3 | 162.4 | 163.7 | 163.7 | 162.9 | 92.4 | 151.5 | 151.9 | 150.4 | 149.6 |
| 7 Andhra Pradesh | 2163 | 93.6 | 161.6 | 162.6 | 162.4 | 162.5 | 93.0 | 150.5 | 151.1 | 150.4 | 151.2 |
| 8 Karnataka | 2175 | 93.7 | 163.1 | 164.1 | 164.3 | 162.7 | 93.0 | 152.8 | 151.5 | 150.8 | 149.4 |
| 9 Uttar Pradesh | 2336 | 95.5 | 162.8 | 163.5 | 163.4 | 161.6 | 93.6 | 149.9 | 149.2 | 148.3 | 147.3 |
| 10 Madhya Pradesh | 2830 | 90.7 | 161.9 | 163.5 | 163.0 | 163.3 | 90.7 | 151.3 | 151.0 | 150.6 | 150.0 |

*Note*: * Average per caput daily calorie intake 1971-73, NSS estimate.
*Source*: GOI, NNMB, 1980.

their families, classes or regions as the case may be. This necessarily involves some hypothesis (or assumption) on intra-family distribution of food.

The simplest assumption would be that the intake of individual members of different households varies in the same proportion as their respective mean intakes per capita. This does not imply equal distribution within the family, though variation in the age-sex activity composition of families makes it difficult to give it precise meaning. More important, it is widely believed that there is systematic discrimination in intra-family distribution particularly against females.[7] Such discrimination is generally ascribed to culturally ingrained prejudices: It is widely believed for instance that there exists a marked bias in favour of males in allocating food within the Indian family. One can also think of other reasons: Thus it seems only reasonable that when there is inadequate food in a family, the needs of working members (usually males), on whose earnings the others depend, will have the first claim on the supply leaving the remainder to be shared among the rest. Whatever the reason, it seems but plausible that such discrimination has something to do with the overall supply of food to the family: The more abundant the supply relative to the requirements of healthy living, the less is likely to be the intra-family inequality.

To the extent that the long term mean consumption of individuals is proportional to the mean per capita intake of their families, one would expect the mean size (height and weight) of individuals of each age-sex category to be positively correlated with the mean per capita intake of the family. But insofar as intra-family distribution is itself systematically related to its mean per capita intake, the relation between the mean per capita intake of the population and the mean size of its members should be more pronounced in some category of members than others. We will concentrate on the discrimination between the sexes which is generally believed to be the most widespread. And since, for reasons cited, the prospect of such discrimination would seem to be greater in a situation of low overall mean intake per head compared to a high level of intake, the expectation would be that the differences in height and weight of females relative to mean per capita intake would be greater than in the case of males which is equivalent to saying that the ratio of male to female height (and weight) will fall as the mean per capita intake rises.

The published tabulations of the first NIN survey do not permit a study of intake-size relation across states. However, it does give a tabulation of the pooled data of mean height and weight by age and sex classified by range of per capita income PCY which is a good proxy for ranking groups according to mean level of food intake per caput. These data (Table 1) show that (a) mean height and weight for both sexes increases with per capita income; (b) the difference in height between the ages of 4 and 19 (especially for males) tends to be larger in the poor groups than in the rich; and (c) the difference in weight between 4 and 19 years is generally an increasing function of per capita income. The usefulness of these associations is, however, limited by the fact that they are derived from pooled data in which systematic differences in mean consumption, environment and perhaps genetic characteristics across regions and between rural and urban areas are confounded with the effect of intake *per se*. A more disaggregated analysis by individual states and occupational/caste groups, which should be possible by retabulation of the primary data, can mitigate some of these limitations.

For the more recent NNMB surveys, published tabulations permit comparisons of mean size and mean intake across states but only for rural areas. (Tabulations of both size and intake for urban areas and of size by income-activity categories are not yet available.) The available information of mean height and weight by sex and selected age[8] groups (representing the average for 1974-79) for 10 states ranked according to per capita calorie intake during 1971-73 are presented in Tables 2 and 3. From a comparison of the extremes of the spectrum of food intake, it is seen that people of a given sex and age are invariably taller and heavier in states which rank highest in terms of food intake compared to those at the bottom, the difference in weight being much more marked than in height. If higher intake always resulted in larger size and size were not influenced by any factor other than intake, there should be very high correlation between intake and size.[9] However, in fact, observed size is influenced by factors other than food intake and the data are always subject to error. Therefore the association between intake and size estimated from survey data is likely to be muted.

Table 4 gives the correlation coefficients between mean per capita calorie intake on the one hand and different indicators of size (namely mean height, mean weight and mean weight per unit height) for selected age-sex categories.[10] In general mean size is seen to be positively associated with mean calorie intake. However, the strength of the association differs between age and sex categories, with the suggestion of a pattern. Thus association between intake and height is very weak at age 4 for either sex; there seems to a stronger (though not statistically significant) positive association between the two at all other ages. Among females, unlike males, the strength of this association seems to rise with age. The weight-intake association in early childhood and late middle-age is much stronger among females than males. But in other age groups the association is generally stronger for males. This is specially so in the age groups 19 and 20-24 years (where the coefficients are also significant). The coefficients for weight per unit height

TABLE 4: SIMPLE CORRELATION COEFFICIENTS BETWEEN MEAN CALORIE INTAKE PER HEAD AND DIFFERENT INDICATORS OF SIZE

| Age | Mean Weight | | Mean Weight | | Weight/Height | | Ratio of Male to Female | |
|---|---|---|---|---|---|---|---|---|
| | Male | Female | Male | Female | Male | Female | Weight | Weight for Height |
| 4 | –.316 | –.060 | –.004 | .336 | .130 | .446 | –.307 | –.278 |
| 19 | .507 | .358 | .903* | .430 | .922* | .276 | .552 | .751* |
| 20-24 | .492 | .179 | .809* | .634* | .718* | .617* | .273 | –.536 |
| 40-44 | .435 | .514 | .435 | .487 | .407 | .455 | –.224 | –.386 |
| 55-59 | .647 | .533 | .176 | .400 | –.112 | .416 | –.612* | –.419 |

*Note*: * Significant at 5 per cent level.

TABLE 3: AVERAGE WEIGHT BY SEX AND SELECTED AGE GROUPS IN INDIAN STATES*, 1975-1978

*(Kg)*

| | Males of Age | | | | | Females of Age | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 4 | 19 | 20-24 | 40-44 | 55-59 | 4 | 19 | 20-24 | 40-44 | 55-59 |
| 1 Kerala | 12.6 | 44.0 | 48.1 | 48.8 | 47.6 | 12.2 | 43.2 | 42.7 | 41.2 | 40.2 |
| 2 West Bengal | 12.3 | 44.7 | 47.2 | 46.4 | 46.4 | 11.8 | 40.2 | 41.0 | 39.1 | 36.4 |
| 3 Maharashtra | 11.9 | 46.5 | 47.7 | 50.3 | 50.9 | 11.7 | 42.9 | 41.9 | 41.4 | 41.0 |
| 4 Tamil Nadu | 12.8 | 46.5 | 47.5 | 52.4 | 50.2 | 12.0 | 43.0 | 43.1 | 44.6 | 42.8 |
| 5 Orissa | 12.4 | 47.0 | 48.5 | 49.2 | 48.6 | 11.9 | 42.1 | 43.0 | 42.0 | 38.8 |
| 6 Gujarat | 12.4 | 45.5 | 47.7 | 50.5 | 49.2 | 12.0 | 42.1 | 43.1 | 43.8 | 43.1 |
| 7 Andhra Pradesh | 12.6 | 46.6 | 48.2 | 50.1 | 50.1 | 12.3 | 41.6 | 42.5 | 42.7 | 43.0 |
| 8 Karnataka | 12.1 | 47.9 | 48.7 | 50.1 | 47.7 | 12.1 | 43.7 | 42.2 | 41.9 | 41.3 |
| 9 Uttar Pradesh | 13.4 | 48.2 | 49.4 | 50.5 | 48.9 | 12.7 | 43.7 | 42.7 | 41.6 | 39.4 |
| 10 Madhya Pradesh | 12.1 | 49.3 | 49.8 | 50.8 | 48.8 | 12.1 | 43.7 | 44.2 | 43.9 | 43.4 |

*Note*: * Ranked in ascending order of per caput calorie intake 1971-73.
*Source*: GOI, NNMB, 1980.

bring out the contrasting patterns more sharply.

Further the magnitude of weight differences as between regions with different levels of per capita calorie intake is generally greater among males than among females. Variation in mean intake seems to make a striking difference to 19-year old males and progressively less at higher ages; among females, weight differences associated with mean intake seems to get more pronounced with age. The differences in weight between 4 and 19-year olds is not only generally higher among males, but its magnitude also tends to be larger in better fed populations. Between 19 and 20-24 years males in relatively poorly-fed regions gain more weight than in state with high average calorie intake; while in late middle-age (40-44 to 55-59), when people generally seem to lose weight, the reduction tends to rise with mean per capita intake. Among females, no clear relation is seen between weight gain (loss) and mean food intake of the population. These associations it should be noted, relate the indices of size for particular age-sex categories in each state with the mean intake for the entire population of that state. Differences observed between age-sex groups are most likely a reflection of differences in the way the available food is allocated between age-sex categories. This leads us to an examination of the relation between mean intake and distribution of food consumption by particular age-sex groups.

## INTRA-FAMILY DISTRIBUTION OF FOOD: SEX DISCRIMINATION?

We are concerned with two questions: First, is there a general discrimination of the basis of sex in the distribution of available food in India? And second, whether this discrimination tends to be more acute when the total supply available per head is relatively low. One way of testing the existence of discrimination would be to compare, as Sen (1983) has recently done, the actual height and weight of males and females of specified ages with the values expected of a well-fed, healthy population of the same genetic stock. Table 5 gives such a comparison of weight for children from 1 to 18 years, using the Harvard standard (HS) as the norm. Actual weights (and heights) in all cases are below HS. If there were discrimination against females, the difference between actual and the corresponding HS values for them should be higher than for males. This seems to be the case in early childhood (see also Sen, 1983). During later childhood the data do not show any sustained or marked difference between the sexes in this respect: in fact during adolescence the deviation relative to HS is generally less among females. If the HS can be taken as a valid generalisation of the relative profiles of the growth curves of the human male and female, the data point to a general discrimination against females in early but not later childhood. In the absence of any generalised height and weight standards for adults, it is not possible to say whether discrimination against females is a general phenomenon during later stages of life.

The data however provide some basis to examine whether the sex-discrimination in intra-family distribution of food is systematically related to the mean level of food intake: If it is true that the food needs of males get first priority in intra-family allocation of food one would expect the difference between male and female intake to be relatively large when per capita intake is low and small at high levels of intake. Insofar as intake affects size, these differences should also be reflected in the relative size of males and females.[11]

The correlation (based on data for 10 states) between mean per capita calorie intake on the one hand and male to female ratio in respect of (a) weight and (b) weight for height were given in Table 4. While none of the coefficients is statistically significant, it is interesting that both the direction and strength of the association varies with age and apparently systematically. As mean intake rises there seems to be some tendency (*albiet* weak) among four-year olds for the male to female ratio in both weight and weight for height to fall. But among 19-year olds the male-female disparity in respect of both indices tends to increase as one moves from states with low level of intake to those with relatively high levels. In the adult age groups the distance between male and female size generally declines as mean intake increases, the tendency being most marked in the weight for height in the 20-24 group and weight in the 55-59 years group.[12]

The above data suggest that discrimination against females in intra-family food allocation may not be as universal as is generally supposed nor does it always get accentuated when the family's food supply relative to population is low and inadequate. Discrimination against females in early childhood and late middle-age seems to be general, but may weaken as mean intake rises. The fact that male-female disparities both in absolute weight and in weight differences between the ages of 4 and 19 years increase with mean intake would seem to suggest that there is no sex discrimination in late childhood and adolescence. If size difference in particular age-sex categories were mostly due to differences in food intake, the fact that weight of males is generally more sensitive to changes in mean intake than that of females of same age would imply that as the family food supply changes the amount allocated to males is varied much more than females but in differing degrees at different ages, most strikingly in adolescence and early adulthood.

The observed relation between relative size and overall mean intake is a reflection not only of differences in intra-family distribution, but also of systematic variation in other determinants of size with reference to overall mean intake: Thus the kind of activity which females of different ages perform in a

TABLE 6: FOOD INTAKE AND MORBIDITY IN SELECTED STATES

| State | Calorie Per Cent | Incidence Rate | | | Prevalence Rate | | |
|---|---|---|---|---|---|---|---|
| | | Total | Male | Female | Total | Male | Female |
| Kerala | 1616 | 37.3 | 39.2 | 35.5 | 71.2 | 74.6 | 68.0 |
| West Bengal | 1820 | 11.3 | 12.4 | 10.3 | 27.7 | 30.6 | 24.7 |
| Maharashtra | 1909 | 17.8 | 20.0 | 14.7 | 27.6 | 31.6 | 23.9 |
| Tamil Nadu | 1996 | 20.6 | 20.2 | 21.1 | 34.0 | 34.6 | 33.3 |
| Orissa | 2017 | 14.5 | 17.7 | 11.4 | 24.2 | 29.1 | 19.4 |
| Gujarat | 2052 | 4.5 | 4.2 | 4.8 | 10.2 | 9.3 | 11.0 |
| Andhra Pradesh | 2163 | 20.9 | 21.9 | 19.8 | 31.9 | 32.8 | 30.9 |
| Karnataka | 2175 | 8.4 | 8.6 | 8.2 | 14.9 | 16.1 | 13.7 |
| Uttar Pradesh | 2336 | 8.0 | 9.3 | 6.3 | 13.2 | 15.2 | 10.9 |
| Madhya Pradesh | 2830 | 10.3 | 11.0 | 9.6 | 20.9 | 21.8 | 19.8 |

*Note:* Data on morbidity relates to the 28th round of NSS.
*Source*: Sarvekshana, July-October, 1980.

TABLE 5: RATIO OF ACTUAL MEAN WEIGHT AT SELECTED AGES TO EXPECTED MEAN ACCORDING TO HARVARD STANDARD INDIA 1975-79

| States | 1 Year | | 5 Years | | 9 Years | | 14 Years | | 18 Years | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Male | Female | Male | Female | Male | Female | Male | Female | Male | Female |
| Kerala | .865 | .800 | .774 | .763 | .657 | .666 | .629 | .647 | .694 | .767 |
| West Bengal | .806 | .775 | .863 | .721 | .653 | .645 | .635 | .673 | .706 | .767 |
| Maharashtra | .767 | .752 | .714 | .718 | .660 | .679 | .667 | .716 | .719 | .776 |
| Tamil Nadu | .916 | .911 | .764 | .757 | .663 | .676 | .660 | .722 | .694 | .783 |
| Orissa | 1.168 | .784 | .745 | .725 | .673 | .721 | .715 | .745 | .732 | .811 |
| Gujarat | .780 | .736 | .817 | .746 | .650 | .676 | .637 | .663 | .711 | .789 |
| Andhra Pradesh | .857 | .790 | .799 | .756 | .677 | .703 | .675 | .726 | .717 | .787 |
| Karnataka | .808 | .769 | .744 | .730 | .673 | .703 | .698 | .730 | .730 | .783 |
| Uttar Pradesh | .794 | .794 | .792 | .780 | .713 | .721 | .742 | .737 | .740 | .774 |
| Madhya Pradesh | .638 | .785 | .726 | .713 | .693 | .738 | .715 | .739 | .760 | .839 |

relatively poor region may differ systematically compared to those in the more prosperous areas; and it is possible that people in the low intake regions have adapted either by more efficient use of food or by lowering thier activity level and/or work output per unit time. Given that changes in food intake could lead to adjustments on dimensions other than size a more disaggregated study controlling for nature of activity, genetic factors and health environment is necessary for a better understanding of the age-sex differences in size-intake relation and their significance.

It would be even more interesting to map changes in the size of people in different regions experiencing different rates and/or direction of change in mean food intake. The NIN and the NNMB surveys provide mean values of anthropometric measurements for children and adolescents (0-19 years) in a few states at two points of time spanning 2-3 decades. Published tabulations for six states show that in practially all age-sex categories the mean height and weight of children in the latest NNMB surveys is less than in the earlier NIN surveys. Unfortunately, comparable data on intakes for the relevant years is not always available; there are also serious questions concerning the comparability of coverage, sampling and enquiry procedures in the two sets of surveys. However, by suitable retabulation of the primary data it may be possible to get more insights into the changes in size of selected socio-economic groups. Of particular interest would be the scheduled castes and agricultural labourers, who comprise the poorest segments of the rural population and whose per capita real income, by all accounts, may well have fallen in the last 2-3 decades. Over the longer term it would seem worthwhile to attempt anthropometric measurements alongwith enquiries about employment, incomes and consumption once every 10 years for at least a segment of the sample covered by the NSS.

### FOOD INTAKE AND MORBIDITY

Morbidity (or illness) is a function of several factors besides food intake, including environmental hygiene and the extent to which mass communicable diseases have been controlled. Nevertheless, there is little doubt that the level of food intake is one of the factors in as much as sustained low level of intake relative to requirements of normal activity increases the propensity to illness by reducing the body's capacity to resist infections. This, and the incidence of ailments directly arising from nutritional deficiency, are apt to be more important in poorly fed populations. The NSS data on 'incidence' and 'prevalence' of disease, though subject to limitations arising from the difficulty of defining and identifying morbidity are of interest in this context (see Table 6). It is noteworthy that by both indices of morbidity, relative to population, across states show a negative association with their respective mean food intakes per capita. Kerala which has the lowest calorie per capita has the highest morbidity rate, while those at the top end of the intake scale show generally lower incidence of disease. Overall the correlation between calorie intake and morbidity rate for the population is negative and significant (at 10 per cent level).

### CONCLUSION

Bieng basically an exploratory effort and given the limited amount of empirical data with which we had to work, this paper has no definite conclusions to offer. Hopefully, however, the arguments and evidence marshalled above are sufficient to show that size of human beings being one of the major indicators of nutritional status merits closer attention; that differences in size are to some degree, perhaps to an important degree, a reflection of differences in sustained food intake; that the differences in the mean food intake as between households/groups do not affect the size of all age-sex categories uniformly, and that the intra-family distribution may be systematically related to the overall supply of food per capita but in ways considerably more complex than the hypothesis of purely sex-based discrimination would suggest. In all these respects, the evidence, gross as it is, seems sufficiently suggestive to warrant more detailed analysis. The data from the nutrition surveys conducted by the NIN permit far more detailed examination of these questions, and also the question of whether there has been any systematic tendency for the mean size of people to fall especially in regions and classes which have experienced a declining trend in per capita food intake on the past two decades. The purpose of this paper would be amply served if it helps stimulate such detailed work.

## Notes

[I have benefited from discussions with Chandan Mukherjee, Chiranjib Sen, Ashok Nag and especially C R Soman who helped me to understand the effect of variations in food intake on size. I am grateful to T N Srinivasan and N Krishnaji for detailed and critical comments on an earlier draft. Needless to say, none of them are implicated in any defects which may remain.]

1 The evidence marshalled by Sukhatme in support of this thesis consists of (i) a close and continuous monitoring of activity and energy expenditure of some 54 males of roughly the same height and weight engaged in farming; and (ii) data on body weight and food intake of a group of women workers in a community kitchen with roughly the same level of productivity. The evidence suggests that the relative efficiency of energy utilisation (measured by average work output per unit calorie intake) is inversely related to the level of intake (Sukhatme, 1980: 2013). See also Sukhatme (1982:2011, 13)

2 According to one recent estimate, the average annual growth in foodgrain production during the period 1953-1978 was below two per cent in four states. According to another estimate (Sawant: 1983) it was less than two per cent in eight states between 1968-69 and 1980-81.

3 During the earlier survey, a total of 127,100 children were surveyed, about one-third of them in rural areas (ICMR, 1972:11). The primary sampling unit for this study was "eligible infant or child" defined as "an apparently normal infant or child aged one through 21 years who was resident in the area in the sense that it had spent the major part of its life there". Certain children (those bed-ridden for 15 days or more, those with deformities and chronic systemic disease) were excluded. Each survey unit (there were seven of them, roughly one for each major state) was expected to survey 20,000 children distributed in the ratio of 5:3 between urban and rural areas. There was a different sampling procedure for rural and urban areas. In rural areas there were three stages of selection, namely, districts, villages and households. Roughly one out of 200 villages in the selected zones was surveyed, with villages being classified into two strata according to size. "All eligible children in the selected village were included in the sample. Children were asked to assemble in the village school or some essential place in the village for clinical examination and body measurement" (ICMR: 1977:4).

Urban areas were stratified by size and a designated number choosen from each. "The sampling frame for children going to school was a list of shcools in the town/city. A systematic sample of schools was selected and from each school a random sample was chosen. Pre-school and non-school going children were also included and examined in their homes" (ibid). The exact procedure for selecting the last category is not quite clear from the report; nor is it clear whether the 5-15 age group is confined to school going children.

4 In more recent surveys, about 400 households were sampled annually from rural areas of each state. The actual number varied somewhat from state to state. Thus in 1979 a total of 3,533 HHs were surveyed for diet and nutrition in 10 states. The number of households surveyed in individual states ranged from 140 in Bengal to over 500 in Karnataka. The total population of the surveyed HHs was close to 25,000 giving an average HH size of 7. In any given year the number of observations in particular age-sex categories is very small—rarely exceeding 50 and in several cases as small as 10 or less. This is the reason why we decided to use the pooled data for five years.

In the NNMB surveys (see ICMR, NIN:1975) the sampling for rural areas is done in three stages: namely districts, villages and households. All districts in each state are classified into four groups according to the level of development and one from each selected randomly. Within each district villages are grouped into three categories according to size. The number of sample villages in each category is determined on the basis of their relative shares in rural population of the district and the number of households to be surveyed. The villages are selected randomly from each stratum. "On the selection of households in each village, proper representation must be given to the different segments of the population (Harijans, low income groups, middle income groups and high income groups) so that the pooled estimation based on all the households surveyed gives us reliable information regarding the dietary status of the village as a whole. The selection of the households will be done by the team on the spot by random sampling after consultation with the village head" (ibid: 12).

5 These estimates are available for 1971-72, 1972-73 and 1973-74 from Dasgupta (1982). The next survey of consumption was done only in 1978-79, the tabulations of which are not yet available. This difference in the base years for ranking the two sets of variables is thus dictated by the availability of data Insofar as the relative rankings of state by calorie intake are reasonably stable over time—and it is interesting that the ranking based on 1961-62 data is broadly similar to the one for 1971-73—it seems that rankings based on 1971-73 averages are a reasonable approximation of relative positions in terms of mean long term intake.

6 The surveys conducted by the National Nutritional Monitoring Bureau did attempt to collect, by oral enquiry, data on the quantum of various foods consumed by individual members for a single day. Considering the well-known difficulties of getting even the family's total intake by weighment, there is good reason to be skeptical of the information on individual intake obtained by interviewing the family members.

7 For example in a recent article Sen and Sengupta conclude on the basis of detailed data for two Bengal villages that there is a systematic sex bias "reflected in higher rates of deprivation of girls *vis-a-vis* boys. The sex bias is reflected both in the greater prevalence of under-nourishment of various degrees among girls than among boys and also (b) the lower growth dynamics of girls *vis-a-vis* boy" (Sen and Sengupta 1983:855). This study is limited to children below four years of age and uses the deviation of actual from "normal" growth defined by ICMR as the index of malnutrition. It does not give any data on the food intakes of the villages or the sample families.

8 Determining the age of each individual accurately is well-known to be a major problem in such enquiries. The NIN surveys are quite conscious of this and the instructions to investigators emphasise the need for care in getting this information and also gives some hints for the purpose. While errors in age estimates are inevitable, so long as their incidence is random the survey data can be used to study the size-intake relation at different ages.

9 Strictly speaking it could be argued that height and weight of an individual at a given point are not only a function of his food intake level at that time but is a reflection, and the cumulative result, of the level and quality of intake over his entire life. However, this seems much more relevant for height than weight. The latter, and even more so weight per unit height, would seem much more sensitive to the current level of intake. The need for more refined models of the nutrition-size relation is obvious enough though there are serious doubts whether the data necessary to test them are currently available.

10 Since the distribution around the mean is skewed and the extent of skewness varies between states, mean size (especially weight, and weight for height) will be influenced by not only the mean intake but also the extent of skewness in the distribution around the mean. Dasgupta (1982) estimated the gini coefficient of calorie intake to range from .1765 in West Bengal to .2650 in Kerala. We have however not taken this factor into account.

11 Inequality between sexes in food distribution would also affect the coefficient of variation (CV). If females are discriminated against, the CV of female weight should be greater than CV for males; and if the extent of discrimination is inversely related to mean intake, the coefficient of variation of females relative to that of males should fall as intake rises. We find that while the CV in weight and height is in most regions and age categories higher for females, the relative CVs (which we compared only for weight) show no clear pattern except in the 40-44 age group where it declines as mean intake rises. However since the CV estimated from the sample data is affected by pooling of data over several ages in some cases and over five years (there are year-to-year variations and errors on account of sample size in individual years) and since they are also affected by the extent of inequality in distribution across families (which varies), it may not be possible to be definitive on this aspect from the present data.

12 Srinivasan, commenting on an earlier draft, pointed out that comparisons at different levels of food intake could be vitiated by 'survival bias' which would arise if (a) those who die are systematically weaker and smaller members of the group to which they belong; and (b) the mortality rates of the sexes in the relevant age groups are different. However this bias would tend to narrow the size disparities between sexes as mean food intake increases only if the mortality rate of females is higher than that of males in the relevant age groups and if the differential in mortality is positively associated with mean intake. As a matter of fact, as can be seen from Table A, there is little difference in the mortality rates of males and females during infancy and early childhood. Nor does the differential show any systematic tendency to increase with mean intake. However, both these tendencies are manifest in the adult age groups, especially among young adults. This means that the inverse correlation between relative size of males to females in the young adult group and mean food intake across states could be in part a reflection of the survival bias.

TABLE A: AGE-SPECIFIC MORTALITY RATES OF FEMALES RELATING TO MALES, INDIA 1968-1969

| | Age-group | | | | | |
|---|---|---|---|---|---|---|
| | Infants | 0-4 | 5-14 | 15-19 | 20-24 | 55-59 |
| Kerala | 0.79 | 0.94 | 1.23 | 0.72 | 0.79 | 0.58 |
| Maharashtra | 1.15 | 1.03 | 1.08 | 1.09 | 1.19 | 0.63 |
| Tamil Nadu | 0.95 | 1.03 | 1.04 | 1.15 | 1.35 | 0.92 |
| Gujarat | 1.06 | 1.09 | 1.00 | 1.18 | 1.73 | 0.71 |
| Andhra Pradesh | 0.91 | 0.94 | 1.07 | 1.01 | 1.46 | 0.78 |
| Uttar Pradesh | 1.18 | 1.39 | 1.32 | 1.32 | 1.88 | 0.81 |
| Karnataka | 0.93 | 0.94 | 0.97 | 1.37 | 2.09 | 1.03 |

*Note*: Computed from GOI, Registrar General, Measures of Fertility and Mortality in India, SRS Analytical Series, No 2, 1972.

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## Grover Leasing

GROVER LEASING, an existing dividend paying company, is entering the capital market on July 31 with an issue of 12 lakh equity shares of Rs 10 each at par. The issue is being jointly managed by Grindlays Bank and Punjab National Bank. The objects of the issue are to augment the long-term resources of the company for its leasing and hire-purchase operations and to seek listing of shares on the Bombay and Delhi Stock Exchanges. The company has been promoted by Kashmir Vanaspati and Grover Tankers, both controlled by Charanjit Grover, who is the Managing Director. According to him, the leasing company commenced operations last year and already owns gross leased assets and hire-purchase stocks of around Rs 2.30 crore. These are expected to almost double by the end of 1985. The company's gross income for 1984 was Rs 22 lakh and it declared a maiden dividend of 10 per cent. In the current year the company has firmed up several lease and hire purchase contracts at attractive rates. It has already earned about Rs 27 lakh as gross income in the first five months and the total income for this year is estimated at Rs 90 lakh. Encouraged by its success and to cater to the growing needs for leasing and hire purchase finance in southern India, the company is establishing a branch office in Madras.

# Problems of Adjustment and Growth in the World Economy

**Jayati Ghosh**

*Discussing some of the principal features of the present international economy, this paper highlights the effects of economic interdependence on the potential for growth or stagnation in the developed capitalist economies. The author's concern is with the fiscal, monetary and trade policies of the major developed economies and their actual and potential impact on world economic activity. The basic presumption underlying the discussion is that the behaviour of these economies is crucially important for possibilities for adjustments and growth in developing economies as well.*

*In the first section of the paper the nature of the current economic recovery and the problem that still remain are analysed. Subsequent sections consider briefly some of the major issues that emerge: the implications of the US budget and trade deficits, exchange rate and interest rate behaviour and possibilities of expansion elsewhere in the developed world. The final section touches on some of the implications for developing countries.*

THIS paper discusses some of the principal features of the present international economy, and highlights the effects of economic interdependence on the potential for growth or stagnation in developed capitalist economies. The concern is with the fiscal, monetary and trade policies of the major developed economies and their actual and potential impact on world economic activity. The basic presumption underlying the discussion is that the behaviour of these economies is crucially important for possibilities for adjustment and growth in developing economies as well. In the first section, the nature of the current economic recovery and the problems that still remain are analysed. The subsequent sections consider briefly some of the major issues that emerge: the implications of the US budget and trade deficits, exchange rate and interest rate behaviour and possibilities of expansion elsewhere in the developed world. The final section touches on some of the implications for developing countries.

## I

## Nature of Current Recovery

Although in the past year world economic indicators have shown an upturn, certain fundamental problems are still to be resolved. Thus, in spite of the high rates of growth of output and trade witnessed in the past year in some developed countries in particular, there are reasons to worry about whether such growth can be sustained and spread to the rest of the world, and whether it can rectify some of the imbalances in the system.

The current boom, unlike any other post-war recovery, is based on a fundamental imbalance created by the very high US budget and trade deficits, which have themselves served as major engines of growth. The most dynamic economy today is simultaneously also the one which is most susceptible to instability and possible crashes. At the same time, the recovery has not brought under control the main macro-economic problems in developed countries, especially high rates of unemployment. Nor have the basic difficulties of the developing world, including LDC debt and the consequent need for debtor countries to generate continued trade surpluses, or the need to control fluctuations in primary commodity prices and to reform the world monetary system, been addressed.

A main weakness of the present situation lies in the fact that while national economies have become more interdependent, there has not been a corresponding growth in the co-ordination of policies between countries. An asymmetry has also developed whereby powerful countries such as the US can pursue policies largely unmindful of their international impact, while others have to adjust to the changing international environment.

A basic feature of the world economy is the high and growing degree of interdependence of national economies. This is the result not only of vastly increased trade flows, but also, and more importantly, the free mobility of private capital flows. The trade dependence of developed countries has increased markedly over the last 30 years. The share of exports in GNP has doubled in many OECD countries, including the US. On average, developed capitalist countries now export about 30 per cent of the value of their GNP, but there are wide differences between countries (from 12 per cent in the US to 60 per cent in Belgium: OECD, 1983b). Nevertheless, it is now estimated that only around 5 per cent of international financial transactions are related to trade in goods and services. The rest are capital flows of one variety or another, prominently speculative flows of short-term capital (IMF, 1985). In the last two decades, Eurocurrency markets, for example, have grown by 30 per cent a year, twice as fast as world trade and three times as fast as the OECD's nominal GNP. Around one-sixth of total commercial bank claims in developed countries are now on non-residents (OECD, 1983b). The highly integrated nature of financial markets the world over and the trading of currencies as commodities have meant that within each national economy monetary and fiscal policies no longer have the autonomy to respond to purely domestic pressures. The resulting policy interdependence has several aspects (see Stewart, 1983): (1) Policy actions and other developments in foreign countries have more impact on domestic economic variables than they would otherwise have had. (2) Domestic policy instruments in turn have less effect on domestic target variables and more effect on foreign economies. (3) Foreign responses to these effects once again affect variables in the home country—and so on.

It has been pointed out by a number of observers (Stewart, 1984; Holland, ed, 1983; FERE, 1983) that such interdependence has also implied a deflationary bias in the world economic system. Thus, it is relatively easy for a country to deflate on its own (perhaps out of a desire to achieve a balanced government budget); this transmits deflationary impulses to other economies through the behaviour of trade balances, exchange rates and capital flows. Conversely, expansionary policies of a single economy are likely to come up against balance of payments constraints and the consequent reactions of international financial markets of restrain the financing of these deficits. This would inhibit both its own expansion and the transmission of a reflationary stimulus to other economies.[1]

The present boom in the world economy began in mid-1982, reversing the negative output trends experienced by most of the capitalist world since the second oil shock of 1979. The recovery was initiated and led by substantial fiscal expansion in the US, which has remained the strongest and most dynamic economy thereafter. In the past year, which was clearly the peak of the cycle, in the US output grew by nearly seven per cent (its fastest pace for more than 30 years), 3 m new jobs were created and the dollar rose to unprecedented heights in spite of a huge and growing trade deficit.

The growing budget deficit in the US, which has been instrumental in the boom, was in marked contrast to the contractionary fiscal policies evident in most of the other major developed countries. Governments in Western Europe and Japan have followed contractionary fiscal policies, aimed at reducing deficits. Tables 1 and 2 provide evidence of the growth rates and the components of the changes in real GNP in the recent past, while Table 3 indicates the nature of the divergent fiscal policies in the major economies, Several important features emerge from these Tables. Firstly, the recovery has been heavily concentrated in the US, which has experienced both the highest growth rates and the largest increase in employment. Secondly, the US demand expansion has included a major role for imports (which have risen more than in any previous recovery). This reflects the loss of international competitiveness by the US in certain industrial and agricultural sectors, resulting from the overvalued dollar. The major increase in imports as a per cent of US GNP is shown in Table 2 to have been counterbalanced by the expansion of exports in the GNP of Japan and West Germany. Within the US, a major role in the expansion has been played by non-residential private investment, which in 1984 amounted to nearly 20 per cent of GNP. Outside the US and Japan, unemployment rates in the developed world remain high, while inflation rates everywhere have shown significant declines.

An aspect of the developed capitalist world that has become very marked in recent times is the growing distinction between 'saver' economies—those with structural trade surpluses such as Japan and Germany—and 'spender' economies—most obviously the US. To some extent this is clearly related to varying macro-policies: tight fiscal policy with relatively loose monetary control allows private capital flows from the saver economies to move to the locus of the high-interest-rate boom created by the combination of tight money and loose, almost prodigal, fiscal stance in the US. But it also has to do with varying national propensities to save and consume, and the degree to which these are encouraged by official policy. Peterson (1984) has pointed out that the number and facility of savings institutions, the pattern of pension payments and the rather limited access to consumer credit in Japan all play a role in encouraging a high aggregate savings rate, whereas in the US institutional incentives work in the opposite direction. The difficulty is that such a division of labour is not really sustainable for a prolonged period, as large and continuing trade surpluses give impetus to protectionist calls in trade-deficit countries, which find their own gaps increasingly hard to finance.

The boom in the US has been vigorous, but it has not resulted in a commensurate expansion in world trade or in economic activity elsewhere in the world. The volume index of total world exports remained constant between 1980 and 1983, while that of world commoditiy output increased by three per cent. GATT (1984) estimates that the international transmission of the recovery has been the weakest in post-war economic history. This is in spite of the unusually large increase in US imports, and the GATT report attributes this to a lack of trade-related investment as well as increased protectionism which has inhibited the growth of aggregate trade volumes. It is true that in 1984 the volume of world trade grew at nine per cent, substantially above the previous year's rate (two per cent) and the rate of growth of world output (3.5 per cent). However, most of this was taken up by intra-OECD trade particularly between the US on the one hand, and Japan, Germany and Canada on the other. The trade stimulus to other economies still remains weak.

A notable feature of the current recovery has been the low rate of price increase, indeed the relative disinflation, in the major economies (see Table 1). It is often claimed that tight monetary policies have been instrumental in controlling inflation. However, Backerman (1985) has shown that a large role in the battle against inflation has been played by the decline in primary commodity prices, and thus import prices for the developed world as a whole. This decline itself is not exogenous, but is related to demand and thus to the level of economic activity. By this account, the US price level has been held back both because the limited nature of the recovery in the rest of the world has meant that commodity prices did not increase rapidly, and because the high dollar operated to keep all import prices low in dollar terms, and thus also exercised a downward pressure on domestic price levels.

A factor creating greater international interdependence is the nature of technological change which is resulting in a changed pattern of industrial demand and trade. Services are playing an increasingly important role, especially the overlap between manufacturing industry and financial/technical services. The most evident example is information technology—the convergence of computers and telecommunications—which is the most rapidly expanding sector. Last year the world information technology market was estimated to be worth around $ 300 bn, and since it is growing at approximately 15 per

TABLE 1: ECONOMIC INDICATORS FOR MAJOR DEVELOPED COUNTRIES

| | US | Japan | Germany | EEC | Major 7 | Total OECD |
|---|---|---|---|---|---|---|
| **Per Cent Change in Real GNP** | | | | | | |
| 1982 | −2.1 | 3.3 | −1.0 | 0.5 | −0.3 | −4.4 |
| 1983 | 3.7 | 3.4 | 1.3 | 1.2 | 2.7 | 3.6 |
| 1984 | 6.8 | 5.8 | 2.6 | 2.3 | 4.9 | 7.8 |
| 1985* | 3.25 | 5.25 | 2.5 | 2.25 | 3.25 | 3.5 |
| **Per Cent Change in Consumer Prices** | | | | | | |
| 1982 | 6.1 | 2.7 | 5.3 | 9.8 | 7.0 | 7.8 |
| 1983 | 3.2 | 1.9 | 3.3 | 7.5 | 4.5 | 5.3 |
| 1984 | 4.3 | 2.2 | 2.4 | 6.1 | 4.5 | 5.3 |
| **Trade Balances ($ bn)** | | | | | | |
| 1982 | − 35 | 19 | 27 | 3 | 4 | −20 |
| 1983 | − 61 | 32 | 23 | 10 | −5 | −16 |
| 1984 | −107 | 44 | 23 | 9 | −39 | −42 |
| 1985* | −118 | 48 | 30 | 19 | −37 | −37 |
| **Unemployment Rates (per cent of labour force)** | | | | | | |
| 1982 | 9.7 | 2.4 | 6.7 | 8.9 | 7.9 | 7.6+ |
| 1983 | 9.6 | 2.6 | 8.2 | 9.9 | 8.2 | 8.4 |
| 1984 | 7.5 | 2.7 | 8.3 | 10.3 | 7.5 | 8.8 |
| 1985* | 7.25 | 2.5 | 8.25 | 10.5 | 7.5 | 9.0 |
| **Per Cent Change in Productivity Rates (GNP/Employment)** | | | | | | |
| 1982 | −1.3 | 2.3 | 0.8 | 1.6 | 0.1 | 0.3 |
| 1983 | 2.4 | 1.6 | 3.0 | 1.9 | 2.2 | 2.2 |
| 1984 | 2.6 | 5.2 | 2.8 | 2.2 | 3.2 | 3.3 |
| 1985* | 1.0 | 3.75 | 2.5 | 2.0 | 2.0 | 2.0 |
| **Per Cent Change in Hourly Earnings in Manufacturing** | | | | | | |
| 73-83 | 8.0 | 9.2 | 6.3 | 13.0** | | 10.3 |
| 1984 | 3.9 | 4.6 | 2.4 | 7.2 | | 5.5 |
| 1985 | 3.5 | 5.0 | 4.0 | 6.5 | | 5.0 |

*Notes:* * Estimates
+ Less the US
** OECD Europe
Major 7 = US, Canada, UK, Germany, Japan, France, Italy.

*Source:* OECD (1985b).

cent per year, by 1990 it is estimated to be the world's largest manufacturing industry.[2] This growth further integrates various aspects of production structures around the world. The main areas of industrial restructuring, besides information and communication, include the capital goods sector which is being transformed by robotics and computerisation, and the consumer durables sector in which 'white', 'brown' and leisure goods are playing increasingly important roles.[3]

The new products and processes created by technological change are also significant because of the employment implications of new investment which relies heavily on incorporating this technology. It is difficult to estimate the ultimate effects on employment of the new technology: jobs created in the long-term may more than compensate for present job losses.[4] But the tendency of the present innovating investment is to render large parts of existing physical and human capital obsolete. There is some evidence of a labour-saving trend (each additional unit of output being produced with relatively more capital and less labour) which in the long-run may create problems of capital shortage and structural unemployment (OECD, 1985). In any case technological innovation calls for the development of new skills in the labour market. One major implication is that simple demand-expansionary fiscal policies may not be sufficient to alleviate the problems of unemployment significantly.

Technological change has also affected the sectoral distribution of the recovery of investment and output. The most dynamic sectors, with very high rates of growth, are all products making use of electronic applications and chemical products, such as organic chemicals, plastics, synthetic fibres, fertilisers and pharmaceuticals. By contrast, the worst-hit sectors are precisely those which tended to lead previous booms, such as traditional and general engineering, machine tools, iron and steel and non-ferrous metals.[5] This is related to the new qualitative pattern of investment: there has been an increase in the proportion of 'non-productive' investment directed to improving worker safety and safeguarding the environment (due to the impact of trade unions and pressure groups) as well as an increase in the share of new machinery as compared with buildings and construction. While the new technology and associated products have meant an OECD trade surplus with the rest of the world in these sectors, on balance the OECD trade deficit has grown because of enhanced manufactured goods exports by the rest of the world.

Within this highly integrated economic structure, national governments continue to pursue uncoordinated and often contradictory policies. A major example is the divergence of macro-policies. Another is the growth of trade protectionism—by OECD countries individually against each other and as a bloc against newly-industrialising countries, many of whom are also net debtors to the international capital market. GATT (1984) has described the substantial increase in discriminatory trade practices in the recent past, predominantly in the form of bilaterally-imposed quantitative restrictions. The last year has seen only cosmetic changes to these protectionist barriers. Indeed, some may have increased recently. A major increase in protectionism has taken the form of non-tariff barriers. In 1983, the degree of such protection by industrial countries together amounted to 10.5 per cent of all imports from industrial countries, 19.8 per cent of imports from developing countries and 21.9 per cent of imports from the major debtor countries (IBRD, 1985). The persistence of large trade deficits in economies such as the US alongside persistent trade surpluses of Japan, Germany and many NICs can only exacerbate such tendencies.

The protectionist forces also have an impact on what remains a major potential crisis point in the world economy—the debt of a number of developed countries. While debt-servicing ability is related to a number of factors, notably interest rates and internal adjustment measures, the generation of continued positive trade balances and the associated need to expand exports remain crucial to any eventual solution of the problem. IBRD (1985, p 38) has estimated the cost of such protection by industrial countries for the debtor countries, and suggests that an increase in protectionism sufficient to produce a 10 per cent fall in Latin American terms of trade, for example, would have an impact equal to the present real interest cost of the entire existing external debt of the region. Studies such as those of Cline (1984) indicate that a sustained high level of exports may be more important for the ability to service debt, than a decline in interest rates of 2-3 per cent. However, the export performance of major debtor countries (including Brazil, Argentina, South Korea) in the first quarter of 1985 has been

TABLE 2: COMPONENTS OF CHANGE IN REAL GNP *(Per cent volume change per annum)*

| | Real GNP | Cons Pub | Pvt | Gross Fixed Inv | | | X | M | Change Stocks |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Non-Res | Res | Pub | | | |
| **USA** | | | | | | | | | |
| 1982 | −2.1 | 1.3 | 2.0* | −4.7 | −15.0 | | −7.8 | 1.3 | −1.4 |
| 1983 | 3.7 | 4.8 | −0.3* | 2.5 | 41.7 | | −5.6 | 7.6 | 0.5 |
| 1984 | 6.8 | 5.3 | 3.5* | 19.8 | 12.2 | | 4.7 | 27.0 | 1.9 |
| 1984IV | 5.7 | 4.2 | 7.6* | 15.8 | 2.4 | | 4.3 | 15.4 | 0.6 |
| **Japan** | | | | | | | | | |
| 1982 | 3.4 | 4.3 | 1.8 | 3.7 | − 0.6 | 0.4 | 3.6 | 2.7 | 0.0 |
| 1983 | 3.4 | 3.4 | 3.0 | 3.3 | − 5.6 | −0.4 | 4.6 | −4.5 | −0.5 |
| 1984 | 5.7 | 2.7 | 2.2 | 11.1 | − 1.1 | −1.6 | 18.1 | 12.5 | 0.3 |
| 1984IV | 6.4 | 2.2 | 2.1 | 12.5 | 0.9 | −0.9 | 17.7 | 7.2 | 0.1 |
| **Germany** | | | | | | | | | |
| 1982 | −1.0 | −1.4 | −1.0 | −3.7 | − 4.2 | −9.3 | 4.6 | 2.2 | 0.0 |
| 1983 | 1.3 | 1.1 | 0.2 | 5.0 | 4.7 | −8.2 | −1.3 | 0.5 | 0.7 |
| 1984 | 2.6 | 0.6 | 2.0 | 1.3 | 2.4 | −1.4 | 7.9 | 5.7 | 0.6 |
| 1984IV | 2.8 | 0.3 | 3.0 | | 1.4+ | | 10.4 | 4.9 | −0.2 |
| **Group of 10** | | | | | | | | | |
| 1982 | −0.5 | 1.4 | 1.4 | −3.0+ | | −0.4 | 1.7 | −0.6 | |
| 1983 | 2.7 | 3.3 | 0.8 | 3.7+ | | 1.0 | 2.5 | 0.2 | |
| 1984 | 4.9 | 3.4 | 2.9 | 8.5+ | | 8.5 | 12.1 | 1.1 | |
| 1984IV | 4.7 | 2.8 | 4.8 | 7.5+ | | 9.0 | 9.3 | | |

*Notes:* * Includes public investment.
+ Total fixed investment.
Group of 10 = USA, Canada, Australia, UK, Germany, France, Denmark, Sweden, Norway, Japan.

*Source:* BIS (1985).

below both the peak levels of last year and the projections made by almost all the major forecasters. The recent decline in LIBOR rates may have helped to prevent a repeat of the 1982 situation of *de facto* defaults in some countries, but has not altered the basic problem significantly nor changed the need for debtor countries to generate trade surpluses. Export strength of such countries can come only from sustained growth in the developed world, accompanied by the ability and willingness of developed countries to bear counterpart trade deficits. In this context the future behaviour of the oil and primary commodity markets is also of significance.

These features of the international economy have shaped the nature of the recovery, as well as the fact that it has been both short-lived and limited. The following sections consider particular aspects of this situation.

## II

## Implications of US Deficits

The fiscal expansion in the US has resulted from a combination of massive increase in military expenditure by the Reagan government (defence spending has amounted to more than a quarter of total government outlay in the 1980s and has been increasing by 10-15 per cent annually)[6] and substantial tax cuts for both business and private individuals. At present the federal budget deficit is estimated to be more than $ 200 bn, although it may be reduced slightly by small cuts the US Congress wishes to impose. Simultaneously the Federal Reserve has pursued a policy of tight monetary control and high interest rates, relaxed slightly only in April 1985. This combination encouraged the capital inflows which financed the enormous deficits generated by such an expansion.

Two differences in the nature of this US boom as compared with earlier booms are, firstly, the major roles played by residential construction growth and import demand, and secondly, a substantial rise in business fixed investment in spite of high interest rates. It is remarkable that even in the face of the highest historical real rates of interest, new capital investment continued to grow until very recently. Several reasons have been advanced for this, of which the following may be the most important. There was a strong growth in domestic final demand even with a deteriorating trade balance, and this must have fuelled businessmen's expectations of future sales and profits. The new tax depreciation guidelines of the US government were especially favourable to cash-flow transactions, which further favoured current expansion.[7] In many industries which faced severe international competition because of the overvalued dollar, there was a perceived need to replace the old and outmoded technologies through the installation of new capital equipment. Associated with this, and perhaps most importantly, the advent of new computer-based technologies meant the need to expand a whole new range of products and processes. Not only were certain products (e g, personal computers) part of an altogether novel market, but the technologies they embodied held the promise of providing improvements in industrial productivity even for exsiting production areas. At the same time, increases in unit labour costs have also been modest.[8]

These factors may help to explain the rise in real terms in 1984 of US exports, which grew by nearly five per cent. Much of this is attributable to the export of commodities in the production of which the US has a technical advantage, such as certain capital goods. BIS (1985) suggests further factors such as the role played by trade within US-owned multinational firms with production sites abroad, especially in the automobiles, electronics and textiles sectors. The efforts by US exporters to maintain market shares, especially in Europe, even at the expense of lower profit margins, has also been significant.

However, the increase in exports has been overshadowed by the massive expansion of US imports, which has led to the export-led boom in some other developed countries and provided the main market for the increase in exports of the major debtor developed countries. In fact the recovery in Western Europe and Japan has been based largely on such US demand. This has been the only stimulus to growth in the world economy apart from the impetus to particular sectors determined by technological innovation.

The danger for Western Europe, and indeed for the rest of the world, is that a sufficiently strong demand stimulus to increase growth and reduce unemployment significantly may not materialise at all in the current recovery. For the boom in the US shows every sign of having come to an end already. Industrial production has been declining for the last few months, and since January 220,000 jobs have been lost in the manufacturing sector. Even in the services sector the rate of growth of job creation so far this year has been a fraction of last year's rate. The rate of growth of real business fixed investment has fallen from 16 per cent to 3.4 per cent in the quarter of 1985 (in the first quarter of 1984 the figure was 21 per cent). New orders for capital goods have been falling sharply from March 1985 onwards. There is also every sign of an incipient profit squeeze as the rate of growth of after-tax corporate profits is estimated to have fallen from an annual rate of 20 per cent last year to five per cent so far this year.

The recovery has thus been of much shorter duration than most predictions. One major cause is the current account deficit, which is beginning to act as a drag on the economy, and the preponderance of imports which has adversely affected domestic manufacturing industry. Also, the rapid growth phase of investment is over, partly because of some of the new constructions are complete and partly because of a slowdown in final sales and output. Nor is the short-term situation likely to improve. Stephen Marris has estimated that with the dollar appromixately at its current level, in 1989 the US current account deficit would amount to $ 250 bn, equal to five per cent of GNP and 50 per cent of exports. The external debt of the US would be more than $ one trillion, and interest payments would swallow up more than 20 per cent of export receipts.[9]

This deceleration will have its obvious impact on the rest of the world economy. Already it is estimated that the rate of growth of US output will decline from nearly seven per cent in 1984 to 3.25 per cent in 1985 and 2.75 per cent in 1986, while for the OECD countries as a whole the growth rate will decline from five per cent to 3.25 per cent to 2.5 per cent (OECD, 1985b). World trade growth is expected to slowdown from nine per cent in 1984 to five per cent in 1985 and 4.5 per cent in 1986, with the slowdown heavily concentrated in the US (NIER,

TABLE 3: FISCAL BALANCES

| | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|
| **General Government Financial Balances** | | | | | |
| (As per cent of nominal GNP) | | | | | |
| US | −3.8 | −4.1 | −3.4 | −3.7 | −3.8 |
| Japan | −3.6 | −3.5 | −2.6 | −1.4 | −0.5 |
| Germany | −3.4 | −2.8 | −2.3 | −1.5 | −1.3 |
| Major 7 | −4.0 | −4.3 | −3.8 | −3.7 | −3.5 |
| **Structural Changes in GFB*** | | | | | |
| (As per cent of nominal GNP) | | | | | |
| US | −1.5 | −1.0 | −0.8 | −0.5 | 0.0 |
| Japan | −0.1 | +0.4 | +0.8 | +1.1 | +0.8 |
| Germany | +1.4 | +1.0 | +0.3 | +0.5 | 0.0 |
| Major 7 | −0.6 | −0.5 | −0.4 | 0.0 | +0.2 |
| Major 6** | +0.1 | 0.0 | 0.0 | +0.5 | +0.3 |

*Notes:* * Structural GFB = GFB adjusted for inflation and cycles.
** Less the US.

*Source:* OECD (1985b).

1985). The effect wil be particularly marked for those economies which have benefited from US expansion. Thus the increase in exports to the US accounted for 75 per cent of all export growth in Japan in the last year, and was also a major source of export growth for the rest of the Pacific region. As a result, the impact of the drop in US demand was felt in the low growth of the Japanese economy (0.4 per cent at an annual rate) in the first quarter of this year. Not only does the deceleration of growth in the US economy raise the problem of finding new markets for the world's exporters, but it also suggests the possibility of even greater strains on the world's trading and financial system. The difficulties resulting from allowing these trends to work themselves out are discussed below.

The most potent threat to world economic stability in the immediate future comes not from developing country debtors or oil producers, but from the reversal of the growth process in the largest and most powerful economy, the US. The instability resulting from the dependence of world growth on impetus from a single country means that a slowdown in US expansion has two implications.

The first is the possibility of domestic financial collapses and problems associated with over-extended foreign debt. (It is noteworthy that thus far the banks and savings institutions in the US which have faced serious problems or collapse have all been oriented to the domestic market—usually in the agricultural or export sectors—rather than the international market.) Although the problem has not been studied in depth, there are no grounds for great optimism regarding the ability of the US economy to service its external debt in the medium-term, given productivity levels and the prevailing patterns of world trade. A run on the dollar which lowers the real value of dollar-denominated debt would also create severe international financial pressures and would not alleviate the basic problem. It would dampen internal pressures to improve competitiveness within US industry and would definitely give rise to severe inflationary pressures in the US. At the same time, the Fed would probably be forced to maintain a policy resulting in high interest rates in order to keep attracting capital flows to finance the still-large budget and trade deficits. This could have a further negative impact on business investment in the US and lead to a recession in spite of the dollar devaluation. Also, a drastic decline in the value of the dollar could cause a severe financial crisis in the US, which would quickly become international in scope because of the highly integrated nature of financial markets.

The second implication is that with no alternative source of growth to take up the economic slack, there is every prospect of more worldwide stagnation or recession. The major developed economies other than the US which have benefited from the latest boom have been operating on export-led growth, which by definition requires a growing market willing to absorb trade deficits somewhere in the world economy.

If these major difficulties are met with relative inaction and a continued lack of coordination of national macro policies, the short-term and medium-term prognosis may be dire. Not only will there be relative stagnation and continued (or increasing) high rates of unemployment in most developed countries, but the problem of developing country debt could explode and primary commodity producers could face a major crisis. There is a likelihood of increased trade protectionism.[10] Furthermore, these problems will leave little or no room for manoeuvre in terms of the reform of the international monetary and trading system.

These rather grim predictions seem to be shared by most forecasts. The OECD INTERLINK model, the US Federal Reserve Multi-country model and the Japanese EPA model all suggest the following as the most likely scenario: There will be a decline in US GNP growth, which will be associated with a slower rate of increase in the price level in developed countries as a whole (including energy and commodity prices) as well as a drop in US interest rates. However, the fall in US interest rates cannot be too drastic for two reasons: a dramatic fall in the dollar would threaten inflation and the Fed may try to keep interest rates high to combat this; also, given that the budget deficit will remain large for some time, there is a corresponding need to attract funds to finance it. In any case, the dollar will fall relative to other currencies. The growth of economic activity in the rest of the world will decelerate not only because of the declining impetus from US import demand, but also because the lower dollar will increase the international competitiveness of US exports. The endogenous fall in interest rates outside the US will be of some help to industry, but will be insufficient *in themselves* to offset the negative impact of the decline in the US demand stimulus if monetary and fiscal policies are unchanged. At the same time, the US current account balance will improve somewhat, but will remain substantial for some years to come.

The FERE model which makes projections on the basis of alternative policy measures, also predicts that with present policies unchanged, the rate of growth of the world economy is likely to be around 2.5 per cent per annum upto 1990, with near zero per capita growth for most of the developing world apart from the newly-industrialising countries of South-east Africa. With a deflation in the US and a corresponding decline in the trade deficit to $20 bn, a sharp contraction in US activity is projected to spread recession to other areas—particularly Latin America and South-east Asia, but also Europe. The model projects a one per cent rate of growth of output in Western Europe within a few years, with an associated unemployment rate of 20 per cent of the labour force. This will affect not only the developed countries but also the developing countries, of which all the blocs are projected to suffer declines in per capita incomes. The sharpest

TABLE 4: LONG-TERM CAPITAL FLOWS AND BASIC BALANCE

| | 1982 | 1983 | 1984 |
|---|---|---|---|
| **Total Long-Term Capital Flows ($ bn)** | | | |
| US | 14 | 5 | 37 |
| Rest of OECD | – 2 | – 6 | –49 |
| Japan | –15 | –18 | –50 |
| Other capital exporters* | –24 | –18 | –23 |
| Other capital importers | 37 | 29 | 24 |
| Total OECD | 12 | – 1 | –12 |
| **Basic Balance** ($ bn)** | | | |
| US | 4 | –37 | –64 |
| Rest of OECD | –21 | 11 | –10 |
| Japan | – 8 | 3 | –15 |
| Other capital exporters* | – 2 | 2 | – 3 |
| Other capital importers | –11 | 6 | 8 |
| Total OECD | –16 | –26 | –74 |

*Notes:* * Canada, Germany, UK, Netherlands, Switzerland, Norway.
** Current account + long-term capital.

TABLE 5: REAL LONG-TERM INTEREST RATES

*(Averages, per cent per annum)*

| | US | Japan | Germany | UK | Canada |
|---|---|---|---|---|---|
| 1980-84 | 4.9 | 4.1 | 4.2 | 2.9 | 4.6 |
| 1983 | 8.1 | 5.6 | 4.6 | 6.2 | 5.9 |
| 1984 | 8.2 | 4.5 | 5.4 | 5.8 | 8.4 |
| 1985 I | 8.2 | 4.6 | 5.0 | 5.4 | 8.2 |

*Notes:* BIS (1985).

fall would be felt in the Middle East: a corollary of the substantial decline in oil prices. Only the Latin American countries would have a trade surplus (an assumption built into the projections rather than resulting from it; see Appendix B) in 1990, but at the cost of steep falls in real income and drastic import compression. The details of this projection are presented in Table 7, while Appendix B contains a description of the basic model used in making the FERE projections.[11] The IMF (1985) "worst policies" (i e, largely maintaining present policies) scenario also suggests both more stagnation and greater instability on the world economy.

A recent study by Morgan Guaranty[12] has estimated the likely effects of a number of alternative policies. With an unchanged value of the dollar and unchanged policies, the US trade deficit is predicted to increase to $180 bn, the current account deficit to $250 bn and the net foreign debt to $943 bn by 1989. These would be associated with a three per cent rate of growth of both domestic demand and foreign real GNP, and rates of interest higher than 10 per cent on average. A reduction in the trade deficit brought about by a gradual devaluation of the dollar (by around 10-12 per cent per annum) would leave a positive trade balance of $7 bn in 1989 and a current account deficit of only $ 26 bn. The net foreign debt would amount to $419 bn. Domestic demand is projected to increase in such a scenario by 2.6 per cent and GNP growth by 3.6 per cent. The unemployment rate would also decline to 5.4 per cent but manufactured goods prices would increase by around seven per cent per annum while interest rates would be similar to those in the previous scenario. Interestingly, a reduction of the US trade deficit by trade protectionism *via* an import surcharge would have less beneficial effects even for the US economy. The trade balance would still be $62 bn in deficit in 1989, and while domestic demand would grow at nearly three per cent, the unemployment rate would be near eight per cent. The rate of increase of manufactures prices would increase at the higher rate of eight per cent in the middle of the decade but would eventually decelerate, while foreign real GNP would grow at a slower pace of around two per cent.

TABLE 6: PROJECTIONS FOR UNCHANGED POLICIES
(FERE MODEL)

| A | Per Capita Income | | | Trade Balance as Per Cent of Income | |
|---|---|---|---|---|---|
| | 1985* ($ bn) | 1990* ($ bn) | Growth 1985-90 (per cent p a) | 1985 | 1990 |
| Western Europe | 5610 | 6091 | 1.7 | 0.1 | 0.1 |
| USA | 8496 | 8661 | 1.7 | −3.5 | −3.2 |
| Japan | 6176 | 7612 | 4.3 | 5.3 | 5.1 |
| Latin America | 1075 | 1087 | 0.2 | 4.5 | 4.9 |
| Asia | 288 | 302 | 1.0 | −2.9 | −3.2 |
| Africa | 470 | 489 | 0.8 | −2.4 | −1.4 |
| Middle East | 1769 | 1759 | −0.1 | 3.1 | 2.5 |
| Other countries | 5184 | 5393 | 2.0 | 2.3 | 0.6 |
| Centrally planned | 1097 | 1213 | 0.9 | 0.4 | 0.1 |
| World | 1715 | 1791 | 0.9 | | |

| B | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|---|
| **World Aggregates** | | | | | | |
| Real income+ | 8285 | 8514 | 8742 | 8980 | 9214 | 9444 |
| Manufacture exports+ | 883 | 992 | 962 | 1004 | 1046 | 1087 |
| Real prices of: ** | | | | | | |
| Oil | 1.887 | 1.871 | 1.861 | 1.862 | 1.864 | 1.876 |
| Raw material | 0.994 | 0.996 | 1.001 | 1.008 | 1.012 | 1.016 |
| **Japan** | | | | | | |
| Output+ | 775 | 817 | 864 | 915 | 968 | 1023 |
| Real income+ | 756 | 798 | 884 | 894 | 945 | 998 |
| Trade balance+ | 40 | 44 | 46 | 48 | 49 | 50 |
| **USA** | | | | | | |
| Output+ | 2048 | 2083 | 2113 | 2141 | 2167 | 2189 |
| Real income+ | 2028 | 2064 | 2095 | 2124 | 2150 | 2173 |
| Trade balance+ | −70 | −70 | −70 | −70 | −70 | −70 |
| **Western Europe** | | | | | | |
| Output+ | 2140 | 2184 | 2229 | 2273 | 2317 | 2359 |
| Real income+ | 2111 | 2155 | 2199 | 2243 | 2286 | 2326 |
| Trade balance+ | 1.5 | 2.4 | 2.6 | 2.7 | 2.6 | 2.2 |

*Notes:* * 1975 US $.
+ 1975 US $ bn.
** In terms of the price of manufactures.

The worst scenario is that of the US recession, which actually appears the most likely given present economic tendencies. Although the US trade deficit and current account deficit would decline to $34 bn and $27 bn respectively, the net foreign debt would remain sizeable at nearly $400 bn, and US GNP and domestic demand would actually decline from 1986 onwards. The result would be an unemployment rate of nearly 20 per cent in the US. While manufactures prices would fall by the end of the decade, interest rates would remain relatively high at nearly six per cent. This projection describes foreign real GNP growing at three per cent per annum, but this may be an optimistic estimate given the heavy reliance of the major developed countries on US growth at present.

The main argument of relevance in this context is that the US budget and trade deficits are likely to remain substantial for some time, at the very least until the end of the decade. This means that US interest rates must be maintained at fairly high levels in order to attract inflows of foreign capital necessary to finance the deficit, especially if the confidence of financial markets becomes eroded over time. All the scenarios described above project US interest rates at no lower than six per cent.[13] Under certain assumptions, US interest rates could be as high as 10-12 per cent by the end of the decade. The dire implications for industrial country growth as well as for developing country debtors are clear. The burden of high interest rates is likely to remain in the foreseeable future, even in the situation in which US growth slows down so that it no longer provides an expanding market for third world exports.

One of the fundamental issues, therefore, is that of creating a stimulus for growth to counteract the effects of the US deceleration. Present policies, with each of the major developed economies seemingly determined to avoid trade deficits resulting from domestic expansionary stimuli, seem unlikely to contribute to another source of growth.

## III

## Exchange Rates and Interest Rates

A major feature of the world economy at present is the increasing instability of exchange rates. In the last year the more rapid and voluminous capital flows have created sharper fluctuations in exchange rates than have ever been known before. They have also implied the possibility of prolonged overshooting or misalignment of particular currencies—especially the dollar which is at present estimated to be overvalued to the tune of 15-40 per cent. While the misalignments themselves have created particular trading patterns, the inherent volatility of their movements implies the possibility of even greater eventual swings in the opposite direction. The dangers of a dramatic fall in the dollar have been reiterated by almost all concerned parties.

The capital flows which have created exchange rate instability have also resulted in a moving together of interest rates across the developed capitalist world. These real interest rates have also reached historically high levels in the past few years, and only recently show signs of coming down somewhat.[14] The high real rates are associated with the mix of fiscal and monetary policies pursued by the major economies. It should be noted that there is still substantial divergence of national real long-term rates of interest, as Table 5 makes clear. However, the differential has been narrowing over 1984. In spite of this divergence, it can be argued that most countries face a lack of autonomy in setting domestic interest rates, unless they can afford completely to disregard the behaviour of exchange rates.

The US dollar has been overvalued now for more than three years, belying the predictions of economists and policy-makers alike. Not only is the dollar inexplicably high in relation to the huge American trade deficit, but it seems to be unaffected in its climb by interest rate variations as well. It is interesting that the dollar appreciated *vis-a-vis* other currencies in 1984 even though interest rates moved against it. Thus, despite its recent reverses in the exchange markets, in early June of this year the dollar was 30 per cent higher (*vis-a-vis* the Deutsche-Mark) than it was in early 1983, even though in 1984 interest rate differentials have moved against the dollar.[15] From Table 5 it appears that from the start of this year, the opposite trends have been evidence: the dollar has been falling in value relative to the yen and the Deutshe-Mark even while relaxed monetary policies in Japan and Germany have resulted in interest rate differentials moving slightly in the dollar's favour.

The official US government explanation is that the dollar is not 'overvalued' at all, but is high relative to other currencies because of the underlying strength of the American economy. This prompts the inflow of long-term capital into the US and promotes speculation in holding dollars by those playing the exchange markets. The validity of this reasoning appears to be extremely limited. The US boom has been strong, but the enormous and growing trade deficit creates the seeds of the boom's collapse—indeed, it needs only a shift in speculative expectations to make the collapse an instantaneous one: a crash landing for the dollar rather than a carefully-engineered soft fall.

Thus the large-scale holding of dollars requires some other explanation. In this context it is worth noting that the capital account surpluses which have financed the huge current account deficits are due only in part to the US attracting savings from the rest of the world. It is true that net inflows of long-term capital increased from $ 12 bn in 1981 to $ 40 bn in 1984, much of this from Japan and other structural savers like West Germany (see Table 3). But by far the greatest change in the US capital account has been the virtual drying up of outflows, which have fallen from $ 65 bn in 1981 to under $ 10 bn in 1984. Most of these were short-term outflows which are now remaining within the US. Although there has been a decline in US overseas aid, most of this change reflects a fall in private flows, primarily by private banks. The LDC debt crisis and consequent insecurity regarding lending abroad have combined with the new profits to be had from financial deregulation in the US, so that net lending overseas by US banks has declined from $ 111 bn in 1982 to a net *borrowing* position of $ 6 bn.[16]

The most plausible (and widely-accepted) explanation of the dollar's rise is in terms of the divergence of US monetary and fiscal policies *vis-a-vis* other economies. As Dornbusch (1984) has pointed out, the link between fiscal policy and exchange rates (which are ultimately determined in asset markets) has three aspects: (1) International differences in the direction and extent of fiscal expansion affect both short-term and long-term capital movements. (2) The measurement of fiscal policy by changes in 'full employment budgets' affects investor confidence. (3) Investors also need to pay attention to anticipated future changes in fiscal policy. The same forces which create the overvalued dollar are also seen to create the high real rates of interest (e g, Blanchard and Summers, 1985) so that it is argued that smaller US federal deficits will bring down interest rates as well as the dollar.

However, even this argument appears insufficient to explain completely the recent behaviour of exchange markets. After all, in the recent past US monetary policy has been relaxed[17] and this combined with recent signs of economic weakness has meant that interest rates have been falling sharply. Thus in early June a Treasury 11.25 per cent bond maturing in 2015 offered little more than 10 per cent, and rates continue to fall even now. Since last year interest rate differentials have moved against the dollar and still the widely

TABLE 7: PROJECTIONS FOR US DEFLATION
(FERE MODEL)

| A | Per Capita Income | | | Trade Balance as Per Cent of Income | |
|---|---|---|---|---|---|
| | 1985* ($ bn) | 1990* | Per Cent p a 1985-90 | 1985 | 1990 |
| Western Europe | 5578 | 5695 | 0.4 | 0.0 | −0.2 |
| USA | 8341 | 7773 | −1.4 | −2.8 | −1.0 |
| Japan | 6121 | 6862 | 2.3 | 5.2 | 4.7 |
| Latin America | 1052 | 939 | −2.3 | 4.6 | 5.7 |
| Asia | 282 | 256 | −1.9 | −3.4 | −4.9 |
| Africa | 453 | 362 | −4.4 | −3.2 | −4.1 |
| Middle East | 1677 | 1278 | −5.3 | 0.3 | −7.3 |
| Other countries | 5122 | 5051 | −0.3 | 2.1 | 0.3 |
| Centrally planned | 1090 | 1148 | 1.0 | 0.4 | 0.1 |
| World | 1692 | 1619 | −0.9 | | |

| B | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|---|
| **World Aggregates** | | | | | | |
| Real income+ | 8174 | 8241 | 8304 | 8347 | 8444 | 8539 |
| Manufacture exports+ | 861 | 868 | 873 | 873 | 882 | 890 |
| Real prices of: ** | | | | | | |
| Oil | 1.821 | 1.721 | 1.642 | 1.570 | 1.545 | 1.525 |
| Raw material | 0.973 | 0.962 | 0.958 | 0.952 | 0.957 | 0.956 |
| **USA** | | | | | | |
| Output+ | 2007 | 1989 | 1972 | 1949 | 1952 | 1955 |
| Real income+ | 1991 | 1977 | 1963 | 1943 | 1946 | 1950 |
| Trade balance+ | −55 | −40 | −30 | −20 | −20 | −20 |
| **Japan** | | | | | | |
| Output+ | 766 | 794 | 823 | 850 | 881 | 912 |
| Real income+ | 749 | 779 | 810 | 838 | 869 | 900 |
| Trade balance+ | 39 | 41 | 42 | 42 | 42 | 42 |
| **Western Europe** | | | | | | |
| Output+ | 2125 | 2145 | 2160 | 2170 | 2182 | 2192 |
| Real income+ | 2099 | 2122 | 2140 | 2152 | 2164 | 2175 |
| Trade balance+ | −0.1 | −1.0 | −2.0 | −3.1 | −3.4 | −3.7 |

*Notes:* * 1975 US $.
+ 1975 US $ bn.
** In terms of the price of manufactures.

predicted tumble of this currency has not materialised. Therefore, some importance must be given to 'market irrationality', i e, psychological and speculative forces. It has been argued that *passive* speculation (rather than active intervention to gain dollars) is the key: "For many Treasury managers it now requires a *positive* decision to convert surplus dollars (from export receipts) into another currency . . . paradoxically, staying in dollars has come to appear increasingly risk-averse, the more the dollar has risen and the more the dangers of an ultimate collapse have grown."[18] Thus beyond a certain level speculation must play a part in explaining the behaviour of currency markets.

While the high dollar has helped to finance the boom (expressing the capital inflows) and to sustain it by lowering import prices and thus costs, it has also meant a sharp loss of international competitiveness of the US economy.[19] In fact it is remarkable that this has not already had a more defined impact on the economy, but it is clearly being felt in the agriculture and primary goods sectors, as well as by manufactured goods exporters. It also implies that the voice of the protectionist lobby is heard with greater vehemence both inside and outside the US Congress.

A group of countries together may wish to take some action to restrict capital flows, but this does not seem either feasible or likely to be very effective at present. Control in this area is susceptible to circumvention, or may result in imbalances elsewhere in the system. As far as international monetary reform is concerned, it does not appear that this can be feasibly on the agenda until national economic policies are more co-ordinated. Thus, a system of fixed exchange rates would be no better than the present system if national macro-policies continue to diverge, capital flows continue to be massive and uncontrolled, and given the 'initial condition' of an overvalued dollar. While these issues are pressing and important, action on these fronts is dependent on prior action to co-ordinate economic strategies internationally among the major developed capitalist nations.

## IV

## Growth in Western Europe and Japan

The relative stagnation of other developed economies, especially those in Western Europe, requires further investigation. The weak response of Western European economies in particular to the strong export stimulus created by the growing US domestic demand, stems in large part from the restrictive macro-policies pursued in these economies. Table 3 shows the behaviour of recent and projected government financial balances. It is evident that while the US deficit is large and expected to grow in the near future, in the other major developed economies the trend is to reduce the budget balance as far as possible, often aiming at a deficit of one per cent of nominal GNP (as in Germany) or even lower. Attempts to have a tighter control over the money supply in some countries may be at least partly a result of fears that the high US dollar will 'export inflation' to the US' main trading partners. The tight fiscal stance however requires more explanation. The desire to achieve a balanced budget appears to have the status almost of an orthodoxy in current policy literature.[20] Very recently there have been some calls for 'cautious reflation' by European governments in response to a significant cut in the US budget deficit (OECD, 1985b). But these do not represent a major departure from the dominant trend. In all developed capitalist countries bar the US, attempts are being made to minimise both the level of government current expenditure and the size of the budget deficit relative to GNP. Concern about interest payments arising from previous bond-financed government deficits and the large share of interest payments in current expenditure have meant not only that there are attempts to make the deficits smaller, but also that such deficits are inherently less expansionary. In retreat of the state from the realm of economic activity in most economies excepting the US and Japan (which notably are the most buoyant) has implied the decline of a major source of demand and an associated lower level of economic activity.

There are other reasons for the sluggish growth in Western Europe. The dominant portion of private investment has been taken up by rationalisation and the installation of new techniques and production processes in existing plant, rather than capacity expansion. This has meant that construction and related demand have remained feeble, and also that unemployment rates have continued to be high (see Table 1). Furthermore, the investment outlook has been uncertain even while real rates of interest remain high. There are uncertainties with respect to the effects of technological change, the US current account and the dollar, the likely evolution of and possible competition from non-OECD areas (in particular the newly-industrialising countries) and the behaviour of the world oil market. A rigidly controlled

TABLE 8: PROJECTIONS FOR JAPANESE REFLATION WITH US DEFLATION (FERE MODEL)

| A | Per Capita Income 1985* | 1990* ($ bn) | Per Cent p a 1985-90 | Trade Balance as Per Cent of Income 1985 | 1990 |
|---|---|---|---|---|---|
| Western Europe | 5604 | 5993 | 1.5 | 0.1 | 0.0 |
| USA | 8487 | 8380 | 0.6 | –2.7 | –1.0 |
| Japan | 6362 | 8310 | 5.4 | 4.5 | 1.8 |
| Latin America | 1067 | 1030 | –1.0 | 4.6 | 5.2 |
| Asia | 286 | 289 | 0.0 | –3.1 | –3.6 |
| Africa | 455 | 416 | –1.5 | –3.1 | –2.7 |
| Middle East | 1684 | 1462 | –2.5 | 0.6 | –2.4 |
| Other countries | 5162 | 5270 | 0.8 | 2.2 | 0.5 |
| Centrally planned | 1093 | 1187 | 2.0 | 0.4 | 0.1 |
| World | 1712 | 1751 | 0.8 | | |

| B | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|---|
| **World Aggregates** | | | | | | |
| Real income+ | 8270 | 8451 | 8644 | 8833 | 9035 | 9235 |
| Manufacture exports+ | 875 | 899 | 926 | 953 | 986 | 1018 |
| Real prices of: ** | | | | | | |
| Oil | 1.826 | 1.761 | 1.720 | 1.688 | 1.678 | 1.672 |
| Raw material | 0.987 | 0.987 | 0.992 | 0.994 | 0.999 | 1.002 |
| **Japan** | | | | | | |
| Output+ | 797 | 868 | 940 | 1009 | 1061 | 1112 |
| Real income+ | 778 | 849 | 921 | 989 | 1040 | 1090 |
| Trade balance+ | 35 | 30 | 25 | 20 | 20 | 20 |
| **USA** | | | | | | |
| Output+ | 2040 | 2042 | 2049 | 2054 | 2078 | 2104 |
| Real income+ | 2026 | 2032 | 2043 | 2050 | 2076 | 2102 |
| Trade balance+ | –55 | –40 | –30 | –20 | –20 | –20 |
| **Western Europe** | | | | | | |
| Output+ | 2135 | 2171 | 2207 | 2241 | 2277 | 2311 |
| Real income+ | 2108 | 2146 | 2184 | 2219 | 2255 | 2289 |
| Trade balance+ | 1.1 | 1.4 | 1.4 | 1.1 | 1.1 | 0.9 |

*Notes:* * US $.
+ US $ bn.
** In terms of the price of manufactures.

set of macro-policies may provide some areas of uncertainty for capitalists, but they do not operate to restore confidence in a higher future volume of demand and sales. This has meant that expected profitability is still not high enough to overcome the increased risk premia and high costs of borrowing.

It is sometimes argued that recovery in Europe has been retarded by 'structural rigidities', primarily in the labour market, which inhibit the expansion of investment and therefore employment.[21] Institutionalised wage-setting and real wage resistance organised by trade unions, high minimum wages and unemployment benefits, are all seen as culprits in this regard. Thus policy proposals have focused on supply-side action, some ingredients of which are the following: In the labour market, so-called barriers to adjustment in the form of, for example, high minimum wages and unemployment benefits and regulations protecting workers against job loss, should be reduced. Cuts in national insurance contributions by employers and similar costs would lower the costs of hiring labour. These measures are supposed to make the hiring and firing of labour more flexible and responsive to demand pressures. The reduction in wage costs is intended to make output prices more competitive in export markets and prevent a squeeze on profits. For the industrial sector generally, subsidies should be reduced and all regulation that restricts competition should be done away with. This is usually meant to include all support for "declining" industries which would need some kind of subsidy structure to continue in production. Some of these proposals fail to take account of the long-run impact of the economy of the freeing of all industries to direct competition. Often a cut in marginal tax rates is also prescribed. This measure is directed towards demand stimulation as well as costs.

Several of these measures have already been implemented in a number of European economies, without notable success in terms of output or employment. Thus in several economies the so-called 'imperfections' in the labour markets have been reduced, resulting in greater job insecurity, falls in the real value of unemployment benefits, greater use of part-time employment and circumvention of minimum wage laws. In France, Germany and a number of smaller economies, industrial subsidies have been greatly reduced and there are plans for further cuts.[22] In the UK there are proposals for wide-ranging reforms of social security which would do away with many state transfers that entered the average wage basket and unemployed real income. Changes in social organisation which have weakened trade union power and may result in changes in income distribution and an increase in the share of profits in value-added. As OECD (1985b) points out, real wage rigidity has significantly loosened for some years, through de-indexation, reform of state payments and subsidies which affected the wage-basket, etc. These have occurred in a number of countries without noticeable effects on employment. An examination of the wage-productivity relationship reveals that the gap between the wage rate and productivity has increased in the US in the past two years, unlike in Western Europe. Marjolin (1985) has argued that apart from the last two years which are acknowledged to be unusual, Europe has been doing as well or better than the US in terms of production, investment and productivity (IMF, 1985). In any case, it is not clear what effect supply measures will have given an overall stagnation in effective demand. The basic point is that supply-side considerations, such as the removal of 'imperfections' and the rigidities in labour, product and capital markets, are not enough to generate output and investment growth without some demand stimulus, whether from the government, exports or domestic sources. Without a growth in the markets of these economies, increasing the facility and reducing the costs of borrowing finance and hiring labour will not bring about substantial growth of capitalist investment or output. Some reflationary policies would therefore appear to be essential if there is to be growth. The calls for such measures range from the somewhat conservative demands for 'less deflation' made by the UK Charter for Jobs (1985) to proposals for European-wide and OECD-wide reflation (e g, Holland, ed, 1983, FERE, 1984).

It is generally agreed that reflation by a single European economy would not have much effect on the world but would bring the economy concerned to a possible balance of payments crisis. FERE (1984) has estimated the effects of a $ one bn reflation in a typical individual European country, using estimated values of import propensities, export market shares, domestic multipliers and fiscal drag for Western Europe. The projection is of a resulting government budget deficit of $ 450m and a current account deficit of $ 550m. Clearly such a unilateral expansion would be unsustainable. An OECD study has also pointed to the constraints on individual economic performance posed by the balance of payments. Consider an economy with imports equal to 20 per

TABLE 9: PROJECTIONS FOR OECD-WIDE REFLATION (FERE MODEL)

| A | Per Capita Income 1985* ($bn) | Per Capita Income 1990* ($bn) | Per Cent p a 1985-90 | Trade Balance as Per Cent of Income 1985 | Trade Balance as Per Cent of Income 1990 |
|---|---|---|---|---|---|
| Western Europe | 5414 | 6845 | 3.4 | −0.4 | −1.3 |
| USA | 8021 | 9397 | 2.3 | −2.1 | −4.8 |
| Japan | 5769 | 8160 | 5.1 | 4.0 | 6.8 |
| Latin America | 1105 | 1230 | 1.5 | 1.2 | 4.4 |
| Asia | 271 | 354 | 3.9 | −2.6 | −1.4 |
| Africa | 462 | 642 | 4.8 | −3.6 | 1.0 |
| Middle East | 1750 | 2398 | 4.6 | 3.5 | 11.0 |
| Other countries | 4994 | 5726 | 2.0 | 2.2 | 1.0 |
| Centrally planned | 1036 | 1276 | 3.0 | 0.7 | 0.1 |
| World | 1658 | 1985 | 2.6 | | |

| B | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|---|
| **World Aggregates** | | | | | | |
| Real income+ | 8365 | 8732 | 9128 | 9554 | 10000 | 10470 |
| Manufacture exports+ | 904 | 979 | 1067 | 1167 | 1277 | 1399 |
| Real prices of: ** | | | | | | |
| Oil | 1.930 | 1.978 | 2.031 | 2.090 | 2.149 | 2.208 |
| Raw material | 1.007 | 1.026 | 1.043 | 1.060 | 1.077 | 1.095 |
| **Japan** | | | | | | |
| Output+ | 779 | 830 | 892 | 959 | 1031 | 1108 |
| Income+ | 759 | 808 | 866 | 929 | 997 | 1070 |
| Trade balance+ | 41 | 47 | 52 | 58 | 65 | 73 |
| **USA** | | | | | | |
| Output+ | 2066 | 2134 | 2196 | 2260 | 2327 | 2391 |
| Income+ | 2045 | 2110 | 2170 | 2232 | 2294 | 2357 |
| Trade balance+ | −75 | −84 | −90 | −96 | −104 | −112 |
| **Western Europe** | | | | | | |
| Output+ | 2165 | 2250 | 2349 | 2453 | 2561 | 2675 |
| Income+ | 2133 | 2214 | 2308 | 2406 | 2508 | 2614 |
| Trade balance+ | −2 | −6 | −13 | −19 | −26 | −40 |

*Notes:* * 1975 US $.
+ 1975 US $ bn.
** In terms of the price of manufactures.

cent of GNP (which is the OECD average on a weighted basis) and a typical elasticity of import volume growth with respect to GNP of 1.5 to 2. Then, if a country initially in current account balance were to have an increase in the growth of domestic demand of three per cent than its trading partners, it would move into a current account deficit amounting to one per cent of GNP. The same result would occur if the growth of demand in the major partners were to slow down by three per cent relative to the concerned country (OECD, 1983b).

The second possibility is of reflation by those economies with structural trade surpluses, who could not face a balance of payments constraint. Even the normally conservative OECD has suggested (1985b) that Japan and West Germany, who both have record trade surpluses and low rates of inflation, should undertake 'cautious reflation' in the event of a decline in US demand. It is a moot point why such reflation has not been on the cards. Export-led growth based on undervalued currencies is not sustainable in the long-run, and Germany is also burdened with an unemployment rate of 9.5 per cent which must add to social tensions. In Germany, however, the fear of inflation which may result from expansion, including the possibility of another rise in energy and primary commodity prices, is clearly a strong psychological barrier which restrains policy and colours the judgment of Bundesbank reports. In both economies there is also a fear of losing the momentum of export-led growth. Policy-makers in both countries point out that the government debt burden is already very high, and the 'unproductive' portion of public expenditure is likely to rise in future due to projected pension payments to be made to an ageing population. Furthermore, the political orientiation of the present government in Germany is directed to reducing the role of the state in the economy, rather than expanding its importance.

For Japan there are other considerations. The state has always played an important, indeed crucial, role in directing and stimulating the economy. But Japan's growth is very much export-oriented, and it is difficult to imagine this pattern being altered in the near future. Projections were done for this study on the FERE model of the world economy of the effects of Japanese reflation in a context of US deflation. The results are summarised in Table 9. The assumption is of a Japanese expansion sufficient to reduce its trade balance to $ 20 bn in 1988-90, i e, to around half of its previous level. This is associated with an annual growth rate of per capita income of 5.4 per cent for the rest of the decade—more than double the rate experienced in the last decade. However, even such an expansion would not make much of a dent of the rest of the world economy, which would still grow at less than one per cent per annum until 1990 (in per capita income terms). The developing country blocs of Latin America, Africa and the Middle East would experience negative rates of growth of per capita income while per capita income in Asia would remain stagnant. Even the US and Western Europe would not be affected significantly in terms of either output growth or trade balance.

The reasons for this are to be found in the pattern of Japanese growth and trade. Throughout the 1980s Japan has had a substantial trade surplus with other industrial countries, a smaller surplus with non-oil developing countries and a deficit with oil exporters. Imports from oil-exporting countries have accounted for between 30-40 per cent of the value of total imports.[23] The problem is that even though oil and primary commodities are dominant in Japan's total imports, they are simply not large enough in terms of world imports to be able to affect world prices. Thus, Japanese expansion as described in Table 8 would not prevent a fall in the world price of oil and would only marginally raise the world price of raw material. At the same time, there would not be a sufficient demand impetus from Japan to shore up export markets in developed country manufacturing sectors. The competititve and cost-effective nature of the Japanese manufacturing sector, as well as its use of new technology, means that a manufactured goods trade surplus would not be likely to be wiped out with simple expansion of the Japanese economy. Thus calls for unilateral expansion of Japan may result in increased incomes within Japan, but would not go very far towards either providing an important demand stimulus for the rest of the world, or solving the basic problems of the world economy that were discussed in earlier sections.

For this reason, several other domestic policies have been advocated for Japan. These include increasing imports through incentives schemes and the dismantling of non-tariff trade barriers, improving the attractiveness of yen-denominated assets to encourage capital inflow and improving the speed of and access to consumer credit so as to raise the marginal propensity to consume. It has been pointed out, however, that even these measures may have only limited impact.[24] In the end capital flows will be affected also by the behaviour of interest rates, so that Japanese action would be limited in effect. And even completely unrestricted import access would have only minor impact in terms of volume or value, given the pattern of internal demand in Japan. Since at present raw material imports account for 60 per cent of total imports,[25] growth in manufacturing imports is not likely to keep pace with economic growth. Complete liberalisation of agricultural imports is estimated to boost such imports to the tune of less than $ 2 bn, making only a small dent in Japan's current account surplus. Thus it appears that the world may have to live with Japanese trade surpluses for some time to come, and that policies for Japanese expansion must be part of a more general programme of expansion, in order to deal with present economic problems.

A West European expansion would clearly have more impact, not only on the growth rates of the developed capitalist world as a whole but also of developed economies, especially the major debtors. The FERE model estimates that growth in the combined West European economies of 4.5 per cent p a until 1990, achieved through expanding public expenditure, would not only cut the unemployment rate to half of its present level, but also imply a moderate growth rate of per capita income of 2.5 per cent p a for the world as a whole. However, sustaining such growth would be difficult given the problem of financing the increased public borrowing it would entail and the predictable behaviour of the financial markets given the fears of inflationary pressure and growing current account deficits. Ultimately, the fear of inflation may play a crucial role, for logically, public debt to GNP ratios will stabilise as long as post-tax interest rates are not greater than an effect on policies regarding public debt in many of these countries, is whether inflation the rate of growth of GNP. The real question that will have can be kept under control without high rates of interest, especially if energy and commodity prices are ultimately regarded as endogenous.

## V

## Suggestions for Policy Co-ordination

It is evident that the most effective means of achieving both a higher and a more stable growth rate in the world economy is through concerted policy actions for expansion by the major economies together, rather than by a single economy or regional group. Even if, for example, the seven major OECD partners (US, Canada, Japan, Germany, UK, France, Italy) undertook a systematic and co-ordinated reflation, the effect on world growth rates and trade balances of particular developed economies would be dramatic. Table 9 presents projections carried out for this study, of just such an optimistic scenario, based on the FERE model. (It is assumed in these projections that the US will undergo some deflation and reduction of its trade deficit.) World per capita income would grow at 2.6 per cent p a for the rest of the decade, but the effect on developing countries is particularly marked, with annual growth rates of per capita income rising to 3.9 per cent in Africa and 4.8 per cent in Asia.[26] This would also ease the problems of the major debtors, especially if such growth were unaccompanied by increased protectionism. It is evident from the projections in Table 9 that such growth could result in a shift in the international terms of trade, because of a substantial rise in the prices of oil and primary commodities relative to the price of manufactures. Effects of an oil price rise may be partly compensated for by investment in energy conservation, as discussed below; commodity price increases will benefit many primary producing countries who have been badly hit by the recent recession. Nevertheless it should be accepted that there are some inflationary tendencies in such a programme of expansion.

The fiscal expansion would have a direct affect on unemployment levels in most OECD countries, since the argument here is that unemployment has been high because output has been low relative to potential.[27] The fear of high budget deficits in Europe and Japan leading to strains on the financial sectors of these countries appears to be largely unfounded, since the ratio of public debt to income in the 1980s is much lower than it has been in the past three decades.

This scenario of OECD expansion could be based on the following policy programme for the major developed countires, which takes into account both the requirements of the new technology and the need to deal with the problem of unemployment. The programme puts a lot of emphasis on the role of government policy not only in generating the expansion but also in directing private investment and promoting international transfers. Because of the changed industrial structure which technological change is bringing in its wake, a simple fiscal expansion may not be sufficient to help an economy to adjust to new circumstances or reduce unemployment to any marked degree. Therefore, the needs of the new technological structure have to be incorporated into the pattern and composition of fiscal expansion.

One major area of such fiscal expansion would be public investment in social infrastructure. The specific sectors would include transport and communication, as well as new housing.[28] Another major area is the promotion of investment in energy conservation. This could be either directly public or private with government incentives and subsidies, and would have the crucial effects not only of long-run environmental advantages but also short-run reductions in costs and improved productivity ratios. This is likely to be crucial to the generation of a sustained growth pattern in most developed countries.

Public policy would also have a major role to play in the incorporation of new technology and the consequent economic adjustments required. Direct state investment may be crucial in the development of new products and the use of new technology in existing industries. One example is the spread of cable networks for the application of information technology and distribution networks. Also, it is important for governments to foster new industries through subsidies and financial support or credit availability for radical or risky innovations.[29] This may be especially relevant in times of recession when private enterprise may be unwilling to undertake such investment on its own. There is much scope for the state-assisted restructuring of industries—along the lines of MITI in Japan—so that fears of job losses through such technical innovations do not lead to domestic pressures for more protection.

Associated with this there are several labour market strategies which require state involvement. First of all, there is the need for more and varied education and training systems which would create a labour force with the requisite skills to cope with the new technology. The upgrading of existing skills is also relevant. Secondly, the state could promote greater geographical and occupational mobility of labour through subsidies and incentives, and also through investment in social infrastructure. Labour market information systems would facilitate occupational shifts and also reduce frictional or 'search' unemployment, as well as provide greater flexibility to employers. Finally, income maintenance through some kind of unemployment insurance is necessary not only on welfare grounds, but also to promote the acceptance by the labour force of technological and industrial changes.

Even with such an overall OECD expansion, however, there are severe limitations on developing country growth. The rise in energy prices consequent upon such an expansion is only one such constraint. However, if such an expansion is not implemented (which appears to be the most likely at present given the prevailing political climate and anti-inflation—or anti-Keynesian—bias of policy-makers in developed countries) than developing countries as a group will face severe problems given the high degree of trade and aid dependence on the developed capitalist bloc. This means that the growth of intra-LDC (or South-South) trade as well as the importance of developing markets outside the US-Western Europe-Japan bloc may become of fundamental importance in future growth.

## Appendix

## Description of the FERE Model

The projections in Tables 6-9 were carried out by Terry Ward of the Department of Applied Economics, Cambridge University, using the FERE Model of the World Economy developed in Cambridge.

The model regards the world economy as a group of inter-dependent blocs. World real income is equal to output which is equal to aggregate spending. The exports of any one bloc are the imports of some other bloc and *vice versa*. The trade balance of the world as a whole is always and necessarily zero.

In this model the dynamic of the world economy derives from the interaction of the following main processes: (1) adjustments of real spending in response to changes in income and to political and financial pressures influencing governments; (2) reactions of supply sectors and of world market prices to adjustments of real spending, mainly volume adjustments in manufacturing, and price and volume adjustments in energy and raw materials; (3) trade balances of the different blocs, reflecting the joint effect of changes in spending, supply and world prices, influencing financial flows and thence feeding back into the processes determining real spending.

The data used in the model are all derived from UN sources, assembled as time-series covering the period 1961-83. In principle they are intended to cover the whole world; the major omission is the absence of data on China, for which a purely notional calculation has been made. All inconsistencies and discrepancies of measurement have been resolved by preliminary adjustment so that the identities of the model hold without error.

All variables are measured in 'real' terms—adjusted for inflation—and are denominated in 1975 US dollars. The following identities hold for all blocs in the model:

(i) real income Y derives from real spending H plus trade B

$$Y = H + B$$

(ii) output is equal to real spending H plus "volumes" of net exports of fuels (BE/PE), raw materials (BA/PA) and manufactures BM

$$Q = H + BE/PE + BA/PE + BM$$

(iii) the trade balance B is the sum of the balances on fuels, raw materials and manufactures

$$B = BE + BA + BM$$

The demand side of the model is shown by equations linking changes in real spending H in each bloc to changes in real income Y and (with a one-year lag) to the strength or weakness of the trade balance:

$$H - H(-1) = \text{const} + 0.6 \langle Y - Y(-1) \rangle + 1.0\,B(-1)$$

The numerical coefficients shown are those assumed for the majority of blocs. Slightly different values are assumed for Western Europe (higher sensitivity to the trade balance) and the Middle East and Centrally Planned economies (lower sensitivity to income and the trade balance).

The supply side of the model is shown by equations predicting trade flows generated by any given pattern of demand.

(i) *Trade in manufactures*

Imports of manufactures M are assumed to respond to real spending H with an elasticity which varies slightly from bloc to bloc. Trend terms are fitted separately to the historical data for each bloc.

$$\log M = \text{const} + \text{trend} + 2.0 * \log H$$

Slightly higher import elasticities are assum-

TABLE A

**(Table 6) Unchanged Policies**

| Trade balance | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|
| US |  | −65 | −70 | −70 | −70 |
| Latin America |  | 15 | 20 | 23 | 25 |

**(Table 7) US Deflation**

| Trade balance | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|
| US | −65 | −55 | −40 | −30 | −20 |
| Latin America | 15 | 20 | 23 | 25 | 25 |

**(Table 8) US Deflation/Japanese Reflation**

| Trade balance | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|
| US | −65 | −55 | −40 | −30 | −20 |
| Japan | 30 | 25 | 20 | 20 | 20 |
| Latin America | 15 | 20 | 23 | 25 | 25 |

ed for Western Europe and Other Countries, and lower elasticities for Japan, Latin America, Asia and the Middle East.

Exports of manufactures by each bloc are determined as shares of import markets into that bloc and all other blocs.

$$Xi = \text{Sum}\ (Sij\ Mj) \text{ summed over all blocs } j$$

(ii) *Trade in fuels*

The influence of the real world price of oil PE on energy demand and supply within each bloc is assumed to be a slow and gradual one. To represent this, lagged variables PELS and PELD are constructed with lags denoting the influence of the oil price on supply and demand respectively.

$$PELS = 0.1*\log PE + 0.9*PELS\ (-1)$$

$$PELD = 0.1*\log PE + 0.9*PELD\ (-1)$$

Energy demand ED (measured in physical units of oil equivalent) is assumed to depend on the general level of spending H as well as on the lagged real oil price.

$$\log ED = \text{const} + \text{trend} + \log H - 0.2*PELD$$

Energy supply ES depends on exogenous factors (including long-run expectations of governments, oil companies, etc) as well as on the lagged real price of oil.

$$\log ES = \text{const} + \text{trend} + 0.5*PELS$$

In the case of major oil-exporting countries of the Third World the short-run world market situation may also exert a substantial influence on the volume of energy production. This is represented in the model by adding a short-run price effect.

$$\log ES = \text{const} + \text{trend} + 0.5*PELS + 2.0*\log PE$$

(iii) *Trade in raw materials*

The model defines a lagged price of raw materials

$$PAL = 0.3*\log PA + 0.7*PAL\ (-1)$$

The supply of raw materials in each bloc is assumed to respond to this lagged price as well as to exogenous trend factors.

$$\log AA = \text{const} + \text{trend} + 1.0*PAL$$

The demand for raw materials in each bloc is assumed to depend partly on population N ($ 100 per capita) and partly on total real spending (5 per cent of spending). The real world price of raw materials is solved numerically so as to balance world supply and demand.

The alternative projections that have been generated and reported in Tables 6-9 are based on differing policies regarding reflation or deflation. These are summarised in terms of target changes in the trade balance of particular blocs. The particular assumptions for the alternative projections are as shown in Table A.

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The Latin American trade balance is a constant assumption in these projections because of the need for the main debtor countries of Latin America to generate trade surpluses to meet their debt obligations. It is assumed that even with stagnant exports they would meet their obligations by suppressing imports. This assumption may not be realistic: it is made in order to clarify the other main mechanisms in the world economy.

## Notes

[This paper incorporates some material used in a study for the Commonwealth Secretariat, London. I am grateful to S K Rao for many useful and constructive comments, and to Terry Ward for carrying out some of the projections on the FERE model of the world economy for the study.]

1 The US, in its capacity as the largest economy and holder of the world's reserve currency, is the important exception. More on this below.

2 Study quoted in *Sunday Times*, June 9, 1985.

3 See OECD (1983). 'White' goods are household consumer durables such as refrigerators, washing machines, etc, while 'brown' goods include audio, hifi and video equipment.

4 OECD (1983) estimates that the new technology may be essentially neutral in its impact on job levels.

5 See OECD (1983).

6 Federal Reserve, US Annual Statistical Digests.

7 See University of Michigan (1984).

8 In Table 1 the per cent change in hourly earnings in the manufacturing sector gives some indication of the lower growth of wage costs in the US as compared with other major industrial countries.

9 Quoted in Peterson (1984).

10 It should be noted however, that protectionism will lower the level of world trade only if it increases imports from those countries without balance of payments constraints at the expense of countries which are so constrained, (see, Cripps, 1978). Protectionism operating only against economies with structural trade surpluses may actually increase the level of world trade; however, if some of these countries are also major debtors, it may have other destabilising effects.

11 Table 6 presents FERE projections for 'unchanged policies'—i e, a large US trade deficit. These also imply a low rate of growth of 0.9 per cent for the world economy as a whole.

12 Morgan Guaranty: World Financial Markets, March/April, 1985.

13 LIBOR rates tend to be higher by about one per cent, although the differential has narrowed recently.

14 By mid-June, nominal six-month LIBOR rates had dropped to an average of around 8-8.5 per cent from 12.5 per cent at the start of the year.

15 *Financial Times*, June 6, 1985.

16 Citicorp estimates. See also BIS (1985, pp 94-95).

17 Henry Kaufman of Salomon Bros has argued that since November 1984 US monetary policy has focused much more on monetary reflation and much less on aggressive methods to combat inflation. Quoted in *Financial Times*, May 23, 1985.

18 Anatole Kaletsky, *Financial Times*, June 6, 1985.

19 An estimate by Roger Brinner quoted in the *Sunday Times*, April 29, 1985, suggests that whether measured by relative costs, market shares or productivity levels, the US is far less competitive today than at any time in the post-war period.

20 See OECD (1985), IMF (1985), Bank of England (1985), Bundesbank (1985), etc.

21 Recently Bruno and Sachs (1985) have attributed stagflation to supply-side shocks, primarily from oil price behaviour and real wage demands.

22 *Financial Times*, June 6, 1985.

23 IFS Direction of Trade Statistics.

24 See *Journal of Japanese Trade and Industry*, January/February, 1985.

25 The proportion has fallen slightly from 63 per cent to 59 per cent in 1984, as manufactured goods imports have grown in volume.

26 These results are obviously sensitive to the size of the projected expansion in the developed world; the above figures are given to suggest some orders of magnitude given the assumed growth rates of OECD countries as listed in Table 9.

27 See Dornbusch (1985) for an affirmation of this argument in the context of the UK economy.

28 For example in Japan it is acknowledged that public investment on housing is both desperately needed and long overdue.

29 See OECD (1985a).

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### Tata Electric Companies

**TATA ELECTRIC COMPANIES in association with Tata Projects have recetly secured a prestigious assignment for carrying out an Orientation-cum-Training Course for the personnel of the National Electricity Board (NEB), Malaysia. The training which will be in two batches, spanning over 10 weeks at Tata's Trombay Thermal Power Station, covers 22 operation personnel of Port Klang Power Station, Malaysia. The training would be on the modern 500 MW training simulator, attached to the Training Centre. This sophisticated and versatile simulator has been installed at Trombay for training not only Tata engineers but also to train technical personnel from State Electricity Boards in India and from utilities of other developing countries. The simulator, which is an exact replica of the highly sophisticated computerised control room of the 500 MW unit, was designed and developed indigenously by Tata Consulting Engineers, and Tata Electric Companies, who were jointly awarded the Assoication of Indian Engineering Industry (AIEI) Award, 1984, for Technical Training and Education.**

# Reproduction or Change?
## Education and Elites in India

**Krishna Kumar**

*This paper reviews the function of education in the circulation of elite roles in Indian society which is seen as an important aspect of the path of egalitarian social change outlined in the Constitution.*

*The paper is divided into three sections. The first section discusses a basic dialectic that governs the relationship between education and social mobility in general and mobility to elite positions in particular. Section two examines the distribution of opportunities for elite status in the case of one elite role, namely, the administrative service. This section also discusses the limits within which education has contributed to social mobility. Section three considers some recent developments that point towards a crisis in the elite's identity. The paper ends with a discussion of the implications of this crisis for education.*

THIS paper reviews the function of education in the circulation of elite roles in Indian society. Although the term 'elite' is used throughout the paper, this use does not imply that the paper is based on the perspective or ideology embedded in theories of elitism.[1] Rather, 'circulation of elite roles' is seen as an important aspect of the Indian path of egalitarian social change outlined in the Constitution. In the context of education, this path is described in the Constitution in terms of equality of opportunity, a term which implies the opportunity to rise higher in a stratified society (Bottomore, 1964). The concept of equality of educational opportunity is also consistent with the economic individualism accepted in India's liberal democratic set-up to the extent that competition is permitted and encouraged as a legitimate strategy for the betterment of one's fortune. Indeed, competitiveness is a salient feature of Indian education, and one way to measure the success of the competitive ethic in education is to apply it in the context of elite roles.

The paper is divided into three sections. The first section discusses a basic dialectic that governs the relationship between education and social mobility in general and mobility to elite positions in particular. The dialectic is identified in terms of 'early selection' and 'mass examination'. Section two examines the distribution of opportunities for elite status in the case of one elite role, namely the administrative service. This section also discusses the limits within which education has contributed to social mobility. Section three considers some recent developments that point towards a crisis in the elite's identity. The paper ends with a discussion of the implications of this crisis for education.

### I
### Key Dialectic

'Early selection' and 'mass examination' are two important features of the Indian education system. These two features form a dialectic that helps us understand the relationship between education and society, particularly the potential of education to bring about changes in the distribution of power in society through the circulation of elite roles.

By 'early selection' is meant the placing of children when they are very young in different types of institutions. According to Turner (1961), early selection is a major characteristic of systems that permit ascent through 'sponsored' as opposed to 'contest' mobility. Those selected out of the rest of the children are placed in separate institutions and are prepared—in terms of skills, behavioural norms, and values—specifically for elite status in their later life. This process accurately reflects the functioning of a large and rapidly growing elite sector of education in India.

Foremost among the schools that distinguish their clientele early from the rest of children are the so-called 'public' schools. Strictly speaking, the term applies to the 55 members of the All-India Public Schools Conference.[2] These schools draw their distinctiveness from the spirit of the British public schools which they imitate and whose historical origins they share. Like their British counterparts, the Indian public schools breathe the spirit of a bygone era of history and continue to uphold an unmistakable aura of imperial days. Tawney's commentary on the British public schools applies just as well to their Indian counterparts:

> The better among them owed much, and added much, to the practical energy, the admirable moral seriousness, the respect for the hard grind of the intellect, without fancies or frills, of Victorian England. All of them, including the best, were impoverished by the feebleness of the social spirit of the same England. All of them were the victims of its precipitous class divisions, its dreary cult of gentility, its inability to conceive of education as the symbol and spirit of a spiritual unity transcending differences of birth and wealth (Twaney, 1964; p 55).

These features would broadly fit a large number of other institutions that are not 'public schools' in the strict sense of the term, but which follow the public school model in matters like early selection, emphasis on a moral code, and the use of English for peer-interaction. The majority of these quasi-public schools are run by private organisations. As the Table shows, 44 per cent of all primary schools and 60 per cent of all secondary schools in India are private. They are run by a variety of interests, ranging from business concerns to religious and ethnic bodies. The Inter-State Board for Anglo-Indian Education and Saraswati Shiksha Parishad are two among the several ethnic organisations whose member schools operate on the basis of religio-cultural norms along with early selection.

Both aided and unaided private schools practise exclusiveness to different degrees. At one level is the exclusiveness that comes from charging tuition fee. It significantly curbs the number of potential clients for the education offered by a school. In their study of private schooling in Delhi, Bhatia and Seth (1975) found that different types of private schools could be grouped in terms of the income of the pupils' fathers. Bhatia and Seth concluded that "economic status of parent is a significant determinant of school selection", and this was true of both aided and unaided private schools. Another type of exclusiveness comes from meritocratic selection of children aged from three and a half to six. At this age, 'merit' is judged in terms of etiquette and certain types of skills such as drawing a sketch, piecing together a puzzle. Private pre-schools have mushroomed in all metropolitan towns, and they claim to impart such skills along with fluency in English specifically to facilitate children's success in meritocratic admission tests. Clearly, the items of merit whereby schools test applicants for admission mirror parental inputs and socio-economic class. Thus, selection by merit becomes indistinct from selection according to socio-economic back-gound.

Private schools are not the only avenue

TABLE: PRIVATE SCHOOLING IN INDIA

| | Primary | Secondary/ Higher Secondary |
|---|---|---|
| Aided private schools | 201982 (42.5) | 26991 (57.3) |
| Unaided private schools | 7558 ( 1.6) | 1672 ( 3.5) |

*Note:* Figures in brackets show the proportion in percentage out of the total number of schools at each level.

*Source:* Fourth All-India Educational Survey (National Council of Educational Research and Training), 1982.

fed by early selection strategies. Within the government's own school system, there are schools that cater to specific groups of parents. 'Sainik' schools, meant for children of military personnel, are members of the All-India Public Schools Conference. 'Central' schools are meant for children of the Central government's civil servants. These schools carry prestige and they operate with far superior resources than are available to the schools run by the state government in the same town. Central schools also follow a different curriculam and examination pattern. Then there are schools for the 'gifted' among the children of government employees, such as the Navyug School run by the New Delhi Municipal Committee.[3] Yet another category of selection-based schools within the government sector is that of 'model' schools which are intended to act as pace-setting institutions.

All these different types of exclusive schools offer routes of 'sponsored mobility' to elite jobs. The routes pass through elite institutions at the higher education level, institutions such as the Indian Institutes of Technology, Institutes of Management, Central universities, famous city colleges, and so on. Each of these routes includes screening on the basis of merit, and, with predictable regularity, the products of the private sector of schooling, along with the products of elite schools in the government sector, far outnumber the products of common schools. The National Science Talent Search Examination conducted by the National Council of Educational Research and Training (NCERT) every year throughout the country ends up selecting students of private schools for the majority of the scholarships available.[4]

The private sector is neither an aberration nor a relic of the past. It is accepted as a legitimate means of expanding and improving education. Its meritocratic ideology has answered the common demand that talent should be spotted early and harnessed with whatever means available. The private sector fits nicely in the contradiction that has characterised Indian educational thought and policy on the question of equality *versus* merit. With rare exceptions, writings and debates on the development of education have always emphasised the need to keep the door for competitive enterprise in education open. The dominant concern has been the maintenance of quality defined in terms of rigour in instruction and the availability of resources. Even the Education Commission (1964-66), which was more egalitarian than any other previous or subsequent body in its outlook, supported the need to develop in the government sector certain 'quality schools' and at least "one good college in each district" on a meritocratic basis. That the 'good college' would be monopolised by the products of private schools did not concern the Commission. The only way to protect the 'good college' from the monopoly of the better off sections of society that the Commisssion could offer was the provision of scholarships for the deserving poor. How they would make it to the college level, competing with the beneficiaries of the sponsored mobility offered by elite schools through early selection, was not discussed.

The main mechanism operating in the education system to counterbalance the strong emphasis on early selection is that of mass examination. Schools of all different types share this feature; they are all obliged to take part in either state-level or nationwide examinations. True, a student of an exclusive 'public' school, another from a Central school, and a third one from a government school do not compete with each other at the same examination at the end of the higher secondary classes. The first student may take the Indian School Certificate examination, the second the All-India Higher Secondary Examination, and the third the provincial Board's examination. However, all three examinations are mass events, and they share certain core features such as the secrecy of the paper-setters and the evaluators, strict invigilation at the time when examinees write their answers, and delayed declaration of results.

These features of the ritual of mass examination carry a symbolic message—that all individuals have an equal chance. Thus, while emphasis on early selection ensures special treatment to the children of those who can afford to make extra inputs, mass examination promises total parity among all candidates. Early selection and mass examination are two conflicting characteristics that together endorse the ligitimacy of the education system. While private schools, featuring early selection, ensure that the elite sections of society have a means to provide privileged treatment to their children, mass examination, featuring strict secrecy and parity among examinees, keep the confidence and aspirations of the masses alive.

Historically, the system of mass examination has played an important role in the development of modern education. During the latter half of the nineteenth century, when the old education system—characterised by a loosely structured network of locally-governed schools—died and the new system, with its centralised control, took over, the institutionalisation of examination acted as a major factor in the transformation. As Shukla (1978) points out, the new system depended on written examination to evolve a bureaucratic governance of education. The function of the written, impersonal examination in the emerging education system was to keep the curriculam stable and confined to the prescribed syllabus and textbooks. Mass examination provided to the nascent Indian middle class a sense of hope and belief in the fairness of the colonial order. In practical terms, the examination system required students to rehearse endlessly the skills required to enter the newly introduced channels of secure jobs in the service of the colonial government. The ultimate test of these skills was the Indian Civil Service examination, now known as the Indian Administrative Service.

We can view the transformation of education brought about by the institutionalisation of mass examination in terms of the aims of education. The model developed by Weber (1951) on the basis of his study of the ancient Chinese literati helps us understand the change that has taken place in India during the last one hundred years in the perception of the aim of education. Weber says:

> Historically, the two polar opposites in the field of educational ends are: to awaken charisma, that is, heroic qualities or magical gifts: and, to impart specialised expert training. The first type corresponds to the charismatic structure of domination, the latter type corresponds to the rational and the bureaucratic (modern) structure of domination (Weber, 1951; p 119).

Centralised examination not only helped to bring education under bureaucratic control, it also reshaped the perception in society of the purpose of education and the image of the educated man. Formerly, the purpose of education was commonly accepted in terms of character-building and spiritual awakening. In the new situation, education began to be perceived as a process of acquiring status and skills. Given the narrow sphere of civil service within which colonial education could lead to employment, education became associated with the specific skills that civil service required. And the highest image of the educated man became that of the administrator. As administration was the only elite role to which education could be expected to lead, all examinations became preparatory to and therefore similar, in terms of requirements, to the competitive examination for civil service jobs.

Thus, the examination system has played an important role in the linking of education with competition for achievement of status and power. Whereas the strategy of early selection practised by the private education system continues to offer safe routes towards status professions to the children of the elite, mass examination offers to the rest of society the assurance that status can also be achieved through competition. Thus, while early selection is a 'reproductionist'[5] force in Indian education, mass examination is a symbol of the possibility of change. Since the mass examination system is historically so closely linked with the civil service, an appropriate context to assess its effectiveness as a means of change—in the sense of change in the composition of an elite role—is the civil service itself. Such an assessment is made in the following section as a starting point to review the relationship between education and social mobility, particularly the mobility to elite roles.

## II

## Mobility and Limits of Education

The recruitment for the highest civil service in the country, namely the Indian Administrative Service (IAS), is a convenient case to study the rate at which circulation of elite positions is taking place. It also offers a useful though limited sphere to assess the impact that competitive, mass examinations have had on circulation of elite positions in particular and social mobility in general during the recent past.

The studies[6] made by Subramaniam (1971) and Gopalakrishnan and Joshi (1973) show that IAS recruitment process is to a considerable extent a reproductive one. Both studies show that sons of those already in the civil service form the single largest component of the IAS recruits, and this has consistently been the case year after year. Subramaniam's study showed that the proportion of recruits whose fathers were in the higher civil services was from one-fourth to nearly one-third during the sixteen years since independence. If we combine the recruits whose fathers were in the higher civil services with others whose fathers were in other ranks, the proportion of this combined category (which Gopalakrishnan and Joshi's study identifies as 'government service parents') comes to 55.9 per cent of the total recruits in 1972. Compared to the 1961 figure of 43.6 per cent, this more recent figure shows that the already large share of recruits from parents in government service (including the IAS itself) had been increasing. One can conclude that the highest civil service circulates to a considerable extent within the families in which fathers are already doing government service. In the Indian Foreign Service, this circulation has been even more well-established. Subramaniam's study showed that 45.9 per cent of the recruits during 1947-56 and 42.1 per cent of the recruits during 1956-63 had fathers working in the 'higher civil services'.

We arrive at a similar conclusion if we look at the data concerning some other aspects of the recruits' background. Gopalakrishnan and Joshi found that the percentage of 'public' school products has usually been around 10. In the 1972 batch, 15 per cent of the recruits had attended 'public' schools throughout their educational careers and another 10 per cent had completed part of their education there. Thus, no less than one-fourth of the country's highest civil service consisted of products of 42 'public' schools (1974 figure). If one adds to this proportion the number of those produced by other types of exclusive schools, such as convents, unaided private schools, and so on, we should expect to find a much higher proportion. The studies mentioned here did not use such a combined category. However, while analysing the college-level background of recruits, Subramaniam found that 56 per cent of the total recruited during 1947-56, and 58 per cent of the ones recruited between 1957-63 were educated in about a dozen famous city colleges such as St Stephen's, Presidency College (of Madras), St Xavier's and Elphinstone College of Bombay. These data show that the supply of elite civil servants is a 'reproductive' process inasmuch as a few educational institutions account for sizeable proportions of the total numbers recruited. There is little reason to suspect that the situation has changed much since the two studies reported here were made.

These studies also show that the single major means of entry to the elite service through which the downtrodden sections of society have been able to send their sons has been the reservation system which applies to the Scheduled Castes and the Scheduled Tribes. It is mainly through this route that some recruits from a rural or agricultural background have been entering the IAS. Their inclusion in the service cannot be seen as an evidence of the success of the open competition strategy. 'Success' of the strategy would mean that it has been able to break the monopoly of those holding a higher status in society. The only signs that indicate the beginnings of such a process can be spotted if one takes into account the caste background of the recruits. A trend towards the slow erosion of the monopoly of the traditionally dominant Brahmin castes was observed by Subramaniam, especially in states such as Tamil Nadu, Maharashtra, West Bengal, and Uttar Pradesh as a result of the ascendence of landowning middle castes into positions of political dominance.

The rise of 'middle caste' leadership is now widely recognised as a major phenomenon in Indian politics and society. It is often cited as an evidence of change in social stratification. In states such as Maharashtra, Karnataka, and Uttar Pradesh, the middle castes have emerged as the new rural powers who are acting as a major pressure group in the political and economic affairs of their regions, and to a certain extent, of the country. Kamat's (1978) study of Maharashtra shows how the middle castes had advanced their political and economic interests by using available educational opportunities and by creating new opportunities for themselves. "In the old days", Kamat says, "education, particularly beyond mere literacy, was mostly confined to the advanced castes—e g, the Brahmins, the Kayasthas, etc—to whom therefore the village population naturally looked up as its leaders and spokesmen. Now the situation is entirely different. The rural elite consists primarily of the educated youth of the middle castes and landowning communities" (p 259). The rural elites of modern Maharashtra have opened private institutions on the 'public' school model and professional colleges for medical and engineering education on a capitation fee basis. The study made by Sivakumar (1982) records a similar phenomenon of the ascendence of middle castes, especially the Vokkaliga and the Lingayat, in Karnataka. These castes have used higher education facilities to advance their interests in the social structure, in particular in the political system.

The success of education in providing opportunities for social mobility, then, is largely confined to the middle castes of the rural society, castes that have gained political dominance under the adult franchise system and which got economically stronger by using the facilities provided by the government to increase the productivity of landowners (Desai, 1984). These middle castes are among the ones recognised as 'backward' in several states; in other states they are grouping together to be recognised as backward. As Beteille (1981) says: "the prospects of material advancement through job reservations has led to a kind of competition for backwardness among castes at the middle levels of the hierarchy. This kind of competition creates a vested interest in backwardness, and it combines the worst features of a hierarchical and a free-market society" (p 48). The middle castes now have a politically vocal elite to represent the interests of their largely poor and educationally deprived following. Whether the language of 'backwardness', 'caste', and 'reservation' will prove effective in the struggle to win a better deal for this following is yet to be seen.

The urge for special treatment that we see in different parts of the country among the middle castes is a symptom of the crisis that the vision of a meritocracy faces. It would be quite wrong to attribute this crisis to the Scheduled Castes and the Scheduled Tribes to whom the Constitution had awarded a distinct status. The educational progress of the Scheduled Castes and Tribes has been miserably slow despite the modicum of 'sponsored mobility' that they have been offered.[7] If the middle castes were to learn about the advantages of sponsored mobility through reservation from the Scheduled Castes and Tribes, it would have been a long and usually uninspiring lesson indeed.[8] A far more effective lesson was available from the urban elite who never abandoned their right to exclusive schooling for their children while promising all the time an egalitarian social order.

By maintaining a separate system of schooling on the basis of early selection, the urban elite pre-empted the development of a truly mass education system. The system of holding mass examinations did act as a symbolic corrective to a certain extent, but it could not prove sufficiently effective in upholding the myth of open competition and equal opportunity. Early selection impeded the erosion of ascription-based differentiation and also the emergence of an achievement-based differentiation in school and society. The situation described by Parsons (1959) in which the school—as a social institution—differentiates pupils strictly according to achievement never fully emerged in India because the contest among pupils was curbed by the pooling of pupils in different types of institutions according to their socio-economic background.

## III

## Revivalism or Progress?

The strains we see in the social order today are related to the decay of the vision of society that sustained the educated elite during the freedom struggle of the earlier half of this century and the first two decades after independence. The vision was based on certain value-choices, particularly equality and secularism. I have discussed how equality as a value-choice was rendered hollow by the elite themselves by the maintenance of early selection as a strategy for nurturing the meritorious. By choosing to stick to this strategy, the elite forfeited the opportunity to use education as a means to draw upon the talent and resources of the overwhelming majority of the population. Whether the elite were capable of such an achievement or not is beside the point; what is important is to notice that the elite eschewed the path they had themselves charted in the Constitution—that of mobilising the resources and talents of all sections of society.

Secularism was another value-choice enshrined in the Constitution, and as the following discussion will show, the chances of a secular attitude to flourish were closely linked to the fate of the first value-choice, namely equality. Secularism can be understood, according to Khundmiri (1968), as:

> . . . that attitude of mind . . . which refuses to accept the division of humanity into religious or races or historical classes as final . . . It is incompatible with any extreme anti-scientific, anti-intellectual and dogmatic standpoints so far as they affect the solutions of human problems on this earth. It believes that man has a duty to prove his own condition and make the human situation the ultimate arbiter in matters exclusively human (p 90).

Writings on social change in India during the last one hundred and fifty years are replete with references to the impact of such secular ideas on the Indian elite. Education is customarily described as the means whereby certain sections of Indian society came under the influence of secular ideas during the later colonial period. It is a very widely held assumption that the educated, westernised elite were destined to steer Indian society away from its mythopoeic consciousness towards a secular worldview. Education was the chief instrument with which such steering was to be accomplished. That the elite could use education for this purpose was assumed despite the realisation that there was "a certain amount of continuity between the traditional elite and the new or westernised elite" (Srinivas, 1966).

Faith in the instrumentality of education for the development of a secular society has received a serious jolt since the beginning of this decade. The jolt has come from the expression of a demand for the orientation of education in the direction of 'Indian' values.[9] More specifically, the demand is that "sooner rather than later we must recognise the need of duly adjusting our education to our past" (Sen, 1983). The demand, which applies both to the school and higher level of education, has not been made by a fringe section of professional educators or sectarian politicians. It has been voiced by the topmost offices of the system of education, such as the Ministry of Education and the University Grants Commission. Also, the current demand needs to be distinguished from previous demands which were voiced in similar terms. Whereas the earlier expressions of the need for value-orientation of education and the inculcation of religiosity referred to purely educational aims, the present expression of the demand for value-orientation refers to the aim of stopping the moral decay of the whole society itself. The slogan of moral education that one hears today has a distinct political flavour. It represents a fresh regrouping of lobbies within the educated elite strata. Moreover, the regrouping cuts across conventional party lines in politics.

The changed situation of today clearly shows that earlier assumptions regarding the contribution of education, during colonial and post-colonial periods, towards the formation of an elite holding secular and egalitarian values were simplistic and erroneous. To a certain extent, the error can be attributed to the fact that historians and other social scientists who wrote about education ignored the internal processes of education, such as the curriculum, the norms and content of pedagogy, and the culture of educational institutions. Had they not relied solely on the sentiments expressed by a few among the educated elite, they might have noticed that education in India has never been particularly secular or secularising. Observation and inquiry, which are directly related to a this-worldly, secular attitude, have been a low priority in the pedagogy of Indian schools and colleges. Also, patterns of authority and daily rituals observed in schools have prevented the growth of a secular culture of education.

The current expression of the revivalist viewpoint on education is linked with the deepening of economic inequalities and the desperation of the elite to project a radiant identity in the midst of crisis. The aggravation of rural inequality in the decade following the Green Revolution, large-scale migration of the landless villagers to cities, the slow growth of employment opportunities and the urge among the urban rich to live at par with their counterparts in the West are among the factors that have sharpened the conflict of interests in society. In this climate, revivalism has gained new grounds. Its adherents argue that India cannot go any further with borrowed identities such as 'secularism' and 'rationalism', and since inequalities and poverty are here to stay, these should not cloud the emergence of a strong, self-confident identity for the nation as a whole. Such arguments, and the hidden assumptions on which the arguments are based, have a great appeal not only for the urban rich but also for the urban middle class and the dominant, landowning sections of the middle castes in the rural society. Moreover, the rise of fundamentalism in other countries facing problems similar to India's has found a resonance among the Indian elite across their ideological range. Reference to the ancient glory of India and the promise that it can be resurrected have obvious political value in the present situation. Education, more than any other sphere of cultural activity, is being looked upon as an agency for this resurrection.

Revivalist orientation of education will undoubtedly strengthen the 'reproductionist' tendency of the system and will weaken the energy for change. It is likely that the strategy of early selection will continue to be applied increasingly widely as a means to identify potential merit at an early age. On the other hand, 'value-orientation' will make the harnessing of merit in the chosen student indistinct from indoctrination into a mythologised value-system related to ancient India. Thus, education will further aggravate the malady it is supposed to cure. The only real solution is to orient education—both in terms of the structures of selection and the structures of knowledge—to the value-choices enshrined in the Constitution. Pedagogy that is consistent with secularism, such as learning by inquiry and reasoning, cannot develop within the framework pieced together by the propagandists of 'value-orientation'. On the other hand, the overall merit-pool of society, already stagnant and highly inbred, cannot be enlarged and revitalised unless early selection in all forms is outlawed and fought when it is practised illegally.

## Notes

1 Most well known among theorists of elitism are G Mosca and V Pareto. Two major commentaries on Indian society and its recent history from the viewpoint of elite formation are B B Misra's "The Indian Middle Classes" (London: OUP, 1961) and B M Bhatia's "History and Social Development" (New Delhi: Vikas, 1974). For a competent summary and commentary on elite theorists, see Bottomore (1964). For recent Indian developments in the context of elites, see *Seminar* (No 299, July 1984).

2 Despite their crucial role in the formation of elites, the Indian public schools are a neglected area of social and educational research. Among the few studies that have been made are A De Souza's "Indian Public

Schools" (New Delhi: Sterling, 1974) and R P Singh's "The Indian Public School (New Delhi: Sterling, 1972).

3 For a commentary on the understanding of society and progress involved in the opening of Navyug School, see my "Raj, Samaj Aur Shiksha" (State, Society and Education) (New Delhi: Macmillan, 1978).

4 According to the data given by M Karlekar in her essay 'Education and Inequality' (in "Equality and Inequality, Theory and Practice", ed by A Beteille; New Delhi: OUP, 1983), 172 or over 70 per cent of the candidates who were successful at the National Science Talent Search examination in 1976 were from private (including 'public') schools. Out of the 2,176 students of government schools who appeared in the examination, only 17 were successful.

5 The point that education usually reproduces the prevailing social and economic order is not new, yet the term 'reproduction' is currently associated with the research and theorisation provided by P Bourdieu and J Passeron in their "Reproduction in Education, Society and Culture" (London: Sage, 1977).

6 It is unfortunate that there are no more recent studies than the two discussed here. However, the trends they identify many not have changed much.

7 For a review of research on the question, see my 'Educational Experience of the Scheduled Castes and Tribes', in *Economic and Political Weekly* (18, No 36/37, September 3-10, 1983; pp 1566-1572).

8 Jealousy of the few individuals of Scheduled Caste background who moved up with the help of reservations is a different matter.

9 Most important among the documents expressing the demand for value-orientation is Report of the Working Group to Review Teacher Training Programme (in the Light of the Need for Value-Orientation) (New Delhi: Ministry of Education, 1983). For a collection of commentaries on the demand for value-orientation, see *Seminar* (No 297, May 1984).

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## Escorts

ESCORTS has planned a programme for investment of Rs 180 crore for expansion and diversification of its activities in the next 5 years. It is in the process of completing the first phase of a Rs 32 crore project for the manufacture of 1.50 lakh 100/50 CC Yamaha motorcycle in technical collaboration with Yamaha Motor Company of Japan at Surajpur, a backward area of UP. The first motorcycle is scheduled to roll out by October 1985. The company also proposes to manufacture a wide range of bi-wheelers, according to market demand, under the existing and future Yamaha production programmes with minimal additional capital investment. The company would also take up, under the government's broadbanding policies, the manufacture of self-propelled harvestor combines, baling and agricultural waste collectors in collaboration with CLAAS of West Germany, one of the world's largest manufacturers of such agricultural equipment. The company also proposes to produce a broader range of tractors and prime movers for rural roads and cross-country transport, specially needed by the rural commuters. The company's expansion programmes for one million pistons and piston pins at Patiala and 1.5 million shock absorbers at Faridabad have been approved by the government. The company has also received approvals for capacity expansions and letters of intent and government approvals for new projects such as PABX electronic exchanges in technical collaboration with Jeumont-Schneider of France, gas pressure shock absorbers in technical collaboration with August Bilstein of West Germany, above 39 ton mobile cranes in technical collaboration with FAUN of West Germany and front-fork and shock absorbers in collaboration with Kayaba of Japan for application in bi-wheelers manufactured in the country under Japanese technology. A part of the funds for investment during 1985-86 on capital account are proposed to be raised by issue of convertible debentures/equity linked debenture issue of around Rs 30 crore. Meanwhile, to augment its long term working capital resources, the company is issuing 20 lakh 15 per cent secured non-convertible redeemable debentures of Rs 100 each at par. The subscription list opened on July 1 and will close on August 9. The debentures are being offered, in the first instance, on 'rights' basis to Indian resident equity shareholders of the company and the debentures remaining unsubscribed will be disposed of by the board by allotment to its employees, business associates, deposit holders, preference shareholders and others on private placement basis. The debenture issue is managed by Grindlays Bank's Merchant Banking Division and CIFCO. Amrit Lal Bajaj and Company is acting as a consultant to the issue.

According to H P Nanda, Chairman and Managing Director, the company has performed exceptionally well in the last two decades and has established an excellent track record of compounded growth in sales, profits, consistent dividends, regular bonus issues, besides continuous expansion and diversification. Since 1974, the turnover of the company has increased from Rs 62 crore to Rs 328 crore in 1984. The gross block rose from Rs 14.45 crore to Rs 125.28 crore in this period and reserves from Rs 4.4 crore to Rs 42.9 crore after bonus issues of 1:2, 3:5 and 3:5 in 1974, 1977 and 1979, respectively. The present book value of Rs 10 per equity share of the company is over Rs 42. Since 1964, the company has made seven bonus issues. The present equity capital of Rs 13.38 crore includes bonus issues of Rs 11.41 crore. On 100 equity shares held in 1961, the members have so far received 2029 bonus equity shares and 251 right equity shares, besides handsome dividends. A sum of Rs 1,000 invested in 1960 would be worth nearly Rs 2 lakh at the market value today.

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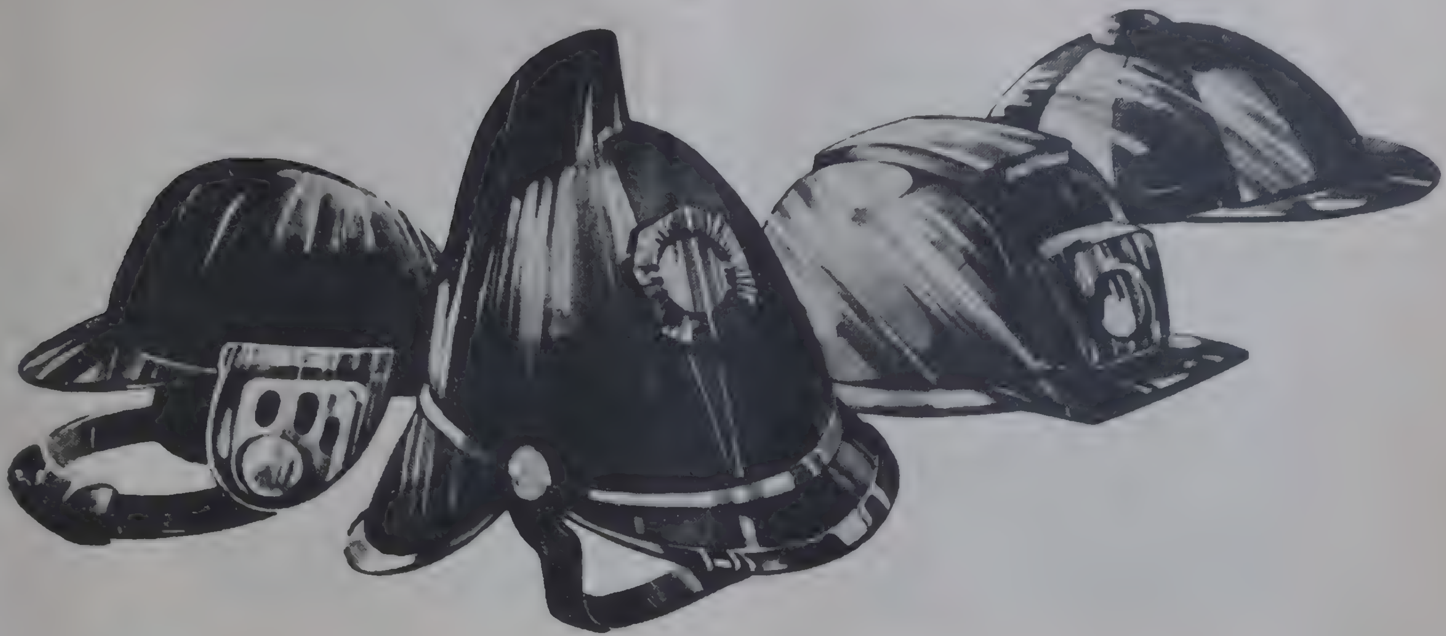

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ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

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# The 'Nuclear Option'

IT is ironic that when people all over the world are recalling the holocaust of Hiroshima and Nagasaki forty years ago, voices in this country urging the government to 'make the bomb' are becoming ever more shrill. The bomb lobby here got its most recent shot in the arm from the disclosure last month by ABC, the American television company, that Pakistan had successfully tested in non-nuclear explosions a US-made electronic trigger device which could be used to set off nuclear bombs. Irrespective of the accuracy, and significance, of this particular revelation, there is no reason at all to doubt that Pakistan has been engaged in building up the capability for making nuclear weapons. Above all, there can be no other explanation for all the expense and trouble it has gone to in order to set up the natural uranium enrichment facility at Kahuta near Islamabad.

What has been noteworthy, however, is the response of the Government of India and of public opinion in this country to the unmistakable evidence of Pakistan's pursuit of a nuclear weapon development programme. This response has consisted in, first, seeking to persuade Pakistan to give up its nuclear bomb programme on the strength of our assurance that we are committed not to make the bomb and that the aims of our admittedly far larger and more advanced nuclear research and development programme are entirely non-military and peaceful; secondly, trying to persuade the United States to pressurise Pakistan, by using the levers of US economic and military aid to that country, to abandon its nuclear bomb programme; and, finally, threatening that if Pakistan persists in its efforts to make the bomb India would be forced to review its commitment to use nuclear energy solely for peaceful purposes. The fact is that none of this amounts to a convincing or effective enough policy for dealing with something as serious as the nuclear arms race between India and Pakistan.

First of all, the Government of India's assurances about the purely peaceful objectives of its nuclear programme cannot honestly be expected to convince anybody, least of all the rulers and people of Pakistan. If it is true, as it of course is, that the facilities for enrichment of natural uranium set up by Pakistan make sense only in terms of a nuclear weapons programme, the same is the case with our clearly politically directed and long ongoing efforts to produce and stockpile plutonium. And whatever else Pakistan may have achieved in its efforts to build the bomb, it has not yet managed to actually carry out a test nuclear explosion as we did as far back as in 1974 at Pokhran. Secondly, while the United States will go to considerable lengths to stop as yet non-nuclear countries, including Pakistan, from acquiring nuclear weapons, it will do so only within the limits imposed its overall political-military strategic requirements. This is illustrated, in Pakistan's case, by the US decision to revoke the cuts earlier imposed in US military and economic assistance to that country as a mark of US displeasure at the establishment of the Kahuta uranium enrichment plant in 1976 after the entry of Soviet troops into Afghanistan in 1981. US intervention and arm-twisting, which Rajiv Gandhi so fervently sought during his recent visit to that country, cannot therefore be a dependable guarantee against Pakistan pursuing its nuclear weapons programme and for that reason against India and Pakistan plunging into a nuclear arms race with disastrous consequences for the people of both countries. Finally, the periodic statements, made with increasing explicitness in the last few weeks, that India will have to reconsider its commitment to peaceful use of nuclear energy if Pakistan does not desist from its efforts to make the bomb are clearly counter-productive. They provide the Government of Pakistan with added justification for its efforts and strengthen its case against the restraints sought to be imposed on its nuclear programme by countries such as the US.

All this underscores the fact that the Government of India, despite its oft-repeated commitment to the peaceful use of atomic energy, has never seriously tried to evolve policies to stop a potential nuclear arms race with Pakistan. Not only has it made no contribution to the few specific proposals in this regard which have emerged, but it has tended to dismiss them in an offhanded fashion. One such proposal is that to declare South Asia as a nuclear weapons free zone which has won the support of all the countries of the region with the exception of India. We have opposed the proposal on the ground that a nuclear weapons free zone comprising the countries of South Asia will be meaningless in view of the presence in the region of sea-borne nuclear weapons of the superpowers as well as the existence in the vicinity of China as a nuclear power. The argument is specious because a commitment by the countries of the region—which in effect means by India and Pakistan—to abjure the development of national nuclear weapons cannot in any manner come in the way of an eventual more comprehensive de-nuclearisation of this part of the world. The other proposal—for mutual inspection by India and Pakistan of nuclear installations in the two countries—we have rejected on the plea that such inspection cannot be foolproof and cannot therefore be an effective guarantee against clandestine development of the bomb by Pakistan. This argument again can hardly be expected to carry conviction in objective quarters since the imperfections of whatever inspection procedures are devised initially will apply to both sides and, further, given seriousness of purpose on the two sides these procedures can be progressively improved and tightened.

In the light of these positions of the Government of India, it is high time the question was raised quite bluntly: what is the Indian government's policy on development of nuclear weapons? In its official pronouncements the government continues to link India's policy to the possible, indeed likely, development of nuclear weapons by Pakistan. But from non-official and even semi-official quarters a different approach to a nuclear weapons policy for the country has begun to be advocated. It is beginning to be openly argued that possession of the bomb is essential for the full realisation of India's potential as the 'dominant regional power'; that if only India had actually made the bomb when it is supposed to have first acquired the capacity to do so "neither China would have attacked us in 1962, nor Pakistan in 1965", as a protagonist of the bomb has put it recently.

The issue is of the utmost importance. The Government of India has so far led the country and the people to believe that it is firmly committed not to make the bomb, that if it was ever compelled to review this commitment, it would be because of Pakistan's efforts to develop nuclear weapons. However, if the actual position is quite different and the 'nuclear option' is being considered, more or less independently of Pakistan's actions and intentions, as a possible 'input', to use currently fashionable jargon, in the pursuit of the government's external policy objectives, then, surely, the political consequences, including domestic ones for the people of the country, the economic costs and the morality of such a course need to be examined more carefully and impartially than the government and the non-official and semi-official protagonists of the bomb appear to consider necessary (at a 'let's make the bomb' conference in Delhi in May it was even suggested that the government should proceed to develop nuclear weapons secretly without any need for public discussion of the pros and cons of such a course)?

## *Supreme Court*

### Blow to Workers' Rights

THE recent majority judgment of the Supreme Court bench which has armed the executive with powers to dismiss "government servants who are inefficient, dishonest or corrupt or have become a security risk" without holding prior inquiry or giving the concerned employees an opportunity to be heard is a serious blow not only to the government servants' security of employment but also to the overall democratic culture of the nation in general and the trade union movement of the government employees in particular.

A well known journalist specialising in legal/constitutional questions and generally known for his support of civil liberties has, however, come out on this issue with an apologia that "viewed in totality the majority judgment makes sense and does not appear to be unduly harsh to civil servants". The main argument in support of this contention is that "before a government servant is denied his right to be heard, the seriousness of the offence must be determined and when it has been found that his conduct merits dismissal or demotion, the authority concerned may (really must) dispense with an inquiry". Also mentioned in this connection is the great emphasis laid by the Supreme Court bench on the need for maintaining discipline in the armed and para-military forces.

These arguments, however, can be easily faulted. First of all, an *ex parte* determination by bureaucrats (or their political bosses) about the culpability of the implicated employees, generally under all circumstances and specifically in the existing socio-political set-up in India which is not particularly noted for its respect for democratic norms or for uprightness, is highly suspect. Secondly, the legal armoury already built up in the country suffers from no dearth of laws and regulations for dealing with, *under due process of law*, any of the contingencies listed above or for maintaining discipline in the armed or para-military forces.

More importantly, the specific case which served as the occasion for the Supreme Court judgment in question arose out of the dismissal and removal from service without any inquiry of some railway workers for taking part in all-India railway strikes. As such, the use of the extraordinary powers was made on grounds neither of 'inefficiency', nor of 'dishonesty', nor of 'corruption', nor even of 'security risk', but of trade union activities.

Since the government is the largest employer in the country accounting for, as it does, more than two-thirds of the total employment in the organised sector, the judgment in question is likely to deal a very serious blow to the trade union movement in the country by building up a climate of intimidation. There is already a widespread sense of nervousness among the Central government employees about their job security created by the overhanging threat of computerisation. The present judgment will surely tend to increase this nervousness.

In this context, the rather low key reaction of the Left parties, their MPs, trade unionists and so on to the situation created by the Supreme Court judgment is somewhat inexplicable, particularly so by contrast to the vocal criticism of the judgment by some Congress(I) people, including a member of the Union cabinet. The situation really demands concerted steps in the legal, parliamentary and other public forums for redressing the harm caused by the judgment.

## *The Dollar*

### Taking a Tumble?

THE dollar has continued to lose value against all major currencies in recent weeks. It fell below DM 2.90 for the first time in ten months and the pound sterling at $ 1.3858 is at its highest for more than a year. The question is: has the dollar, whose strength has confounded many and has had a profound impact on the trade balance of the United States and on the debt position of many developing countires, begun its descent?

There had been many conflicting explanations offered for the apparently paradoxical strength of the dollar in the face of the very large fiscal and trade deficits of the US. The American Administration had for some time claimed that the high value of the dollar was a reflection of the greater confidence in their economy—that it was growing vigorously, unimpeded by the structural problems evident in west Europe and the rest of the world. Others had argued that it was due to the expanding fiscal deficits, which in the face of a tight monetary policy, had driven up interest rates in the US, making it attractive to hold dollars *vis-a-vis-* other currencies. There is no doubt that capital movements across national frontiers in search of higher yields dominate over trade-related flows at present. It is estimated that the former may be in the range of $ 20,000 to 30,000 billion, compared to trade-related flows of some $ 2,000 billion—that is, some ten to fifteen times the trade-related flows. Interest rate differentials, therefore, are of importance. It has been argued, however, that interest rate differentials should be large enough to out-weigh expectations regarding exchange rate movements and, as the fundamental circumstances of the dollar are far from sound, this should have worked against a strengthening of the dollar. Moreover, it has been argued, interest rate differentials have narrowed against the dollar in the last one year.

The latest Annual Report of the Bank for International Settlements, that central bank of the central banks of industrial countries, which was released in early June, finds that while real interest differentials have narrowed, they still favour the dollar and argues that "the persistence of substantial, although varying, international interest rate differentials in favour of the dollar is surely part of the explanation; indeed, it is difficult to imagine that, in the absence of these differentials, capital flows to the United States in recent years could have been as large as they in fact were". In favour of this hypothesis, it finds that "US balance of payments statistics reveal the predominant share of banking and other highly interest-sensitive financial flows in US capital imports". It does agree, however, that the continued strength of the dollar may have resulted in self-fulfilling speculative capital movements towards the later stages.

The importance of the interest factor, and the predominance of interest-sensitive capital flows of a short-term nature, suggests that the dollar is very vulnerable. Will interest rates fall in the US? Will the confidence in the dollar take a tumble? There is some evidence that US interest rates have been looking down in recent months in spite of the undiminished fiscal deficit. This may be due to the fact that private sector demand for credit may have declined as the US economy is slowing down. There is not much evidence that the stance of US monetary policy has changed in any fundamental way, but the other countries are taking the opportunity to bring down the interest countries. This is an opportunity they have been long waiting for. As a result, real interest rate differentials may not decline by as much. Indeed, the view is widely held that the strengthening of the pound sterling in the recent weeks is explained by the fact that British interest rates have remained high.

While the US Administration, conscious of the damage the high value dollar has done to the country's trade, is earnestly hoping for a depreciation of its value, it is also worried about too precipitate a fall for two reasons: first, it is worried about the impact on the domestic price level; second, in view of the continuing large fiscal deficits which cannot be financed by domestic private savings, it would need to continue to attract capital inflows from abroad. It is estimated that about half of the US fiscal deficit is financed by inflows from abroad. Some analysts believe that in order to prevent a rapid erosion in the value of the dollar, the Federal Reserve might pursue a tight policy, keeping interest rates high; this might explain the jump in the Federal fund rate noticed in the second week of July.

The future course of the dollar, however, will be of crucial importance in many respects: to US trade performance, to the degree of freedom which other industrial countries have in cutting interest rates, and so on. It is also of great significance to the developing countries whose debt is predominantly held in dollar terms; with a strong dollar, dollar prices of their exports tended to suffer, whereas their debt service obligations are in dollars.

## *West Bengal*

### Curious Coming Together

THE coming together of the nine central trade unions in West Bengal in calling for concerted action virtually amounting to a Bangla bandh in furtherance of certain working class clauses is indeed an important development. Although there have been some rare occasions in the past when the Left-controlled trade unions and the Congress(I)-led INTUC had joined hands, such co-operation was designed for less comprehensive actions on narrower issues. By contrast, the INTUC and the Left-controlled trade unions have given on the present occasion a joint call for essentially a Bangla bandh (i e, a statewide general strike) on September 12 in support of a 12-point charter covering both economic and political demands, critically impinging on both the Congress(I) Union government and the Left Front state government. The Union government has been specifically criticised for its actions in downgrading the public sector and liberalising imports as well as foreign investment. The Left Front government, in its turn, has been taken to task for mooting proposals for transferring to the private sector industrial units already nationalised or otherwise taken over by the state government.

In this joint deal, the two major Left trade unions, the AITUC and the CITU, did not have to go really beyond their usual grooves. Indeed, the CPI's AITUC spokesmen had earlier opposed talks about the state government giving up the industrial units, nationalised or otherwise taken over. The CITU, controlled by the CPI(M), is not directly affected by the critical edge of this particular demand as the proposal for 'denationalisation' actually emanated from a Forward Bloc minister in the state government, in charge of the Industry department.

The real wonder is that Subrata Mukherjee, the chief whip of the Congress(I) party in the state assembly and the general secretary of the state INTUC, has publicly ventured so far in opposing the Union government's policies and actions. The most charitable explanation is that the Congress(I) has been compelled into this move by its commitments made to the working class during its campaign for the last Lok Sabha elections. More sceptically inclined observers may, however, tend to explain the INTUC's radical posturings as moves in the factional struggles within the Congress(I), specifically meant to weaken the position of the group led by the Union Law minister Ashok Sen. Only the future will reveal what is actually what, while the immediate impact of the joint call in terms of a revival of the militant tendency in the West Bengal trade union movement cannot be underestimated.

## *Electronics*

### Learning from Mexico

*A Correspondent writes:*

IT will be of interest to us in India that IBM, the computer giant of the United States, has at last been allowed by Mexico to set up a plant to manufacture personal computers through a wholly-owned subsidiary. Initially IBM had been refused permission; the Mexican government had insisted on joint ownership of the plant. Other computer firms like Hewlett-Packard and Apple had been able to set up their plants in Mexico only by ceding majority control of their Mexican personal computer operations.

On the face of it, therefore, the Mexican government has caved in to the pressures IBM brought to bear upon it. The US government too seems to have played its part. US criticism of the Mexican decision to reject the IBM's proposition in 1984 had been strong and vocal, going by the comments aired through US newspapers. It is also not beyond the US government to have tried to diplomatically twist Mexico's arms. Given the current weaknesses of the Mexican economy the US government has enough levers in its hands.

Still, and this is what we in India ought to note in particular, IBM has not got away with everything. Originally, the company had planned to invest less than $ 7 million on the expansion of its existing facilities where the System 36 mini-computer was already being made. Now it will put in as much as $ 90 million. Part of this $ 90 million will be the outlay on a semiconductor development centre which will "provide a base for Mexico's electronic industry to develop customised chips". The centre will be set up and probably run by IBM, but the Government of Mexico hopes to have control over its working to ensure that it is run as a national technology centre.

IBM has also agreed to establish a software distribution centre which will (a) provide and distribute programmes to Spanish-speaking countries, (b) establish programmes to train students in computer science, and (c) create a local dealers' network.

Above all, IBM is committed to exporting 90 per cent of the computers it manufactures in Mexico. It will, at the same time, "purchase a variety of high technology components from Mexican companies". The new facility that IBM is setting up in Mexico will thus come within the Indian definition of a 100 per cent exporting unit which in India would be altogether exempt from any constraints with regard to either the extent of foreign ownership or the purchase of components within India. So, at least by Indian standards, the bargain Mexico has struck with IBM is not at all bad just on these two scores. But Mexico seems to have done even better, for IBM has been made to agree to the establishment of semiconductor technology development and software distribution centres in Mexico.

Since IBM is known to be negotiating a possible re-entry into the Indian market—the proposal initially seems to be to start only a software development unit which will, presumably, be almost altogether export-oriented—the Indian government might well profit from an exchange with the Mexican authorities on the subject.

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# Tonic for the Few, Poison for the Many?

UNTIL not many months ago, the cotton mill industry complained about being "in the grip of a deep crisis" and being "caught between two stools of surging cost escalations and diminishng textile market". In his annual speech last September the then Chairman of the Indian Cotton Mills' Federation Arvind N Lalbhai had stated that "the immediate future for the majority of the mills seems quite bleak" and that the "outlook for the [cotton] season 1984-85 appears to be even more grim". The leading spokesmen of of the industry must be feeling greatly embarrassed by the profound change in the textile scene. For, currently, the industry is enjoying the benefit of abundant supply of raw cotton—the 1984-85 crop is placed at well above 92 lakh bales—at prices substantially below last year's levels and a ready market for its products at prices higher than those prevailing last year. Statistics relating to yarn and cloth output and stocks, mill closures and wholesale price indices of raw cotton, cotton yarn and cloth suggest that the organised sector of the industry has seldom had it so good.

Yarn output during the first six months of the current year (January-June) is provisionally placed at an all-time record of 713.31 million kg, 7.5 per cent up over the previous year's corresponding figure of 663.64 million kg. Cloth output also is higher, though only marginally—1,707.40 million metres against 1,705.99 million metres. Cloth stocks with mills which stood at 350.1 million metres at the end of December 1984 and 362.7 million metres at the end of February declined to 258 million metres by the end of June. Yarn stocks have been maintained at the 39/40 million kg level. The index for raw cotton prices which had touched at high of 296 in September 1984 declined to a low of 227.9 in February and stood at 242.4 at the end of May. The average for the first five months of 1985 works out to 237.4 against the 1984 average of 262.6. Indices for cotton yarn and cotton fabrics have ruled a little higher than in 1984.

The favourable turn in its declining fortunes has brought considerable cheer to the industry. But if the cotton mill industry which had all along been using the language of crisis has now begun to exude optimism it is mainly because the new textile policy is designed essentially to ensure the healthy growth of the organised sector of the industry by nursing the sick but potentially viable units back to health and liquidating the irretrievably sick units. The ICMF chief Kantikumar R Podar's assessment that the new policy should enable the industry to "enter the dawn of a new era" contrasts sharply with the ICMF's past statements prophesying doom.

The new textile policy, which has been accorded an unqualified welcome by the champions of the millowners' cause, has come in for scathing criticism from all sections of Lok Sabha, including the ruling party members. The policy has been dubbed as "poison for handlooms and tonic for mills" and it has been criticised for giving raw deal to workers. Many organisations representing the decentralised sector powerlooms, handlooms and hand processors have sent representations to the Union minister for textiles Chandra Shekhar Singh pointing out the likely adverse implications of the policy guidelines and emphasising the need for appropriate modifications to ensure the growth of the entire textile industry on healthy lines.

In his welcome address at the convention on "the impact of the new textile policy on the decentralised powerloom sector" K B Awade, former Maharashtra minister of state for industries, criticised the policy for attempting to equate mills with powerlooms. He said that unlike the composite mills which produced their own yarn, wove their own grey cloth, processed it and marketed it through their countrywide network, decentralised powerlooms had to buy yarn from merchants incurring additional costs on account of their profit margins, spinning mills' profits, sales tax, octroi, transport cost, middleman's commission, packing charges, etc. This gave mills a cost advantage of about 20 per cent over powerlooms. Even after allowing for the advantage to the tune of about 11 per cent which the powerlooms enjoyed in respect of lower wages, the powerlooms still suffered a net handicap of about eight per cent *vis-a-vis* mills. Awade has urged the Maharashtra government—75 per cent of the total powerlooms in the country are located in the rural areas of Maharashtra—to move the Centre to restore the duty differential between composite mills and powerlooms and refrain from further burdening the powerloom units under the garb of 'rehabilitation fund', 'controlled cloth subsidy' and 'textile modernisation fund'. The state minister for industries and revenue Sudhakar Naik has assured his government's firm support to the powerloom industry in its bid to represent its problems to the Central government. The unorganised sector is said to be particularly vulnerable because of its weak working capital resources and hurdles in obtaining sufficient timely bank funds. The spokesmen of the mill sector, however, have a very different story to tell. They have always contended that powerlooms enjoy a distinct cost advantage and that the price difference between mill and powerloom cloth is of the order of about 25 per cent. The divergent views expressed by powerlooms and mills call for an in-depth study to establish the correct position.

The Andhra Pradesh chief minister N T Rama Rao has expressed the view that the existing subsidy of Rs two per square metre is not adequate to fully meet the cost disability suffered by handlooms which have been entrusted with the entire production of controlled cloth. He wants the growth of powerlooms to be closely regulated in consultation with state governments to ensure that handlooms are not adversely hit. He considers it necessary that the Centre should devise a mechanism by which the mill sector and the powerloom sector are made to pay a levy every year which could be used to help the handloom sector.

The textile hand processing units have also represented to the Union minister for textiles that if the present policy of protection to the entire cotton textile hand processing industry is restricted only to units with fixed daily clearance of 15,000 square metres, at least half of the capacity in the industry will be rendered idle throwing nearly 2.5 lakh workers out of employment. It is contended that the removal of excise difference (12 per cent) between hand processing and power processing will spell disaster for the hand processing industry and lead to monopolistic condition in favour of organised independent processors.

With almost all the demands put up by the organised sector from time to time having been met and encouraged by the prompt follow-up measures pertaining to simplification and rationalisation of controls and fuller fibre flexibility, ICMF has forwarded several suggestions to the Union minister for textiles to facilitate implementation of the new policy. These suggestions relate to progressive reduction in fiscal levies on manmade fibres and modernisation plans. Considerable significance attaches to the meeting of the central advisory council on the textile industry scheduled for August 11 to discuss in detail various policy implications of sickness and modernisation where interests of workers are intimately associated. Effective implementation of the policy guidelines is bound to pose many formidable challenges as the issues involved are really very complex. Leaving aside the question of identifying the type of machinery to be modernised and arranging requisite resources it can be argued that selective modernisation by the more enterprising managements will intensify inter-firm competition which might well drive marginal units to the sick category. The new textile policy places emphasis on the need to infuse confidence in fresh investment, initiative and enterprise but the process of reorganisation of the industry could well prove to be quite painful.

## *Industrial Finance*

### Made Softer

THE Industrial Development Bank of India (IDBI) has announced substantial liberalisation in its refinance schemes for expansion and modernisation effective from July 1, 1985. A new scheme known as 'equipment refinance scheme' has also been added to the existing schemes with a view to facilitating faster modernisation of industrial units with even imported equipment wherever necessary.

Under the revised policy, the bank will offer bill rediscounting facilities for unlimited amounts on machinery purchases, thus removing the earlier ceiling of annual purchase-wise limit of Rs 3 crore. Moreover, the facilities under this scheme would now be available even for machinery imported by a company under open general licence (OGL). In such cases, the importers of machinery will have to ensure that the bill in question is drawn by the local agent of foreign suppliers and the purchaser. The purchaser will have to be an industrial concern and the actual user. The only restriction is that the facility will not be available for setting up new projects.

The liberalised measures also include a substantial hike in the annual ceiling for loan assistance under the Technical Development Fund (TDF) scheme to Rs 1.25 crore from the earlier level of Rs 70 lakh. This scheme is for the import of small value equipment, technical or process know-how, foreign consultancy services, drawings, etc. The interest on these loans has also been reduced to 12.5 per cent. Loans under these schemes would normally be secured by way of hypothication of assets.

Assistance under IDBI's soft loan scheme will now be available for replacement of plant and equipment which have been in use for even less than 10 years especially in the cases where the rate of technological obsolescence is high. Expansion of capacities and diversification into related products with upgradation of existing equipment would also be allowed under this scheme if such action was incidental to modernisation and had the requisite government clearances.

The relaxation of the condition regarding the minimum life of equipment to be replaced is intended to provide a boost to technological upgradation. In the context of the present government's concern for expediting the induction of modern technologies in Indian industry, and the slow pace of technological upgradation so far, this appears a sensible policy refinement.

The IDBI notification says that the liberalisation with regard to soft loan scheme for modernisation would also be applicable to such assistance from the Industrial Finance Corporation of India (IFCI) and the Industrial Credit and Investment Corporation of India (ICICI). According to the notification, multi-division companies having units in different locations and/or producing diverse products would be eligible for separate division-wise limits of concessional assistance for modernisation.

In addition to these liberalisations, the IDBI has now introduced a new scheme, namely, the Equipment Refinance Scheme. This is intended to provide quick assistance under a simplified procedure for acquisition of indigenous and imported capital goods by the existing healthy concerns subject to a ceiling of Rs 2 crore. The assistance under this scheme would be routed through the State Financial Corporations and the State Industrial Development Corporations by way of refinance.

The soft loan scheme was first introduced by the IDBI in November 1976. Initially, it was restricted to only five industries, namely, cotton textiles, jute, sugar, cement and engineering to enable them to overcome the backlog of modernisation/renovation/replacement of plant and equipment in order to improve their productivity and competitiveness. In 1981 the scheme was extended to other industries also. Over 500 units had taken advantage of this scheme till 1983-84 and the total assistance provided to them amounted to Rs 490.8 crore. Yet, this formed no more than four per cent of the total lendings of the IDBI. The changes now introduced should hopefully accelerate the pace of sanctions under the soft loan scheme.

## *Textiles*

### For the Rich

THE data presented in the "Highlights of Consumer Purchases of Textiles 1982" published by the Textile Committee, Ministry of Commerce, provides aggregative insights into the country's largest industry. The data, whose collection was first initiated in 1969, is based on a survey of 7,450 households in 58 urban and 100 rural centres carried out in that year.

The study views 1982 as a watershed for the industry since the demand for textiles revived in that year, after consistent decline during 1979-81. The demand in 1982 moved up by 10 per cent over the previous year's figure. In the Textiles Committee's view this spurt in demand meant an end to consumer resistance experienced in the earlier years, mainly due to rising prices of textile goods. Such a conclusion though is not borne out by other data included in the publication. First, the price of textiles did go up substantially during the year, by an average of 12 per cent. Second, 1982 witnessed a low overall economic growth, including a setback in agricultural production due to an inadequate kharif harvest. So the purchasing power of the consumers could not have generally become better. Both these factors would have served to reinforce, and not reduce, consumer resistance.

The explanation for the jump in demand has therefore to be tentatively sought elsewhere. The increase in consumption occurred mostly in the rural markets, where it went up by 11 per cent during the year. The rise in the urban areas surveyed was about half that level. The rise in consumption of textiles in the rural areas may well have been largely the outcome of the opening up of new sales outlets and aggressive marketing. The prolonged near-stagnation in urban demand would have compelled the industry to lay emphasis on expanding its market in the rural areas.

However, it is not the industry as a whole which benefited from the increase in demand in the rural areas. While the demand for cotton fabrics rose by a mere five per cent in 1982 in the country as a whole, that for non-cotton and mixed blended fabrics jumped up by 21 and 31 per cent respectively. Further analysis of this data reveals the sharp upturn in demand for non-cotton and blended fabrics in the rural areas: 39 and 42 per cent respectively, more than thrice the increase in the case of the urban markets. Similarly, the rise in the value of consumption of non-cotton and blended fabrics in the rural areas in that year, at 54 and 52 per cent respectively, is thrice that of the urban areas. These figures imply a pronounced swing in taste in the rural areas from cheap to more expensive fabrics during 1982, probably triggered off by the manufacturers of non-cotton and blended fabrics in their search for new markets. A similar shift in consumption pattern took place in the urban markets some years ago. In this context it may be worth mentioning that the manufacturers of high value fabrics are more dynamic than the traditional ones dealing in cotton textiles.

The Textile Committee's study seems to imply that the spurt in consumption of higher valued fabrics was evenly spread amongst all income groups since these fabrics are more durable and easily washable and hence more attractive to buyers. However, here again there is data elsewhere in the study itself that contradicts such an interpretation. The consumption of textiles by rural households earning less than Rs 6,000 per annum actually declined during the year, contrary to the overall trend. On the other hand there was a 56 per cent increase in consumption by the highest income group covered in the survey, i e, of households earning more than Rs 40,000 per year.

# Bhopal and the Sodium Thiosulphate Controversy

THERE are extremely powerful forces ranged against the use of Sodium Thiosulphate (NaTS) in Bhopal. There are at least about 90,000 gas victims who are still suffering from the effect of the gas exposure of December 3, 1984 and who need medical relief. The whole issue of medical relief through NaTS, messy as it was, took an ominous turn on June 25 when workers of voluntary groups, including doctors, were arrested in Bhopal by police for using NaTS.

In the light of this development, D R Varma's views on use of NaTS in Bhopal (*EPW*, May 11) assume a special significance. On the face of it, D R Varma seems to extend his expert support to the powerful anti-NaTS lobby in Bhopal. However, his views should not be mistaken to belong to the anti-people forces in Bhopal, for Varma's concern for the welfare of gas victims and his anger against UCIL and the medical establishment in Bhopal is unambiguous. It is, therefore, strange and surprising that Varma has not given deeper thought and consideration to his arguments than he has. He offers two arguments against NaTS.

(a) According to him, the double blind clinical trial (DBCT) conducted by the ICMR has no value. Therefore, the alleged benefits of NaTS therapy to the gas victims are of no consequence.

(b) The use of NaTS has proven value only in cases of acute cyanide poisoning, and there may be a possibility of it being of some value in detoxicating MIC. According to him, there is no question of acute cyanide poisoning occurring after months of the gas leak. As to continuing exposure to MIC, it is irrelevant in Bhopal since continuing exposure to MIC is impossible.

Varma's arguments look simple and straightforward enough but in their actual effect they are subtle and complicated. There are two connected but still distinct issues involved here: (1) Does NaTS really give symptomatic relief to gas victims weeks or months after the massive exposure to MIC? (2) Are the gas victims suffering from acute cyanide poisoning or continuing MIC poisoning?

The second question is clearly answered in the negative in Varma's argument (b) and from there he proceeds to answer the first question in the negative which is his argument (a). Varma is naturally relying here on the existing and established knowledge of the cyanide metabolism in the body, MIC toxicity and mechanism and mode of action of NaTS. Unfortunately this is not enough. One should always remember that the situation in Bhopal is extraordinary. It is an uncharted territory full of the most unexpected problems and riddles. The limits and boundaries of existing knowledge should not be imposed on it uncritically and dogmatically. The situation in Bhopal is challenging and should be allowed to challenge well-entrenched existing theories.

The answer to question (1) implied in Varma's argument (a) is of critical importance for people like us who believe in the usefulness of NaTS. Reading carefully his argument (a), one immediately realises that he offers no substantial arguments against the DBCT conducted by the ICMR on the validity of which rests the rationale of NaTS therapy in Bhopal. He is aggrieved that the details of the trial are treated as closely guarded secrets by the ICMR. We share his grievance fully. In a report on the health status of gas victims of Bhopal prepared by Medico Friend Circle this secretiveness of the ICMR and the harm it has done to the cause of the gas victims has been discussed at length. But surely this cannot be the decisive argument against NaTS when the stakes are so high and the claims made by ICMR are so decisive and so clear-cut. The ICMR in its update of March 10 has given some relevant details of the trial and shown that of those who received NaTS, 55 per cent had distinct improvement as against only seven per cent of those who received glucose as placebo. One cannot discard the value of NaTS just because the ICMR does not release details of the trial. Scientists and the public have a right to know the details of the trial. They should force the ICMR to release it. This is not merely a scientific study undertaken by an individual scientist or a private group of scientists whose findings may be rejected with some justification since they have failed to provide the necessary details. Where is the justification for rejection of NaTS therapy in Bhopal where such major public interest is at stake?

Varma's second point against the trial is even weaker than the first. "Why subject the victims to NaTS in the first place?" he asks. This is a strange argument. How does it matter why NaTS was chosen in the first place as long as it can be shown by rigorous methods like the DBCT that it relieves the symptoms? And in any case, in Bhopal the use of NaTS is not accidental. It has been well documented that on the very night of the disaster, H Chandra of the Medico Legal Institute of the Gandhi Medical College of Bhopal had suspected cyanide poisoning in the gas victims and in the following days he and other doctors, according to him, including those who are opposing the use of NaTS, had used this drug themselves to obtain relief from similar symptoms.

Varma is a pharmacologist. He should know more than anyone else that pharmacology is full of therapeutic agents whose usefulness is based only on empirical evidence, i e, there is no known theory or mechanism of their action, but their usefulness has been established, very often by less rigorous trials than DBCT.

Even if we accept Varma's argument (b)—there are reasons for not accepting even this argument but it is not necessary to advance them to defend the use of NaTS—argument (a) does not stand because, as we have tried to show above, he offeres no substantial arguments against the DBCT-ICMR.

Available evidence—the ICMR trial, half published—still supports the use of NaTS on the gas victims in Bhopal. Unless more powerful arguments against NaTS are advanced, any move against the use of NaTS on the gas victims must be regarded as motivated, unscientific and anti-poor people. Such moves must be resisted at all costs.

DR ANIL B PATEL

Action Research in Community
Health and Development,
Bharuch.

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## Sabotaging Relief for Bhopal Victims

WE hope your editorial ('Sabotaging Relief for Bhopal Victims', July 6) will prick at the conscience of the political and intellectual community and bring help to our endeavour to resume detoxification treatment of the Bhopal gas victims suffering from cyanide poisoning. As a senior member of the medical profession I have taken part in numerous medical relief programmes but the occurrence in Bhopal—arrest of doctors and health workers and confiscation of the clinic—is a unique experience.

Every one must know that we started the people's health clinic in Bhopal with the approval and help of the peculiar government of Madhya Pradesh. Peculiar because the government supplied us with the specific drug Sodium Thiosulphate (NaTS) and disposable syringes (these are not available commercially) and this very government attacked us and liquidated our clinic for undisclosed reasons. Subsequently, we again approached the government for the drug and syringes without any result. Without the drug we are helpless and cannot do anything to alleviate the suffering of victims who are, now in huge numbers, seeking NaTS therapy. NaTS is a low-cost drug and can be manufactured easily by any middle grade pharmaceutical house. The Government of MP acquired a large quantity of the drug from abroad as gift and the rest was manufactured by the IDPL on requisition. From where can we get help now?

The Drug Action Forum, West Bengal, sought help from the Left Front government of West Bengal which can easily get NaTS manufactured in any one of the state-run drug factories. The Health Services Association, West Bengal, the organisation of state-employed doctors, requested the government to arrange for special leave for members who offered their volunteer services for Bhopal. To all these requests the Left Front government has not cared to respond for inexplicable reasons. We have now sent requests to the Union Health Ministry, international voluntary relief organisations, WHO, Health Action International, etc, for help and await their response.

Is there no way for us to obtain the drug and syringes? Do the victims of cyanide poisoning have no right to self-preservation? Or is it that there is someone who may incur a loss if the scientific evidence of cyanide poisoning is documented, authenticated and published?

DR SURJIT K DAS

Drug Action Forum,
Calcutta.

# Sauce for MGR Is Not Sauce for Nazir Sab

### A G Noorani

THAT there should be some norms for ministers' trips abroad no one can deny. As far as the Central ministers are concerned, the Prime Minister's authority as head of the Council of Ministers is patent. What is the legal basis for his authority over ministers in the states? Under Section 9 of the Foreign Contribution (Regulation) Act, 1976, "No member of a legislature, office-bearer of a political party, government servant or employee of any corporation shall, while visiting any country or territory outside India, accept, except with the prior permission of the Central government, any foreign hospitality"—except, the proviso says, for "emergent medical aid".

Note that permission is needed for acceptance of 'foreign hospitality' not for a visit without receiving such hospitality. Section 2(1)(d) defines 'foreign hospitality' to mean any offer by a 'foreign source'—whether government, trade union, society or even a foreign citizen—of costs of travel, free board, lodging, transport or medical treatment.

Thus if an MLA is invited by his brother who has settled down in, say, Nepal to visit him and spend a week with the family, he will need the 'prior permission' of New Delhi before he leaves the country. Unless he wishes to say in a hotel and not with the brother!

The *Indian Express* reported on July 24, that the Prime Minister, Rajiv Gandhi, had cleared the visit of the Chief Minister of Tamil Nadu, M G Ramachandran, to Japan for the twin purposes of medical check-up and purchase of a ship for the state-owned shipping corporation. The correspondent added: "The Prime Minister's clearance is a 'must' for all VIPs going abroad and this practice introduced by Mrs Indira Gandhi is strictly followed even now." It is a novel practice devoid of legal sanction. It is open to the Centre to condemn as void and improper any dealing by a state with a foreign government which impinges on foreign relations as distinct from a purely commercial dealing like any other citizen. But the PM's licence for trips is another matter.

MGR's entourage consisted of 14 persons. *The Stateman*'s Madras correspondent reported in the issue of July 26:

> The Chief Minister's sudden decision to go to Japan cancelling his earlier programme to take two weeks' rest at the Nandi Hills in Karnataka, viewed in the light of past history of the state government's attempts to buy ships from foreign yards overlooking the facilities available within the country, has made many eyebrows rise both in the opposition and ruling party circles here.
>
> Mr K Veeramani, leader of the Dravida Kazhagam, openly questioned the necessity of Mr Ramachandran's journey to Tokyo with such a large contingent just to take delivery of a ship, unheard of in the annals of other state-owned shipping corporations.
>
> Because of his frail health and loss of speech faculty suffered over nine months ago, most pressing problems of the state have been allowed to drag on. The Cauvery waters dispute and the differences between Karnataka and Andhra Pradesh in conveying 15 TMCFT of water from the Krishna to augment Madras city's drinking water supply call for immediate attention of Mr Ramachandran. Brushing aside these problems and unmindful of his delicate health following a kidney transplant, for which the people of Tamil Nadu had generously contributed about Rs 1 crore to defray the expenses, he is undertaking the arduous journey to Japan, which most people consider is quite unnecessary.

Contrast this with another news report concerning a minister in Karnataka government, Abdul Nazir Sab, a genuine man of the masses with a deservedly high reputation for dedication to rural welfare. The *Deccan Herald* of July 12 published this report:

> The Union government declined to clear Rural Development Minister Abdul Nazir Sab's name for an unofficial Indian delegation's visit to China, it was alleged here today.
>
> According to State India-China Friendship Association President M Chandrasekhar, MLA, the Centre's decision was political.
>
> He was speaking at a function here on July 11 to felicitate an eight-member delegation of the State Association which would leave for China on July 20 on a 15-day visit.
>
> Mr Chandrasekhar said the Centre did not clear Mr Nazir Sab's name for inclusion in the all-India delegation which left for China on July 7 because he was a Minister.
>
> The visit, sponsored by the India-China Friendship Association, was at the invitation of its Chinese counterpart.
>
> Mr Nazir Sab, who was the chief guest, said the eight-member team should study the efficacy of bio-gas and gobar-gas plants in China to improve the working of the plants in Karnataka.
>
> He said China was the only country in Asia to have adapted and greatly improved upon its indigenous technology.

The contrast in the unequal treatment of the two cases is too glaring for words. In one case, colossal waste is scandalously sanctioned to a political ally. In the other a very reasonable trip is refused sanction for political reasons, as M Chandrasekhar rightly alleged. Does New Delhi realise that it would have been perfectly proper for Nazir Sab to file a writ petition challenging the refusal of permission under Section 9 of the Act of 1976? It is a cardinal principle of law that exercise of discretion conferred on authority by the law must be reasonable. It must not be capricious or *mala fide*. Had Nazir Sab filed the petition New Delhi would have been compelled to state on oath in an affidavit the reasons for refusal. It could not have acted on Sir Humphrey Appleby's advice in "Yes, Minister" and pleaded 'security' as a ground for withholding the reasons.

Take another case. What if a group of public men in India or a state government defrays the costs of a trip by a Chief Minister or state minister and he chooses to go without depending on 'foreign hospitality'? The practice invented by the former Prime Minister has no statutory sanction.

In any event, even a statute cannot prevail over the citizen's right to travel abroad which the Supreme Court has repeatedly ruled is a part of the fundamental right to 'personal liberty' embodied in Article 21 of the Constitution of India.

NOTICE

1. It is hereby notified for the information of the public that Reliance Industries Limited proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi under sub-section (2) of Section 22 of the Monopolies and Restrictive Trade Practices Act, 1969 for approval for the establishment of a new undertaking for the production, supply, distribution or control of 66,000 Tonnes of Chlorine and associated by-products In the first instance with an estimated annual turnover of Rs 300 Million Other particulars of the proposed new undertaking are as under -

A) Name of the proposed undertaking The proposed undertaking will be a unit of Reliance Industries Limited.

B) Name(s) of person(s) or authority/authorities proposing to establish the new undertaking Where it is a body corporate furnish details of its management structure together with those of proposed undertaking Reliance Industries Ltd, a body corporate managed by the board of Directors consisting of a) Shri Dhirubhai H Ambani—*Chairman & Managing Director* b) Shri Ramniklal H Ambani—*Joint Managing Director* c) Shri K. Gopal Rao d) Shri Jayantilal R. Shah e) Shri Mansingh L. Bhakta f) Shri R V Madhava Rao—*Nominee Director of G I C.* g) Shri Ramesh U Pai h) Shri Natvarlal H Ambani—*Executive Director* i) Shri Rasiklal L. Meswani—*Executive Director* j) Shri Mukesh D Ambani—*Executive Director* k) Shri Anil D Ambani—*Executive Director* The proposed undertaking will be a unit of the applicant body corporate and will be managed by the same

C) Capital Structure of the applicant person or authority and of the proposed undertaking as on 31st December, 1984: a) Authorised Capital—Rs 850 Million. b) Issued and Subscribed Capital—Rs 519 7 Million The proposed undertaking will be a unit of the applicant body corporate and therefore will not have a separate capital structure

D) Proposed Location of the Undertaking. In Gujarat.

E) Brief outline of the cost of Project, i.e scheme and source of finance The Project Cost of the new undertaking is estimated at Rs 487 Million, including the cost of land, civil works, plant, machinery equipments etc. This is proposed to be financed through own resources/loans/issue of Debentures Shares etc

2. Any person interested in the matter may make a representation to the Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, New Delhi within 14 days from the date of publication of this notice, intimating his view of the proposal and indicating the nature of his interest therein

FOR RELIANCE INDUSTRIES LTD.,
(V M AMBANI)
*SECRETARY*

DATED 29th July, 1985
Registered Office
Maker Chambers IV 3rd Floor,
Nariman Point, Bombay 400 021

| **Index Numbers of Wholesale Prices** (1970-71 = 100) | Weights | Latest Week (13-7-85) | Variation (Per Cent) Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85++ | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| All Commodities | 1000 | 360.9 | 1.3 | 5.6 | 4.5 | 7.0 | 9.5 | 2.6 | 9.3 |
| Primary Articles | 417 | 339.8 | 1.5 | 2.0 | 5.5 | 4.8 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 324.5 | 1.9 | 5.2 | 9.1 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 304.6 | 0.9 | −5.8 | −2.0 | 2.3 | 15.1 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 565.9 | 0.6 | 9.7 | 2.0 | 2.6 | 7.6 | 7.5 | 20.7 |
| Manufactured Products | 499 | 343.8 | 1.4 | 7.6 | 4.3 | 6.0 | 8.7 | 0.6 | 5.2 |

| **Cost of Living Index** | Base | Latest Month | Variation (Per Cent) Over Last Month | Over Last Year | Over March 1985 | In 84-85 | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| For Industrial Workers | 1960 = 100 | $600^5$ | 1.0 | 6.8 | 2.4 | 6.4 | 12.6 | 7.8 | 12.5 |
| For Urban Non-Manual Employees | 1960 = 100 | $546^4$ | 8.1 | 7.1 | 8.1 | 8.1 | 10.3 | 8.0 | 11.9 |
| For Agricultural Labourers | July 60 to June 61 = 100 | $524^5$ | 1.2 | 3.2 | 1.4 | 0.2 | 11.4 | 5.2 | 12.4 |

| **Money and Banking** | Unit | Latest Week (5-7-85) | Variation Rs Crore (Per Cent in Brackets) Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85++ | In 83-84++ | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| Money Supply ($M_3$) | Rs Crore | 1,07,087 | 2,336<br>(2.2) | 15,364<br>(16.8) | 5,530<br>(5.4) | 15,443<br>(18.0) | 13,031<br>(17.9) | 10,115<br>(16.1) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 54,213 | 770 | 8,960 | 5,234 | 8,460 | 5,757 | 4,748 | 4,965 |
| Bank Credit to Commercial Sector | Rs Crore | 72,476 | 1,626 | 10,059 | 2,790 | 9,447 | 8,830 | 8,247 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 2,647 | −172 | 1,005 | −352 | 1,419 | −104 | −977 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 76,136 | 2,717<br>(3.7) | 12,193<br>(19.1) | 4,950<br>(7.0) | 10,590<br>(17.5) | 8,550<br>(16.4) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets** | Rs Crore | 6,544 | −221 | 805 | −417 | 1,463<br>(26.6) | 943<br>(20.7) | 911<br>(27.2) | −1,468<br>(−30.4) |

| **Index Numbers of Industrial Production** (1970 = 100) | Weights | Latest Month | Average of Months* 1985 | 1984 | Variation (Per Cent) In 1985++ | In 1984++ | In 1983 | In 1982 | In 1981 |
|---|---|---|---|---|---|---|---|---|---|
| General Index | 100.00 | $191.6^4$ | 204.4 | 195.5 | 4.6 | 6.6 | 4.5 | 4.5 | 9.3 |
| Basic Industries | 32.28 | $280.9^3$ | 265.4 | 248.5 | 6.8 | 11.7 | 5.5 | 8.0 | 14.5 |
| Capital Goods Industries | 15.25 | $244.2^3$ | 222.9 | 232.8 | −1.8 | 9.2 | 4.3 | −0.9 | 8.1 |
| Intermediate Goods Industries | 20.95 | $168.5^3$ | 167.5 | 155.9 | 7.4 | 1.7 | 7.9 | 1.9 | 3.7 |
| Consumer Goods Industries | 31.52 | $174.8^3$ | 170.4 | 170.4 | — | 1.3 | 0.4 | 5.8 | 8.2 |
| Durable Goods | 3.41 | $213.3^3$ | 210.9 | 187.1 | 12.7 | 13.0 | 0.1 | 3.6 | −0.1 |
| Non-Durable Goods | 28.11 | $170.1^3$ | 165.5 | 168.4 | −1.7 | 0.5 | 0.5 | 6.5 | 9.3 |

| **Foreign Trade** | Unit | Latest Month (March 85) | Cumulative for* 1984-85+ | 1983-84+ | 1984-85 | 1983-84 | 1982-83 | 1981-82 | 1980-81 |
|---|---|---|---|---|---|---|---|---|---|
| Exports | Rs Crore | 951 | 11,297 | 9,872 | 11,297<br>(14.4) | 9,872<br>(10.8) | 8,908<br>(14.2) | 7,803<br>(16.3) | 6,711<br>( 3.9) |
| Imports | Rs Crore | 1,414 | 16,485 | 15,763 | 16,485<br>(4.6) | 15,763<br>( 9.8) | 14,356<br>(5.0) | 13,671<br>( 9.2) | 12,524<br>(40.6) |
| Balances of Trade | Rs Crore | −463 | −5,188 | −5,891 | −5,188 | −5,891 | −5,448 | −5,868 | −5,813 |

| **Employment Exchange Statistics** | Unit | Latest Month (March 85) | Cumulative for* 1985 | 1984 | 1984 | 1983 | 1982 | 1981 | 1980 |
|---|---|---|---|---|---|---|---|---|---|
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,744 | 23,744 | 22,603 | 23,547<br>(7.3) | 21,954<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) |
| Number of Registrations | Thousand | 454 | 1,362 | 1,681 | 6,220<br>(−6.5) | 6,655<br>(13.5) | 5,862<br>(−6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) |
| Number of Vacancies Notified | Thousand | 49 | 150 | 180 | 707<br>(−15.5) | 827<br>(0.9) | 820<br>(−8.4) | 895<br>(6.6) | 840<br>(−4.1) |
| Number of Placements | Thousand | 29 | 86 | 111 | 407<br>(−16.3) | 486<br>(2.5) | 474<br>(−6.1) | 505<br>(5.2) | 480<br>(2.6) |

* For current year upto latest month for which data are available and for corresponding period of last year.

** Excluding gold and SDRs.

+ Variation in current year upto latest month for which data are available over corresponding period of last year.

+ + Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript$^1$ indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

# An American Nightmare

### GPD

> In some, madness must come in with breath, mill through the blood and be breathed out again. In some it goes up to the mind. Some take the madness and stop it with discipline. Madness is locked beneath. It goes into tissues, is swallowed by the cells. The cells go mad . . .

THAT is Normal Mailer in the epilogue of his famous novel "The American Dream". Unfortunately in real life we are nowhere near the epilogue of the American dream. The edition of the novel that we read was dated 1965 (a British edition; Book Club choice and all that). That was the year Mailer's countrymen began pounding Vietnam with about twice as much bombing as Europe took during two world wars together. We had thought then that the novel which features Jack Kennedy on its opening pages and talks of cells going mad in its epilogue was a remarkably contemporary novel although, one must hasten to add, it is not at all a political novel.

It is, indeed, frightening that good twenty years after the novel was written the cells continue to go mad. Indeed the dream has turned into a nightmare. How else does one describe the latest interview that Nixon has given to the *Time* magazine. The former President has held forth there on the nuclear factor in international relations. He has cited four examples of how and where the Americans thought of using nuclear devices. In two cases, i e, Korea and the Middle East, the nuclear threat was actually used successfully. According to Nixon, Eisenhower used the threat to bring an early end to the Korean war. Nixon himself had put the US nuclear forces on the alert during the Arab-Israeli war in 1973. It would have been small wonder if the Americans had not thought in nuclear terms when they were "waist deep in big muddy"—Vietnam. The third case was the 1971 conflict between us and Pakistan.

In exactly two decades (1953 was the year of the Korean ceasefire and 1973 was the year of the Arab-Israeli war) the American President had thought of using nuclear weapons four times. It is a frightening, nightmarish thought that the American President can coolly 'consider' the use of nuclear weapon (or nuclear blackmail) to bring about a desired change in a given situation. Want to go in for a political-economic system which the Americans do not like? Well, be prepared for the bomb then. It is extraordinary that such thinking does not earn odium these days as it once did when Hitler thought of and executed the plan of exterminating the 'unwanted' Jews.

The fourth case of the 'thinking' is curiouser still. It relates to the possibility that the Soviets were thinking in terms of pre-emptive bombing of Chinese nuclear sites. While it is nice to know that in the corridors of powers in big capitals some 'thinking' is always going on, it is frightening that the thinking relates to nuclear blackmail. There was lot of talk about a Sino-Soviet war towards the end of the sixties. (Who has not read Harrison Salisbury's "Coming War between Russia and China"?) What is new is the fact that Nixon was considering a nuclear intervention in the war which never occurred. The Americans just cannot get over their school-boy like fascination for the policeman's role. Or is it the case that in its degeneration late-capitalism tends to become an oppressive system dominated by silly people?

To be fair to Nixon, in none of the four cases was the nuclear weapon actually used. Thank god and the Statue of Liberty for it! In two cases the nuclear threat was actually employed. In our own case the conditions under which the weapon was supposed to have been used were the most unlikely conditions. The weapon would have been used if both the Chinese and the Soviets would have intervened in South Asia following the 1971 war between India and Pakistan. It's amazing that the Americans were so naive as actually to imagine that the Chinese could intervene even if they wanted to. It's a mystery why, as Nixon has put, the Americans "did not learn till later that they [the Chinese] did not have that kind of conventional capability". Although our professional China-baiters drew rather grim pictures, it is reasonable to presume that Indira Gandhi and her men knew that the Chinese did not have either the capability or the intention to intervene in the 1971 conflict. The Chinese never really pull anybody else's chestnuts out of the fire. And, indeed, why should they?

Nixon is probably again in a typical school-boyish manner talking big, and, of course, irresponsibly. But that's precisely where the danger lies. It would put god's fear in anybody's heart that the most powerful state in the world is run by people who do not distinguish between reason and unreason, defence and all-round destruction, power and arrogance. The Nixon interview is a signal reminder that these weapons are in the hands of nearly insane people. The cells have gone mad! Mailer's hero was a murderer after all. He could not have been anybody else.

JUST RELEASED

GLOBAL ECONOMIC DEVELOPMENT
FINANCE & INVESTMENT
— A Survey of Socio-Economic and Legal Aspects
By ATTAR CHAND
Forewords by: VISHWANATH PRATAP SINGH
PRANAB MUKHERJEE
Dr. MANMOHAN SINGH
1985/Pp.550/Price Deluxe Edition Rs. 300/-

Global economic development, finance and investment are important topics to be studied in-depth. They are complicated subjects also. Documentary description and analysis of complex features especially of the fiscal structure should, therefore, be helpful to all persons concerned with the effects of taxation, whatever their views on public policy may be. It is for this reason that the learned author has engaged in study of monetary and fiscal policies, investment and economic development. The book presents a wealth of useful reading material and gives the reader a better understanding of the subjects, for further investigation and research on these timely topics. This book is a very good first step towards Documentation in the legal and economic areas and as such one of the few books which provide excellent guidance. Researchers and Legislators alike will depend on this book and Economists will welcome it. Government officials and tax experts will depend on it for the wealth of knowledge and its informed opinions. The book will serve every educational institution and industrial house. The book provides a useful source of information and, as such, is a welcome addition to the literature on the subject.

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# Adding Another Dimension

**Hansavivek**

*GWALIOR RAYON SILK MANUFACTURING (WEAVING) COMPANY* proposes to further diversify into the fertiliser industry. It is seeking an industrial licence for setting up a gas based fertiliser plant for the manufacture of 4.5 lakh tonnes of ammonia and 7.5 lakh tonnes of urea per annum in UP. Meanwhile, the company has received offers from foreign technology suppliers for the sponge iron project. Further progress of the project depends on the clearance of matters of allocation and pricing of gas which are pending with the government. The construction work on the second cement unit for another half a million tonnes per annum is in progress and the erection work is expected to be completed by the first quarter of 1986. The clinkerisation plant of the first unit of half a million tonnes cement capacity was commissioned during 1984-85 in a record period of 18 months and about 3,000 tonnes of clinker was produced. The company has turned in good results for the year ended March 1985. It has earned a gross profit of Rs 28.41 crore on a turnover of Rs 380.57 crore against a profit of Rs 22.74 crore on turnover of Rs 318.27 crore in the previous year. These figures reflect increased gross margins. With provisions for depreciation claiming Rs 23.14 crore (Rs 12.65 crore) and tax liability Rs 55 lakh (nil), net profit has been halved to Rs 4.72 crore (Rs 10.09 crore). Equity dividend has been raised by 2 points to 22 per cent, which is slightly short earned as against an earnings cover of 2.25 times for the previous year's distribution. Sales of the viscose fibre divisions were 94,600 tonnes against 76,800 tonnes in the previous year. The offtake of Grasilene fibre was affected due to unrestricted imports and high incidence of excise duty. Production was only 4,960 tonnes i e, half the installed capacity. Production of pulp was also lower at 78,400 tonnes against 87,800 tonnes previously. The pulp plants at Mavoor and Harihar continue to face a serious shortage of pulp wood on account of non-fulfilment of their commitments by the state governments of Kerala and Karnataka. The Karnataka government has finally agreed to a joint afforestation venture. A joint sector company along with Karnataka Forest Plantation Corporation has been formed for the purpose of raising plantations of suitable pulp wood species. In addition, a farm forestry project has also been taken up in that state with the assistance of NABARD in an area of about 730 hectares. The farmers have already planted fast growing trees during monsoon of 1984. To assist these projects, the company has set up a Grasim Forest Research Institute at Kumarapatnam (Harihar) for developing nursery techniques and optimising the yield of wood. The directors point out that while the wood based industries in these states are facing serious raw material crisis, royalty on wood is being indiscriminately increased from time to time, the last one being made effective from April last. The incidence of royalties on pulp wood is perhaps the highest in the world.

The production of caustic soda in the chemical division was 80,600 tonnes against 74,960 tonnes in the previous year. The company is in the process of setting up a 50 tonnes per day capacity caustic soda fusion plant which is expected to be commissioned in the first quarter of 1986. The company has also received a letter of intent for the manufacture of stable bleaching powder with an annual capacity of 10,000 tonnes. This project will be implemented in two phases of 5,000 tonnes per annum each, the first phase of which is expected to go on stream also in the first quarter of 1986. With a view to popularising the use of viscose fibre as also to establish its own viscose fibre spinning capacity in the Eastern Zone, the company entered into a 'leave and licence' arrangement with the Eastern Spinning Mills and Industries, Calcutta, for running its spinning unit having an installed capacity of about 25,000 spindles for a period of three years from July 27, 1984. The engineering and development division has designed and manufactured, for the first time in India, sophisticated energy-efficient equipment which would enable it to achieve an appreciable saving in steam consumption. During the year, the company issued non-convertible debentures series II of the face value of Rs 15 crore for augmenting long-term working capital resources, which were fully subscribed. A further sum of Rs 25 crore is proposed to be raised by issue of such debentures, for which the company is securing approval of the shareholders. The company's foreign ventures *viz* viscose fibre joint ventures in Thailand and Indonesia, the carbon black project in Thailand and the textile plant at Philippines continued to operate satisfactorily. The joint-sector caustic soda project of Bihar Caustic and Chemicals was successfully commissioned. Due to the sluggish market for caustic soda, however, the market prices were not remune-

**The Week's Companies** *(Rs Lakh)*

| | | Gwalior Rayon | | Dharamsi Morarji | | May & Baker | |
|---|---|---|---|---|---|---|---|
| | | Latest Year 31-3-85 | Last Year 31-3-84 | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-12-84 | Last Year 31-12-83 |
| Paid-up Capital | | 2307 | 2507 | 642 | 642 | 450 | 450 |
| Reserves | | 15878 | 15801 | 860 | 725 | 437 | 376 |
| Borrowings | | 8377 | 5266 | 1326 | 936 | 690 | 542 |
| *of which* Term borrowings | | 5941 | 3844 | 175 | 138 | 300 | 300 |
| Gross fixed assets | | 37719 | 31576 | 2557 | 2398 | 755 | 770 |
| Net fixed assets | | 22438 | 17820 | 1134 | 1098 | 527 | 433 |
| Investments | | 617 | 757 | 129 | 122 | 25 | 35 |
| Current liabilities | | 8916 | 6783 | 1626 | 1383 | 1516 | 1761 |
| Current assets | | 16843 | 16050 | 3192 | 2466 | 2523 | 2635 |
| Stocks | | 7182 | 5525 | 1116 | 672 | 745 | 943 |
| Book debts | | 6744 | 6573 | 1112 | 1028 | 704 | 791 |
| Net sales | | 38057 | 31827 | 6275 | 5385 | 3753 | 4087 |
| Other income | | 704 | 662 | 118 | 108 | 122 | 108 |
| Raw material costs | | 21595 | 18306 | 3879 | 3044 | 1505 | 1329 |
| Wages | | 4065 | 3477 | 738 | 581 | 792 | 671 |
| Interest | | 755 | 626 | 208 | 193 | 90 | 68 |
| Gross profit (+)/loss (−) | | 2841 | 2274 | 450 | 391 | 446 | 389 |
| Depreciation provision | | 2314 | 1265 | 141 | 191 | 46 | 47 |
| Tax provision | | 55 | — | 46 | 19 | 267 | 223 |
| Net profit (+)/loss (−) | | 472 | 1009 | 263 | 181 | 133 | 119 |
| Investment allowance reserve | | 170 | 381 | 33 | 50 | 4 | 2 |
| Transfer to reserves | | — | 158 | 102 | 15 | 56 | 56 |
| Dividend | | | | | | | |
| Amount | P | 33 | 38 | — | — | — | — |
| | E | 475 | 432 | 128 | 116 | 67 | 56 |
| Rate (per cent) | P | 15 to 9.3 | 15 to 9.3 | — | — | — | — |
| | E | 22 | 20 | 20 | 18 | 15 | 15 |
| Cover (times) | | 0.92 | 2.25 | 2.05 | 1.56 | 1.99 | 2.12 |
| *Ratios* (per cent) | | | | | | | |
| Gross profit/sales | | 7.46 | 7.14 | 7.17 | 7.26 | 11.88 | 9.52 |
| Net profit/capital employed | | 3.92 | 8.35 | 17.57 | 13.24 | 15.00 | 14.41 |
| Inventories/sales | | 18.87 | 17.36 | 17.79 | 12.48 | 19.85 | 23.07 |
| Wages/sales | | 10.68 | 10.92 | 11.76 | 10.79 | 21.10 | 16.41 |

rative. Tamil Nadu Flourine and Allied Chemicals, another joint-sector project, commenced commercial production in March last.

*DHARAMSI MORARJI CHEMICAL COMPANY* has chalked out plans for expansion and diversification of its activities. It has secured letters of intent for annual manufacture of 33,000 tonnes of sulphuric acid and 66,000 tonnes of single superphosphate at Amreli in Gujarat and 10,000 tonnes of synthetic detergents and active detergent sulphonates at Roha in Maharashtra. The company's applications for increase in the licensed capacities of single superphosphate at Ambernath near Bombay from 2 lakh tonnes to 3 lak tonnes per annum, of single superphosphate at Kumhari in MP from 1.61 lakh tonnes to 2,13,700 tonnes per annum and of sulphuric acid also at Kumhari from 66,000 tonnes to 1,01,900 tonnes per annum have been approved. The management will take steps to implement these new projects in a couple of years. The company has also renewed the lease arrangement with Tolue-Chem Industries for its factory at Baroda for a further period of six years. The borrowing powers of the board have been enlarged to Rs 30 crore from Rs 2 crore sanctioned way back in 1968. The company has shown a fair improvement in its working results for 1984 with gross profit rising from previous year's Rs 3.91 crore to Rs 4.50 crore following an increase in turnover from Rs 53.85 crore to Rs 62.75 crore. These figures show a modest decline in profit margins. Net profit is Rs 2.63 crore (Rs 1.81 crore). Equity dividend, stepped up by 2 points to 20 per cent, finds a better earnings cover of 2.05 times against 1.56 times previously. These results have followed record high production of two of the company's main products in its 65-year career. The output of single superphosphate was 4,12,247 tonnes and of sulphuric acid 2,59,688 tonnes against 3,76,079 tonnes and 2,22,260 tonnes, respectively, in the previous year. The capacity utilisation in the case of the former was 114 per cent and in the latter 91 per cent. The company incurred capital expenditure of Rs 1.80 crore during the year and raised Rs 4.80 crore by offering 15 per cent secured non-convertible debentures of Rs 100 each to the shareholders. These debentures were allotted in February last.

*MAY AND BAKER (INDIA)* expects to commence commercial production at its new pharmaceutical factory under construction at Paithan, a backward area in Aurangabad district of Maharashtra, towards the end of 1985. When completed, this will be one of the most modern pharmaceutical formulation manufacturing units in the country conforming to the highest standards of good manufacturing practices. So far the company has been selling chemicals only for black and white photochemistry. It has now set up a new modern facility for manufacturing colour chemicals, since there has been a colour explosion in India in the last couple of years. The company has turned in good results for 1984. It has shown a higher gross profit of Rs 4.46 crore against Rs 3.89 crore in the previous year despite lower sales of Rs 37.53 crore against Rs 40.87 crore. The 1984 sales does not include the agrochemicals trading business which was taken over by the subsidiary, Rhone-Poulenc Agrochemicals (India). Net profit is Rs 133 lakh (Rs 119 lakh). The unchanged dividend of 15 per cent payable this time on all the 45 lakh equity shares requires disbursal of a higher amount and is covered 1.99 times by earnings as against 2.12 times previously. Sales of pharmaceuticals showed an impressive increase. In fact, they could have been still higher but for shortage of vital raw materials like codeine and alcohol which affected supply of certain popular drugs of the company. The directors say that a number of applications are pending with the government for price increases. Due to considerable increase in the cost of inputs beyond the company's control, the margins on products are constantly under pressure.

*INDIAN DUPLICATOR COMPANY*, an associate of Gestetner Holdings of London and which pioneered the duplicating machine industry in India half a century ago, is embarking on a multi-pronged diversification programme. It is entering the field of sophisticated plain paper copiers in technical collaboration with Copyer Company of Japan, a subsidiary of Canon. It has also received a letter of intent to manufacture electronic stencil cutting machines at its factory at Nasik in Maharashtra. The company's R and D department has developed a guillotine machine, which has just been introduced in the market. It has also developed a shredding machine, the production of which has commenced at the Nasik factory; and will be marketed next month. The company has also applied for a letter of intent for the manufacture of word processors at its Hyderabad factory. It will also introduce two models of electronic typewriters of TOWA, Japan, as OEM items and this will be followed by marketing of computers at a later date. According to D N Sarkar, Chairman and Managing Director, the copier project is estimated to cost around Rs 4 crore including Rs 2.45 crore as capital cost which is intended to be financed by loans from banks and financial institutions. The balance amount of Rs 50 lakh will be funded from internal resources. The working capital needs will be met by issue of non-convertible debentures of Rs 150 lakh on a private placement basis. The consent of the Controller of Capital issues has already been obtained in this respect. The copier project factory is almost ready at Hyderabad and the company hopes to commence production by May 1986. The electronic typewriters are expected to be launched by September 1985. Production of electronic stencil cutting machines is expected to commence by the end of 1985. Meanwhile the company has replaced the hand operated duplicator model 105 with an advanced manual duplicator model 145. It has also plans to manufacture electronic duplicators, for which it has already received a letter of consent for the supply of designs and drawings from Gestetner Manufacturing Company, UK. With the implementation of this programme, the company's turnover is expected to jump by 200 per cent and profit before tax by 250 per cent in the next 5 years. For the year ending October 1985, the company hopes to achieve a sales turnover of Rs 13.5 crore and profit before tax of around Rs 80 lakh.

*STEEL STRIPS*, an existing dividend-paying company engaged in the manufacture of various types of cold rolled strips, is to enter the market with a public issue of one lakh 15 per cent convertible debentures of Rs 200 each at par. Out of this, 42,000 debentures are being offered on a preferential basis to the existing equity shareholders, fixed deposit holders, employees and business associates and 58,000 debentures to the general public for subscription. The debentures will be fully converted into equity shares of Rs 10 each at a premium of Rs 10 per share after one year from the date of allotment. The issue is opening for public subscription on August 12. As part of its diversification programme, the company is setting up a Rs 7.65 crore scrap based mini-steel plant for the manufacture of carbon alloy and special steel and stainless steel billets with an installed capacity of 20,000 tonnes per annum. The project is being set up at village Rampur Bangaran in the 'no-industry' district of Sirmour in Himachal Pradesh. The company has already got a modern cold rolling mill complex at village Jitwal Kalan in Sangrur district, a notified backward area in Punjab which went into commercial production in 1980. In 1982, the company implemented a Rs 2.80 crore diversification-cum-expansion scheme to manufacture cold rolled stainless steel strips. Today the company operating from three cold rolling mills has an installed capacity to produce 24,000 tonnes per annum of cold rolled strips of mild, medium and high carbon and alloy strips. According to R K Garg, Managing Director, the company has achieved an impressive performance during the last three years. Its turnover increased from 11.55 crore during 1982 to Rs 15.36 crore during 1983 and to Rs 19.82 crore during 1984. It paid a dividend of 10 per cent for 1983 and 18 per cent for 1984. The issue is being managed by Merchant Banking Division of Canara Bank. Mehta Financial Consultants and Management Services is Advisor to the issue and Amrit Lal Bajaj and Company is Principal Broker.

*TATA BURROUGHS*, established in 1977 as a joint venture between Tata Sons and the internationally renowned Burroughs Corporation of USA, is going public at a time when the computer industry is poised for massive growth. At present the equity capital of Rs 250 lakh is equally held by the two partners. It is offering a linked issue of 6.26 lakh equity shares of Rs 10 each at a premium of Rs 15 per share and 2,50,400 secured redeemable non-convertible debentures of Rs 100 each carrying interest at 12 per cent per annum. An applicant has to apply for a minimum of 100 equity shares and 40 debentures and thereafter in multiples of 50 equity shares and 20 debentures. The subscription list will open on August 21. The issue aims at reducing the foreign equity holding to less than 40 per cent and augmenting the long-term working capital resources of the company. The debentures will be redeemed at par at the end of 12 years, but the company has the option to redeem them at any time after seven years. The company markets, installs and supports the entire range of Burroughs products in India and undertakes software development on a large scale. It manufactures computer peripherals at SEEPZ solely for export purposes. The company also renders computer consultancy services in overseas markets and employs over 600 highly trained professionals. According to M H Mody, a director, the company has firmly established its presence in 22 countries of the industrialised West. It has secured a letter of intent for the manufacture of the Magnetic Ink Character Recognition (MICR) document processing system. This will help bring rapid cheque clearance and improved customer service in Indian Banks. The project is estimated to cost Rs 224 lakh and is being set up at Mapusa in Goa, a backward area. It will be financed entirely from internal resources and Burroughs will provide the technical know-how. The company is also in the process of developing a software centre at New Delhi to cater to the Indian market as well as to further expand its overseas operations. The company has an impressive track record. Its export turnover has increased by 1,000 per cent. Profit after taxes has jumped from Rs 63 lakh in 1980 to Rs 245 lakh in 1984. The issue is managed by J M Financial & Investment Consultancy Services. Tata Consultancy Services' financial services division is consultant and advisor to the issue.

*BANK OF RAJASTHAN LIMITED* has achieved good progress on all fronts during 1984. Its advances to the priority sectors rose by 39.9 per cent to reach Rs 65.74 crore. Deposits recorded a growth of 23.6 per cent from the previous year's Rs 263.46 crore to Rs 325.65 crore in 1984. This is much more than the growth rate of deposits in the banking industry. The bank has again topped the list of the private sector banks in the country. The credit-deposit ratio of the bank as at end of 1984 was 55.75 per cent. During 1984, 11 new branches were opened bringing the total to 251. The bank intensified its efforts at increased financing to the weaker sections and the greater part of financing to priority sectors flowed to the weaker sections. During the year, such advances increased from Rs 5.97 crore to Rs 8.61 crore in 33,843 accounts. The total advances to the agriculture sector amounted to Rs 20.65 crore, showing an increase of 36.2 per cent over the previous year. Direct agricultural finance amounted to Rs 16.19 crore. The share of direct agricultural advances to the total priority sector advances reached the level of 24.63 per cent. The bank's advances under the IRDP increased from Rs 2.33 crore to Rs 3.04 crore and the benefit of this financial assistance was extended to 5,000 additional persons, increasing the number of beneficiaries to 18,555. Under the DRI scheme, the bank covered an additional 1,800 persons and the total advances increased to Rs 1.10 crore. The bank's advances under the 20-point programme rose from Rs 8.78 crore to Rs 18.31 crore, while the number of beneficiaries increased from 27,536 to 34,598. Similarly, the total number of beneficiaries belonging to scheduled castes and tribes was 22,012 at the end of 1984 and the quantum of finance provided to them rose to Rs 5.89 crore. Under the scheme for employment to educated unemployed youth, the bank exceeded its targets during the years ended March 1984 and March 1985, when it sanctioned financial assistance amounting to Rs 2.29 crore and Rs 3.24 crore to 1,359 and 1,607 persons, respectively, against the targets of 1,100 and 1,598 persons. The bank's operations resulted in a net profit of Rs 45 lakh and the directors have recommended a dividend of 15 per cent, subject to approval by RBI. The Chairman, J N Pathak, is highly optimistic about a favourable climate for the bank's functioning. His optimism is based on the "exemplary team spirit" in which the management and the staff of the bank are operating,

*GUJARAT STATE FINANCIAL CORPORATION (GSFC)* crossed the landmark of sanctions of Rs 500 crore during 1984-85, its silver jubilee year. During the year, the Corporation sanctioned loans of Rs 65.42 crore, which was the highest amount sanctioned in any single year in its career. Some 1,680 small scale units were sanctioned loans of Rs 51.71 crore, accounting for 97 per cent of the total number of units assisted and 79 per cent of the total amount sanctioned. Loans amounting to Rs 1.73 crore were given to 60 entrepreneurs under the liberalised 'New Entrepreneurs Scheme'. Loans of Rs 1.20 crore were sanctioned to 223 SC/ST entrepreneurs showing a rise of 37 per cent over the amount sanctioned during the previous year. Some 157 entrepreneurs were sanctioned loans of Rs 1.68 crore in 13 centres under the 'Door Step Programme'. According to R D Shah, Chairman, the Corporation's total assistance in backward areas amounted to Rs 245 crore to over 9,800 units. The share of assistance in the five 'advanced' districts of Ahmedabad, Baroda, Surat, Rajkot and Jamnagar, which was more than 66 per cent of the total assistance at the end of the decade of the 60s, was reduced to 36 per cent at the end of 1984-85. The Corporation has started implementing the IDBI's soft loan scheme for modernisation of industries. It organised a workshop-cum-guidance programme to create awareness for modernisation amongst industrialists. The Corporation expects to develop in-house computer facility before the end of the current year. The Chairman has welcomed the recent changes in the policies of the Central government which are expected to accelerate investment in industry. He feels that the ceiling of financial accommodation which the Corporation can provide under the SFCs Act will go up in view of the Bill introduced in the Parliament recently for amendment of the Act. This would enable the Corporation to expand its business in the medium scale sector of the industry.

*SUDERSHAN PLYWOOD INDUSTRIES*, a well-established dividend paying company is entering the capital market on August 5 with a public issue of 9 lakh equity shares of Rs 10 each at par to raise a part of the finance required for its Rs one crore project to modernise its plant and to manufacture 'Compreg Plywood' which is a special quality of plywood used by the railways and by the textile, jute and chemical industries. The company originally started manufacturing commercial grades of plywood like black boards and flush doors and over the years branched off to make varous technical grade speciality plywoods which find wide applications in several industries. It enjoys a wide consumer base and a strong brand image and has emerged as a market leader in plywood industry. Its products are marketed under the brand name 'Swastik'. It has 14 sales offices spread all over the country. The latest export-import policy of the government envisages liberal imports of timber and veneer. This will improve the profitability of the plywood industry, as imports are cheaper. The company has in hand substantial orders. According to S P Goenka, Chairman, the company has consistently earned profits since its incorporation. For 1984, it made a profit before interest and depreciation of Rs 112 lakh on a turnover of Rs 767 lakh. The outlook for the current year is even better and the company is confident of declaring a minimum dividend of 15 per cent for 1985. The shares of the company will be listed in Gauhati, Calcutta, Delhi and Bombay stock exchanges. The issue is being managed by the Standard Chartered Bank's Merchant Banking Division.

**PUNJAB**

# A Document of Good Intent

**Amrita Abraham**

SOLUTIONS to complicated problems always seem so simple and obvious after they have been found. This is so of the Punjab accord of July 24. The 11-point accord is not the 'solution to the Punjab problem' that many people, more in relief than through conviction, have called it. Even a cursory examination of the 11 points shows how loosely worded it is, how much has been left out of it, how any one or all of them could become the basis of another *dharma yudh* morcha. But the accord is certainly a way out of the *cul de sac* for the moderate Akali Dal leadership and particularly H S Longowal. All that the accord is is a document of good intent on both sides.

In Amritsar soon after Operation Bluestar Akalis and others said that only a long spell in jail would restore Longowal's credibility. When he emerged in April he still stood head and shoulders above the other Akali leaders as the man with whom the Centre could negotiate but quite soon again Longowal became enmeshed in extremist rhetoric and gesture as with the ceremonies for Beant Singh and Satwant Singh. If he was expected to demonstrate that the majority of Sikhs in Punjab was behind him and was eager for a restoration of the *status quo ante* through talks with Delhi or other means, he was unable to do so. Evidence that Sikhs by and large had not been mobilised to either moderate or extremist cause came from Punjab's rural heartland where they had ploughed and sown and reaped record quantities of wheat, rice and sugarcane as though the state's most politically turbulent year had passed them by.

In April it was clear that Governor Arjun Singh did not subscribe to the widespread romantic notion (at least outside Punjab) that some kind of new able Sikh leadership would rise from the ashes. The new administration accepted that Punjab would have to do the best it could with the very same Akalis, tainted, contentious and limited men. It is only more recently that Baba Joginder Singh's United Akali Dal and the AISSF have shown that they cannot throw the Akalis into complete disarray. But during these last four months their mere existence and rhetoric were enough to produce the kind of nervous reflexes from the moderate Akalis which Bhindranwale produced during 1982 and 1983: the fear that extremists would seize advantage from any sign of softening towards Delhi. Once again the list of outstanding issues grew as it had between 1981 and 1984 and every partial concession from the Centre provoked deeper suspicion. In early May Balwant Singh, former Akali finance minister, and one of the triumvirate that met Rajiv Gandhi in July at the accord, explained the Centre's then tentative moves to 'restore normalcy' in Punjab as efforts to "finish our leadership and downgrade the popularity of the Akalis" and to "dictate terms".

According to him it was no use trying to discuss the pre-Operation Bluestar agenda over which the Centre had shown such intransigence (he said there had been four meetings between the Akalis and the former prime minister, seven or eight with her emissary, Swaran Singh, five or six rounds with a cabinet sub-committee in Chandigarh as well as tripartite talks with the opposition until June 1984). Before negotiations on those outstanding issues could take place the Centre must demonstrate its "sincerity" by acceding to Akali demands—an enquriy into the November riots in Delhi, the release of Sikhs and AISSF members still in jail, withdrawing the special courts, reinstating jawans, referring the Anandpur Sahib resolution to the Sarkaria Commission. All this, he said, would remove some of the Sikh sense of grievance and he implied that it would allow the Akalis to negotiate on the older issues without appearing as 'traitors'.

To demonstrate how the July accord is not an agenda for future action but only an earnest of good intent: when Balwant Singh spoke of an enquiry into the November killings, the Centre had already finally conceded such an enquiry but Balwant Singh said Sikhs were still suspicious because no judge had been named or terms of reference set out. When this was done, the Akalis demanded that the enquiry should be enlarged to cover other cities. The July accord enlarges the enquiry to include Bokaro and Kanpur leaving out, for instance, Madhya Pradesh cities. This compromise from the Akalis is met on Rajiv Gandhi's side by him dropping the proposal he once made to include 'riots in all of Punjab' in the enquiry.

There is similar compromise from the Akalis on jawans who are not to be reinstated but "rehabilitated and given gainful employment". Special courts are not abolished outright as the Akalis demanded but will try only those charged with sedition (waging war) and hijacking; other cases will go to ordinary courts (where one assumes hearings will not be in camera, where bail will be possible and where witnesses can be cross-examined by the defence). Even this proposal had been aired by Delhi through the press in April and May and been dismissed of hand by the Akalis. All these points in the accord and the first one on ex-gratia payment and compensation to "innocents" killed in agitation or any action after August 1, 1982, are a preamble so to speak, to the rest of the accord.

It is on points 5, 7 and 9 that the Centre's chickens will come home to roost. The All-India Gurudwaras Act is what the SGPC wants for obvious reasons: it already controls enormous funds because of its control of gurudwaras in Punjab and would vastly extend its powers and finances if gurudwaras outside Punjab came under its control. In the last four years the morcha has been limited to Punjab largely because the Akalis and SGPC did not have control of scores of gurudwaras in other parts of the country and the chief priests of Nanded and Patnasaheb had taken independent lines on several matters or remained passive. Sikhs outside Punjab are unlikely to support such an Act.

On the other hand, Indira Gandhi had intended to amend the Gurudwaras Act following the appalling record of the SGPC in order to empower the government to intervene in certain situations, e g, to prevent gurudwaras providing sanctuary to terrorists. It was met with outrage by Sikhs everywhere and especially the SGPC and Akalis. Just now point 5 on the accord is vaguely worded and both the Centre and the SGPC are left to believe they will get what they want out of the Bill.

Territorial claims are mentioned in the accord in the same ambiguous fashion. Indira Gandhi insisted at all talks that Chandigarh and Abohar and Fazilka were one package, according to the 1970 award. Harkishan Singh Surjeet, the CPI(M) leader, said in an article last year that after Asiad when talks were resumed with the Akalis, the government had announced acceptance of the Akalis religious demands, the opposition had persuaded the Akalis to drop the Anandpur Sahib resolution from the agenda and settle for an examination of Centre-State relations, agreement had been reached on the river waters dispute as well. "Only one major problem remained". This was the territorial disputes and agreement broke down because Indira Gandhi insisted on the 1970 award. When she did finally accept the opposition consensus on this question—that Chandigarh would go to Punjab and certain Hindi-speaking areas would go to Haryana together with finance for a new capital city—it was over a year later during her June 2, 1984 radio broadcast and by then Operation Bluestar had begun.

The July accord says much the same leaving the same scope for dispute over how the principles of contiguity, linguistic affinity and the village as a unit for determining Hindi-speaking areas will be determined. (Boundary questions will go to a separate Commission.) The Lok Dal, BJP and Bhajan Lal have all expressed themselves on these principles to suggest that the outcome would be Abohar and Fazilka. At this stage Rajiv Gandhi is leaning on the Hindus to make concessions just as his mother leaned on the Sikhs throughout 1982 and 1983. The sudden enquiry announced into charges of corruption against Bhajan Lal may be calculated to quell him for the time being. If Bhajan Lal doesn't try to scuttle the accord the Lok Dal and BJP are trying hard to.

On river waters there is even more reason to believe that Rajiv Gandhi is hoping that with his massive Congress(I) majorities in the Centre and in the concerned states he will be able to manage the resentment and disaffection. Rajasthan clearly stands to lose a great deal of future water if the Commission, as the accord requires, decides on the basis of quantum of water used as on July 1, 1985. Since the Rajasthan canal has not been completed the state uses far less than the 8 MAF it was awarded in the 1955 inter-state conference. Quite how Rajiv Gandhi explained away this problem to Harideo Joshi is not known but the chief minister was certainly clear that he would not be able to sell the idea to his partymen and the Rajasthan Assembly was adjourned *sine die* immediately after the opposition no confidence motion was defeated.

It should be obvious then that the accord is a hornets' nest. The trick is not to disturb it until normalcy is restored in Punjab. Theoretically there is a lot of time (perhaps two years) for Rajiv Gandhi, confident of his vast majorities in the Hindu states, to go on leaning on Haryana and Rajasthan. But some of the deadlines in the accord (the transfer of Chandigarh by January 26 next tied to the commission on the *quid pro quo* for Chandigarh giving its award by December 31, 1985 which will be binding on both sides) suggest the Centre is hoping to carry through the current process in Punjab to an election before October 6 when President's rule must end. Contention and disaffection in Punjab when it comes to the fine details of river waters or the Gurudwaras Act or anything else can be postponed or spread out over months and years under an elected government as is democratic practice in the country and the link between unsatisfied religious, political and economic demands and the Akali-SGPC religio-politico mobilising machine will have snapped. This appears to be the thinking just now. But it presupposes an elected Akali government.

It is interesting also to see how Rajiv Gandhi has turned somersaults over what wer were told during the elections was the bottom line. The Anandpur Sahib resolution in toto was seditious. After the elections it turned out that only parts of it were seditious. When the Akalis failed to respond to this nudging the Congress tried one of its standard ploys. In Delhi in April there suddenly sprang up a Sikh Youth Forum, a child nobody would acknowledge as theirs but there it was on a dharna outside the offices of the Sarkaria Commission demanding that the Anandpur Saheb resolution on Centre-State relations should be referred to the Sarkaria Commission. The dharna was lifted when a government spokesman said the demand would be considered. Reliable sources said this was the Congress(I)'s face saving way of telling the Akalis that even the Anandpur Saheb resolution or parts of it could go back on to the agenda!

Just as the hawks and fundamentalists at one end of the Akali Dal spectrum (Tohra, Talwandi and even Bhindranwale) became crucial counters in the Congress(I)'s Punjab game, in this season of compromise it is others, the go-betweens, men with one leg in each camp, who become key players. Such a man is Balwant Singh who spent most of the last four years cultivating his large business enterprises in Punjab, who was never taken seriously as a spokesman of the Akali position on any question and whose credibility with the people and rank and file was rated very low because he was once a Congressman and had kept his connections alive. But Balwant Singh turns out at this twist on the road to be the man trusted by the Governor Arjun Singh and the moderate Akali chief Longowal.

The July accord shows the disposition of forces in Punjab since this April was such that Longowal was unable on his own to mobilise clear-cut support. He now has a platform to do so. But though he can present the accord as a victory for the Akalis and his leadership, his colleagues, Badal and Tohra (with the AISSF and Joginder Singh in waiting), have the potential to turn it into a defeat through the now normal procedures of recruiting religious leaders, congregations of Sikhs, etc. The course on which Longowal and Rajiv Gandhi have embarked requires logically and soon that Longowal and his supporters should win an election. Will Rajiv Gandhi let that happen? Can he rein in the divided Congress(I) in Punjab and allow them only just so much of a role as to split the Hindu vote between the BJP and themselves?

# The Karamchedu Killings

## The Essence of the NTR Phenomenon

**KB**

"HE who sets his heart on Lord Krishna and thinks of him steadfastly gets as much benefit as from an *Aswametha Yajna*; he who does *pranam* to Lord Krishna verily gets ten times the benefit . . . ". Thus, a honeyed brahmin's voice blaring from the loudspeaker fitted to the top of a two storeyed building in the village of Karamchedu. Just beneath the loudspeaker is a painted board which says that the top storey of the building—or a part of it—houses a *Lakshmimandiram*; and the picture rises before your mind's eye of devout housewives of caste-Hindu landed families sitting cross-legged on the floor nodding their heads in appreciation as the brahmin goes on to say that "one should hear the secrets of the Gita from a man born to noble *samskaras*, and one understands the message according the *samskaras* of one's birth".

The day is Monday, July 22, 1985. Just five days earlier, a 3,000-strong mob of caste-Hindu (Kamma, to be precise) landholders of the village had assaulted the madigas (chamars) *en masse* and killed six men and raped three girls. As the Gita *pathan* goes on in the *Lakshmimandiram*, barely 20 of the 300 madiga families are in the village. The others have fled the village, to look after the injured in the hospitals at Chirala or Guntur; or to seek refuge in a Church compound in Chirala. The walls of the Church say "Come unto Me" in bold letters; they came unto Him (in part because most of the madigas are Christians, and in part because He is in possession of the most durable structure in Chirala), but He has given them no better shelter than the shade of a couple of mango trees, which can keep neither the sun nor the rain out.

Karamchedu is a big and prosperous village of Prakasam district in coastal Andhra. The coastal villages of this district are major cultivators of cotton and tobacco, and Karamchedu is one of them. The attendant prosperity is evident in the well-built (and no longer shoddy as of yore but quite slick-looking) buildings with TV antennae sticking out from the top, and the substantial number of scooters, motor cycles, tractors, and even an odd car that slush through the muddy streets.

Most of this wealth is concentrated in the hands of a few Kamma landlord families; one of them, Daggupati Chenchuramaiah, being none less than the father of NTR's son-in-law and leader of Telugu Desam's youth wing, Venkateswara Rao. Among the others are well known film-producers, not to mention lesser operators of the film business. While not all the Kammas in the village are rich, the fact that their community is about 6,000 strong in a village of 10,000 people has given the dominant sections of the community tremendous power. And they appear to have put it to good use. The stronghold they have over this prosperous and 'developed' looking village is remarkable. The madigas and malas (the two major harijan castes of Andhra) of the village, numbering about 450 households, live in conditions reminiscent of the helotage of ancient India. Most of them own no land (just 16 of the 300 madiga families possess land, and that too just about half an acre), and depend entirely upon leasing in or labouring upon the land of the peasants or landlords. Those who lease in land are forced to perform chores in the landlord's fields or house, in addition to paying the rent. The annual farm-servant (*paleru*) is paid about Rs 2,000; if he is unable to complete the full year's work for which he has contracted, he is forced to quit without being paid a single paisa. Absenting himself for one day would entail being beaten and manhandled. In the words of Tella Judson, a madiga of the village, "a *paleru* who has worked all the year cannot be sure of getting his payment until the last month is through, and the crop is harvested and deposited in the landlord's granary". The payment for daily wage-labour is also surprisingly low by coastal Andhra standards. The men are paid about Rs 10 to 12 and the women Rs 6 to 8.

The harijans do not appear to have received much help in resisting this domination. The Left in coastal Andhra has generally been more popular among the propertied classes (especially in the villages), leaving the harijans to the Christian missionaries, and the politics of patronage perfected by the Congress. Indeed, caste-wise it is Kamma gentry and peasantry that has shown a general preference for the Left, especially the CPI(M); the fact that one important reason for this partiality is the very patronage that the Congress has afforded the harijans is a shameful commentary on Left politics, but is nevertheless an undeniable truth. The other important factor is that in the choice of leadership the Congress has shown a general aversion towards giving the leading role to coherent and well organised landed communities settled in prosperous and fertile regions, and has preferred to give a disproportionate importance to decrepit and unorganised sections of the gentry, or economically powerful sections of the backward communities. This was the only viable policy for holding the immensely varied sections of this country's propertied classes together; for if the political lead had been allowed to economically powerful communities, that would have resulted in what our newspaper editors call 'fissiparous tendencies", to the fatal detriment of the unity of the ruling classes so essential for their survival. Indira Gandhi—perhaps more than her father—was an expert in handling this stratagem. But the incongruity inherent in such a tactic was not in line with the party's green revolution economics which gave more and more prosperity to precisely those who felt they were being denied their fair share of political power. And their ranks were strengthened by the rise of new sections and a new generation enriched by the green revolution and all that it has entailed, and who have little loyalty and lots of impatience with the structure of the past. The Congress Party's ambition to technologically modernise the country without altering the political structure suitably has now caught up with it, and it is paying for its folly all over the country at the cost of considerable bloodshed. With the rise of Telugu Desam party, this incongruous distance of the prosperous sections of the gentry and their new-rich fellow-travellers from the seats of political power has been bridged; it implies, of course, short-sighted self-assertion which is inimical to what Rajiv Gandhi and his late mother like to call 'national integrity' (which is properly understood as the unity and integrity of the propertied classes) but that is not our concern right now.

What is of moment is that it implies more violence on the rural poor. It is a matter of historical accident (for these forces of arrogant self-assertion are present as much within the Congress as outside of it) that the violence takes the form of electoral conflict, with the landed classes backing the Telugu Desam and its allies (CPI, CPI(M), BJP, etc) and the harijans, the Congress(I). Small wonder then that the national opposition parties (we call them 'friendly opposition parties' in Andhra) have been maintaining a shamefaced inactivity in the face of these assaults, while the Congress(I) is extracting maximum propaganda mileage as the blood flows. Karamchedu is only the last of a series of incidents. The very first elections that brought the Telugu Desam to power in 1983 saw the burning of harijans at Padirikuppam in Chittoor district. Four persons were killed and about 80 houses gutted; property worth Rs 6 lakh was destroyed. In this year's Assembly elections the assaults became more widespread, though less fatal. According to press reports, assaults took place on harijans at Muthukur, Veerareddypalem, Brahmanatangel and Vadamalpet in Chittoor district; Dharur, Chilapur and Alampalli in Rangareddy district; and Venkatakrishnapuram and Chimalamarri in Guntur district. As at Padirikuppam, the attacks took the form of house-burning. Harijan houses burn easily, especially if it is the summer months. Thirty houses were burnt and 71 persons hospitalised, but mercifully no one died. Oddly enough, while we do not know how many of the landed classes were arrested, 60 harijans were taken into custody for rioting. And just in case somebody thinks it is only the Kamma gentry that has gained moral strength from the accession of NTR to power, let it be recorded that at Padirikuppam the arsonists were Naidus, and in the Rangareddy villages they were Reddys—which happen to be the dominant landed castes of the respective areas.

Now it is Karamchedu, and with an unprecedented degree of brutality. There was trouble in the village during the recent Assembly elections, with the harijans defying the landlords and voting for the Congress(I). That conflict merely added some more heat to the cauldron. On July 16 there took place an incident that set off the explosion. There are two drinking water tanks in the village, one for the harijans and one for the caste-Hindus. At about 4 o'clock in the evening of July 16 a Kamma youth by name Srinivasa Rao was feeding bran to his buffalo near the harijans' tank. Some of the bran dribbled down into the tank. A madiga woman by name Suvarta, who had come to fetch water, objected to it, and there was an altercation. Srinivasa Rao took out the thickly plaited rope used for beating buffaloes, and beat Suvarta with it. The girl is said to have grabbed at the rope and beaten him in turn. Some more people joined issue on both sides but the quarrel was soon settled. That night the Kamma youth came to Suvarta's house and dragged her out. But the neighbouring women interceded and sent away the youth. The harijans thought the issue was closed, and therefore did not anticipate what happened the next day.

That night the Kamma youth gathered at a brandy shop in the village and took a decision to attack the madigas (the other harijan caste, the malas, were deliberately spared). Their fellow-castemen from neighbouring villages were mobilised through openly communal and provocative slogans. ("If you are born to a Kamma you come out, if you are born to a madiga, then don't.) A mob of 2,000 to 3,000 then gathered in tractors and motor cycles and surrounded the madiga houses from all sides. The surprised madigas ran for life. Some ran into houses, some hid under haystacks, and some ran into the fields. But the pursuers were unrelenting. They ransacked houses and hacked at the doors and walls with axes. Duddu Vandanam and Duddu Ramesh were caught running out of their houses, and were attacked with axes. Vandanam died immediately and Ramesh four days later in hospital. Those who ran into the fields were chased and murdered in the fields. Tella Yevasu, Moshe and Muthaiah were killed thus. The way the 70-year old Moshe was killed is illustrative of the massacre that took place that day. He first begged with them to spare him, for he was an old man. When they started beating him, he ran into the fields. They caught up with him, hacked him with an axe, and as he fell down on his back, they dug a spear into his groin and twisted it. Muthaiah and Yevasu were also beaten with sticks, axed and speared to death in a similar fashion. Duddu Yesu was another person who was axed and died five days later in hospital, taking the death toll to six. About 20 others were hospitalised with severe injuries on the head and limbs.

The women were treated equally brutally. They were dragged out of the houses, stripped and molested. Three young girls, Mariamma (11), Victoria (13) and Sulochana were raped; after raping them a stick was dug into the private parts and twisted. Sulochana, who was married and pregnant, aborted in hospital. It is not certain the girls will survive.

It is only to be expected that politicians would make capital out of this brutality, especially considering that the chief minister's own people are probably involved in it. But in AP the Congress(I) is the only party that can make such capital, for the other opposition parties are too much beholden to NTR for the measly seats they have in the Assembly or Parliament. They have therefore been content with making condemnatory statements. The Congress(I) appears to be on the road to making a big issue of it. Legend has it that when a similar massacre took place in Belchi during Janata Party's rule, Indira Gandhi rode into the village on an elephant to comfort the bereaved. Vengala Rao, the Congress(I) chief over here, was either unable to procure an elephant or realised that the heavy beast would find it difficult to navigate the muddy black soil of the cotton tracts in these monsoon months, and so chose a more modern mode of transport. Neither he nor his party is doing anything to help the refugees who have camped in the church at Chirala, but they are out to pull down the state government if they can.

A more realistic question is whether the guilty will be punished. For the estimated 3,000 assailants, a mere 11 have been arrested till now. Most of those whom the victims have identified by name have vanished from the village. "They might even have gone to London, for they are rich people", says the equanimous Superintendent of Police of the district. Though 3,000 people could not have found themselves armed with axes and spears spontaneously and simultaneously, he refuses to consider the possibility of a criminal conspiracy. If you press him further for stringent action, he says virtuously: "What do you want me to do, gather all the thousands of Kammas at the police station and beat them up?". We do not, indeed, but we do know what would have happened if it had been the other way around and the labourers had attacked the landlords and killed half this number. One shudders to think of what would have happened then.

**AFGHANISTAN**

# The Choice Ahead

### Lawrence Lifschultz

GENEVA: The fourth round of UN sponsored talks on Afghanistan ended in Geneva on June 25 with muted voices expressing the hope that diplomacy might yet outpace the runners of war. For those on the outside looking in it was difficult to unravel the sonorous and solemn phrases spoken at the end of the session by various diplomats

Diego Cordovez, the mediator at the centre of the UN effort spoke carefully and positively about the end of the 'deadlock' which had prevailed since 1983. What Cordovez indicated was that an important advance had been made in drafting the document which could become the basis of a comprehensive settlement, if more powerful factors permit.

In fact, three out of the four principal sections of the draft agreement have for all intents and purposes been settled between the negotiating parties. This is at the core of the advance which was achieved in Geneva during the latest round of proximity talks between Afghanistan and Pakistan. The three diplomatic 'instruments' as they are called *which have been resolved* concern the principles of 'non-interference', international guarantees, and the return of Afghan refugees.

It is the fourth 'instrument' which still remains unsettled. Its substance is best summarised by the phrase which, is at its centre; it is the instrument of 'interrelationships'. It is the final act of the agreement and is the binding element which links all other parts of the document into a form which will secure the unity of the settlement in what negotiators have termed an 'implementable' form.

Thus, it is this fourth instrument, which remains the nut to be cracked. The 'interrelationships' within the fourth instrument are the *pivot* on which the entire negotiations hinge, and the outcome will be crucial in shaping the contours of Southwest Asia's politics in the decades ahead.

What is involved in this final protocol is the relationship between the withdrawal of Soviet forces and Pakistan's agreement to restrain insurgent activity originating within its borders. Its terms are designed to allow both the withdrawal of Soviet forces and the repatriation of refugees under as near peaceful conditions as possible.

The differences which exist between the two sides on this question are the subject of profoundly complicated forms of elocution by the respective negotiating sides. Each wishes to explain the terribly complex and involved nature of the problem and the burdensome tasks involved in the diplomatic effort to resolve the question. Elegant phrases are turned, an intellectual architecture is arranged, and the mystification of the diplomatic world is invoked. The public is left blinking to grasp an understanding of what actually is going on. However, despite this organised lack of clarity the outstanding problem has precise features.

The remaining difference between the two sides is in fact quite straightforward. The Pakistan side has stated that the Soviets will not withdraw their forces unless and until external interference has ended. Pakistan on its part will not give guarantees that it will restrain cross-border operations until it is confident that the Soviets will withdraw their forces. If this type of posturing is maintained on both sides, the negotiations can go around in circles for quite a long time with various personalities with long experience in the field of foreign affairs enjoying periodic trips to Geneva.

The only distraction, of course, will be the mounting civilian dead as ideologically motivated fighters pursue the war which their various patrons have already declared cannot be militarily won, even if it can yet be substantially escalated on both sides.

## DIFFERENCE NOT PROFOUND

In spite of what some quarters would like believed, the diplomatic difference between the two respective positions with regard to the fourth instrument is not very profound or complex. It is, in fact, paper thin. Mediators have already indicated to both sides that the form of wording for the fourth 'instrument' of the text can be arrived at which will satisfy the specific concerns of each side. It remains as always a question of political will in both camps whether this shall be done.

The Afghan and allied Soviet position has insisted that the fourth instrument should be formulated in a 'consecutive' framework. The condition of 'non-interference' and guarantees regarding the end of cross-border operations are to be given primacy, and then the withdrawal of forces is to be linked in a 'consecutive sequence' to this understanding. The Pakistan side has argued for the two principles of 'non-interference' and 'withdrawal' to be simultaneously linked with the guarantees on the cessation of cross-border operations becoming effective once the time-frame for a withdrawal has been established.

Although they have repeatedly stated that they will commit themselves to a specific schedule of withdrawal once all provisions of a settlement are satisfactorily resolved, the Soviets on their part are reluctant to commit themselves publicly to an exact time-frame for withdrawal unless they are confident that as they withdraw cross-border operations will not be escalated. They fear that certain American quarters obsessed with new Cold War 'roll back' conceptions would not be wholly averse to such a development. However, the Soviets are not prepared to undertake a withdrawal that is paralleled by a stepping up of covert operations based from Pakistan. This is the basis of their insistence on the 'primacy' of 'non-interference' over 'withdrawal', and that the Pakistan government's guarantees be more than pro-forma ones.

Although both positions have elements of narrow substance grounded in distrust, they each also possess the quality simply of diplomatic 'postures' and negotiating 'stances'. Whether the ultimate form is 'consecutive', 'simultaneous', or another variation in diction, the essence of the only agreement which could ever be arrived at must encompass secure commitments on both features—the staged withdrawal of Soviet forces and the cessation of cross-border operations based from Pakistan. UN negotiators have made clear that the language of agreement can be found to resolve all existing problems including the possible deployment of a UN border enforcement force. But, first a co-ordinated commitment from both sides for a solution must be exercised. Simply put, if there is a will there can be a way.

### POWERFUL VESTED INTERESTS

If the talks collapse over the formulation of this point, it will not only be absurd, it will be due to the fact that more powerful influences have been brought to bear by forces which perceive much greater gains deriving from a failure.

There now exist real material interests which have little to gain from a comprehensive peace settlement. Certain sections of the military and intelligence bureaucracies both in the US and the USSR, to speak nothing of sister agencies in Pakistan and Afghanistan, have acquired huge budgetary allocations premised on current trends in the Afghan war and preparations for wider wars yet to take shape in the region. *The Washington Post* last January reported that the budgeted increase in the CIA's secret aid to the Afghan insurgent forces would rise to $ 250 million over the next year, making it the largest covert programme since the Vietnam war. According to the *Post* the programme was designed to support an estimated 200,000 to 300,000 insurgents or roughly half the size of the Pakistan army. A Geneva settlement would not be welcomed in some quarters since it would place in fundamental jeopardy existing plans of military development and deployment by removing the underlying rationale for their expansion.

However, developments on the Afghan front are dwarfed by comparison with plans for wider regional military alliances. On Jaunary 1, 1983 the United States Central Command (USCENTCOM) was officially activated as a regional military formation with a command area of 19 countries along an arch stretching from Kenya and Somalia, across the Middle East and ending in Pakistan. Originally termed the Rapid Deployment Force (RDF), the USCENTCOM has 300,000 troops at its disposal for deployment in the countries surrounding the Gulf region. Bewteen 1984-88 the sum of $ 13.6 billion is budgeted to be expended on development of the command and its supporting structures in the region. This will be the largest single infusion of military expenditure ever made in a co-ordinated manner among the various states in the region under US aegis.

Originally conceived as a response to the deterioration in the US regional position in the aftermath of the Iranian revolution and the Shah's demise as the principal pivot in American strategic planning for the Gulf, US military planners perceived the need of a force which would be the basis for projecting US military power quickly into the area. Pakistan is an important component in the strategic coalition US planners are projecting for the entire Gulf region involving several levels of military integration and deployment. In testimony before the US Senate Foreign Relations Committee during the original hearings on aid to Pakistan, former Under Secretary of State James Buckley, described Pakistan's position within US strategic planning as "an essential anchor of the entire Southwest Asian region".

The contours of American policy have developed along lines similar to recommendations which were first set out in the 1980 Rand Corporation study on Pakistan's security. The Rand report stated, "The United States is currently building a rapid deployment force to protect Western access to oil . . . Pakistan could serve as an extremely important entrepot for an RDF moving into the . . . Gulf from the East, i e, from Diego Garcia or the Philippines . . . Furthermore, there is the possibility that the Pakistan army could serve as a proxy force fighting in the Gulf." The Rand study concluded that Pakistan's generals would only "be induced to co-operate in an American scheme for defence of the . . . Gulf, provided once again that the United States undertakes to protect Pakistan from the consequences of such a decision".

### 'FORWARD POLICIES'

Both the Americans and the Soviets are moving ahead with 'forward policies' which will bring their massive military establishments into closer proximity and possibly direct confrontation in a region where for decades 'great power' conflicts had been mediated by buffer states, and where local military forces had never been called upon to engage in the serious risks of 'front line' confrontations on behalf of distant benefactors. The stakes across the region are growing perilously. But, for those committed to the further structural development of deepening military alliances, no profit will be derived from a successful resolution of the current Afghan negotiations.

The Soviets on their side have already suggested that if the coming phase of the negotiations do not advance towards a settlement then they will extend their own violent 'forward' policy in Afghanistan with a possible five-fold increase in their forces deployed against the insurgency. The symmetry is remarkable on both sides. Elements in each are convinced that a further escalation on their part will yield favourable results for their cause.

This 'see-saw' escalation on both sides of the Durand Line once begun in earnest will be difficult to draw back from and will permanently alter the options which still exist (if only just) for the societies on both sides of the boundary. If the region's present conflicts widen, it remains an open question whether the Pakistani state, as it is presently constituted, will be able to internally sustain the political strains placed upon it by the strategic demands that will inevitably be required of it.

The key point which requires understanding is that the only possible basis on which the Afghan negotiations can reach a successful conclusion is if the prevailing momentum towards militarisation, the fostering of garrison states, and the extension of covert warfare is halted. There can be no settlement unless and until there is a genuine stepping back from existing policies of esclation on the part of both the United States and the Soviet Union. In short, unless there is a sharp interruption in the entire trend of the past five years, a settlement will not be secured.

The statement by Diego Cordovez, the UN mediator, made to this correspondent in a detailed interview published in May (*The Muslim*, May 16, 1985) was not one of casual understatement, when he claimed no solution was possible without 'broad political support' from the superpowers. Without a genuine co-ordinated commitment to back a diplomatic settlement, the text of which virtually exists, there will be no agreement and the formal diplomacy displayed at Geneva will in retrospect be proved to have been an illusion. But, that stage has not yet been reached. Indeed, what is crucial about the present moment is that the possibility of achieving a solution does exist, but if it is to succeed then restraint must now be imposed on those who possess a vested interest in the collapse of the negotiations. The 'intra' and 'inter' bureaucratic battles are now underway, not merely in Islamabad and Kabul, but also in Washington and Moscow.

### OUT OF THE SHADOWS

The formal meeting in Washington between US Assistant Secretary for Near East and South Asian Affairs, Richard Murphy, and the Chief of the Middle Eastern Department of the Soviet Foreign Ministry, Yuli Alekseyev, in the two days preceding the opening of the Geneva-IV round was a modest gesture on both sides signifying positive support for the UN process. The United States has now publicly shifted from a policy of 'active benign neglect' in its attitude toward the UN effort to one of benign support. But one could hardly regard the shift yet as having taken on a dimension of a creative dynamic diplomatic effort behind the UN draft agreement.

Nevertheless, senior State Department officials have recently begun briefing journalists in a style meant to dispel the cloud which had gathered around the April-June 1983 round of talks, when American diplomacy appeared distinctly uninterested in essentially the same terms which two years later are again on offer in Geneva. State Department officials have denied allegations that the US was either interested in 'fighting the Russians to the last Afghan' or of 'bleeding' the Soviets in a protracted and indeterminate conflict.

The Soviets have also come slightly out of the shadows. During the Geneva discussion a senior Soviet emissary, Nikolai Koserev, with special responsibility for Afghanistan was present throughout the talks and remained available for consultation to the Afghan delegation. Despite Soviet/Afghan insistence on a 'consecutive' formulation to the fourth instrument of the text, the Soviets through the presence of Koserev appeared to regard the Geneva talks as a serious venue.

However, the Soviets must face up to some hard questions if the reported remarks Gorbachev made to Rajiv Gandhi about Soviet willingness to accept a 'neutral, non-aligned Afghanistan' is to be realised. The outstanding issue still remains the composition of the regime or national coalition that would emerge in Kabul, if a settlement were to occur.

It is more than slightly ironic that Vasily Safronchuk, the senior and most powerful Soviet emissary in Kabul, as far back as 1979 used to openly discuss with his American colleague, Bruce Amstutz, the need of the Kabul regime to broaden its political base. American Embassy documents from the period quote Safronchuk as saying to Amstutz in June 1979, "They [DRA/Democratic Republic of Afghanistan] will neither allow any opposition, nor do they wish to share power . . . They are stubborn people."

Six months prior to the Soviet intervention, Safronchuk told Amstutz that it would be unwise for the Soviet Union to bring in Soviet forces to support the regime in Kabul. The Soviet emissary quoted Lenin to the American diplomat saying, "Every revolution must defend itself".

According to Amstutz's cable (June 25, 1979), Safronchuk "said that were the Soviets to bring in troops, this would have bad repercussions internationally. He [Safronchuk] explained, "It would harm SALT and the position of the Soviet Union in the world." He then added, "Quite aside from international considerations, it would be bad policy in terms of internal Afghan affairs. I [Amstutz] observed that Soviet troops would have a difficult time in this rugged, mountainous country. He [Safronchuk] nodded his head vigorously."

A great deal of water has since gone over that particular dam and flowed down river into a variety of tributaries, but some of the issues no doubt remain. A negotiated settlement implies that the regime in Kabul would be reconstituted involving a much 'broader political base'. It has been implicitly assumed throughout the Geneva negotiations that a process of political accommodation would occur in phases—before, during and after—the disengagement period which would bring non-PDPA elements into a national coalition.

### MAJOR CHANGES NEEDED IN KABUL

Between the next Geneva round which is scheduled for August 27 and the convening of a final session—perhaps in next February—where a text would be signed, it is expected that certain concrete measures would be taken in Kabul which would clearly point in the direction of a government of national reconciliation, reflecting movement towards a 'neutral, non-aligned Afghanistan'. The complicated and difficult compromises required to achieve such a goal are not to be underestimated.

It would require an important shift in policy within Babrak Karmal's People's Democratic Party of Afghanistan (PDPA). The irony for Karmal is that the establishment of a broad multi-class 'national democratic' coalition of forces is precisely the point of dispute on which he was purged from the party and sent into exile in August 1978 by the late Hafizullah Amin. He had argued that unless such an approach were adopted from the start the regime would falter disastrously. To now attempt to recreate such a coalition of forces after at least five years of bitter civil war will be no easy task. But without doing so the entire PDPA apparatus can expect only to survive behind a Soviet military shield exercising increased levels of violence. Thus, only after the country is further decimated and perhaps hundreds of thousands more are turned into war refugees would the PDPA achieve relative security. If a settlement is not achieved, this is a distinct possibility which even certain elements within the PDPA do not particularly relish for the future.

The PDPA never conceived of itself as coming to power in the manner it has, and it has found itself in the classic dilemma of a radical force having prematurely secured state power without a highly developed or mobilised social movement as its political basis. The severity of its own internal sectarianism reflected that it was not a sufficiently mature entity to undertake the tasks of social transformation which it faced. Its internal sectarian disputes were only resolved by Soviet military intervention, but this 'resolution' became the very basis on which the civil war took off in earnest.

On July 11 *The Times* quoting a Radio Kabul report noted that Babrak Karmal had left for a 'complete medical check-up' in the Soviet Union. Coming two weeks after the conclusion of the Geneva-IV round the coincidence was perhaps a telling one. The real question is whether anyone in Washington and Islamabad is prepared to respond with sufficient intelligence and political will to test whether the signals being offered contain substance.

Preliminary reports on Yaqub Khan's July visit to Washington have not been remarkably encouraging. According to a reliable Washington source, most of the Pakistan Foreign Minister's time in the American capital involved sewing up a wide range of military and economic aid agreements committing the United States to financially sustaining Pakistan's position over the next five years. During ninety minutes of discussions between Secretary of State, George Schultz and the Pakistan Foreign Minister, Yaqub Khan, more than two-thirds of the session is reported to have exclusively concerned the dimensions of the US economic and military aid programme. Afghanistan appeared as a minor corollary to these discussions. For Pakistan's policy-makers Afghanistan has proved a highly functional 'sideshow' to the more central political objective of securing an unparalleled inflow of financial resources.

Nevertheless, during a meeting with invited journalists on July 16 in Washington, Yaqub Khan stated that the Soviet Union's declared intent to withdraw should be tested. He added the familiar point that there was no way to physically force the Soviets out of Afghanistan.

### THE NEXT ROUND

In spite of such remarks, a well placed diplomatic source close to the negotiations stated to this correspondent in late July following the Yaqub/Schultz meeting in Washington, "The Soviets have said they are prepared to be tested on the principle of the withdrawal of their forces from Afghanistan within the framework developed in the UN's draft agreement. Perhaps, this claim is true; perhaps, it is not. But, it has yet to be tested." Despite public statements to the contrary, Pakistan and the United States still have not demonstrated their willingness to actually test the terms of a settlement. Unless this is done, there will be no agreement. If the Soviets are tested on the terms of the draft agreement and they fail to initiate the features of the "fourth instrument", that is a schedule of force withdrawals, then the onus for the collapse of a negotiated solution will rest squarely with the Soviet Union. As matters stand now, the onus for prospective failure appears to rest elsewhere.

According to these diplomatic sources, without the actual willingness to test what has been virtually agreed, the negotiations will stall, deadlock again, and in all likelihood either collapse or straggle on indefinitely, similar to the Geneva arms talks or the Contadora 'process'. If this occurs, it is possible that the UN will suspend the negotiations indefinitely.

The next round in Geneva which convenes on August 27 will indicate whether the opportunity to advance towards a settlement is seized by both sides, or whether the protagonists of a longer and more bitter war will have maintained the upper hand on the conflict.

## WEST EUROPE

# New Dimension in Franco-German Ties

### Ramesh Jaura

THE post-war co-operation between Federal Republic of Germany and France promises to assume significant new dimensions—be it for the purpose of leading EEC to a European Union or in respect of French nuclear deterrent protecting not only France but also West Germany.

Interestingly enough, this development comes within less than eight weeks of the Bonn economic summit of seven major western industrialised countries. The conference had ended in some 'misunderstandings' in Franco-West German relations, giving rise to speculations about the future course of ties considered crucial for the European pillar of the transatlantic alliance NATO.

The 'misunderstandings' were sought to be removed at a meeting between Chancellor Helmut Kohl and President Francois Mitterand in Constance, in southern West Germany. While debate persisted on the outcome of the meet, both Bonn and Paris sprang a near surprise by announcing that they would table a joint draft treaty for European Union. And this they did at the EEC Milan summit on June 28-29.

West Germany and France evidently intend to retain the role of pace-setters in order to take the EEC further. This determination has been reiterated by none lesser than Chancellor Helmut Kohl while presenting his assessment of the Milan meet. Chancellor Kohl was addressing the German and international press corps in Bonn on July 4, two days after the House of Commons debated British Prime Minister Margaret Thatcher's evaluation of the EEC summit.

On July 3 the European Commission headed by Jacques Delors, a former minister in President Mitterand's cabinet, had launched a two-pronged move in attempts to salvage the EEC. At the Milan summit, UK, Denmark and Greece found themselves pitted against the six founder-members and Ireland on the issue of European Union.

The EEC Commission was, on the one hand, engaged in an attempt to placate the three who are apparently against changes in the Treaty of Rome which established the Community and provides the legal basis for its functioning. At the same time, the Commission is working out new proposals on the running of the EEC which go further than those it had advocated in the past and have already been cold-shouldered by UK, Denmark and Greece.

It was against the wishes of the three that the Commission decided to convene an intergovernmental conference, with a view to considering amendments to the Treaty of Rome that could involve restrictions on the use of national veto, new powers for the Commission and the European Parliament, and a separate foreign and security policy treaty.

Despite initial strong reactions, Prime Minister Margaret Thatcher's statement in the House of Commons sounded a generally conciliatory note, stressing the degree to which decisions taken at the Milan summit reflected British thinking. In line with British thinking, she said, were the decisions to give priority to removal of physical and technical barriers to trade and to a free market in transport and financial services, to free capital movements and give freedom of establishment for the professions.

Besides, the decision on political co-operation reflected both British proposals "and a Franco-German text which was very similar". The Milan conference had been a temporary setback "to a new momentum" for Europe, which, she hoped, would be repaired at the Luxembourg summit in December.

Whatever happens in Luxembourg, Chancellor Kohl, as he told newsmen, intends to continue to fight for closer political integration in the European Community even at the risk of a major split among members. He said that Bonn refused to accept the idea of the EEC as merely an economic grouping and added that members had to sacrifice some of their sovereignty to achieve European Union.

Asked if this would risk splitting the European Community, Chancellor Kohl replied: "This danger exists, but we are not frightened by it. If we do not make changes the only thing we have left to discuss in the future is the distribution of olive harvests." The West German leader criticised in particular the Greek Prime Minister Andreas Papandreou for saying that he would accept no changes affecting his country's sovereignty.

In reply to a question, Kohl rejected suggestions of hypocrisy on Bonn's part in using its veto to block a cut in EEC grain prices and in the next breath advocating greater use of majority voting to reach decisions. He maintained that West Germany had merely once made use of the same rights as Britain claimed for itself.

Together with France, West Germany was "ready to work closely with Britain, too, in this field" and "exchanges of criticism across the Channel" were not very helpful. However, Chancellor Kohl sought to smooth over differences with Britain. He said, almost repeating Margaret Thatcher's remarks in the House of Commons, that the basic positions of the two countries were not divergent, particularly over strengthening co-operation in the field of foreign and security policy.

Furthermore, said the West German leader, the decision in respect of strengthening co-operation in research and technology was a sign of hope for the readiness of the Community to accept the challenge in a field crucial for EEC competitiveness. Kohl welcomed, in particular, the Milan summit decision to give approval to the Eureka project. Bonn favoured a flexible approach so that Eureka remained open to countries outside the EEC.

According to reports, France has invited 16 European countries to the Paris ministerial meeting scheduled for July 17. The French wish the meeting to discuss five sets of high technology projects. These are outlined in a document produced by the state-sponsored technology centre Cesta and titled "The Technological Renaissance of Europe".

The projects group together proposals for joint efforts in information technology, robotics, communication, biotechnology and new materials sectors. They are studded with names such as Euromatique, Eurobot, Eurocom and Euromat.

Reports quoted French officials saying that specific funding of Eureka projects was unlikely to be decided at the Paris meeting. Finance, from a mixture of government, company and banking sources, they said, would be set on a case by case basis. This view appeared to be shared by Chancellor Kohl in Bonn.

A strong advocate of German-French co-operation, Kohl however declined a comment on the decision of President Mitterand's Socialist Party modifying its defence doctrine and asserting that French nuclear deterrent should be used to defend both West Germany as well as France. Observers believe that the decision reflects the less clearly spelt out shift in French government policy.

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## Padmatex Engineering

PADMATEX ENGINEERING is making a 'rights' issue of new equity shares on a three-for-five basis to raise Rs 120 lakh to finance its new project for the manufacture of highly sophisticated spinning preparatory machines. During the last year, the company diversified its production base by starting production of highly sophisticated draw frames and speed frames of Zinser (W Germany) design. The company is now planning to manufacture an automatic open end spinning machine 'Auto Coro' which is a very prestigious and renowned product being manufactured by its collaborator, W Schlafhorst and Company, W Germany. The company is seeking approval of the government to the terms of collaboration. According to V G Rajadhayaksha, Chairman, the international market for this kind of machine is dominated by Schlafhorst products.

JK PAPER

LAKSHMI
CEMENT

# STRAW PRODUCTS LTD.

## CHAIRMAN'S STATEMENT

At the 46th Annual General Meeting.

**Shri Hari Shankar Singhania**

Ladies & Gentlemen,

I have great pleasure in welcoming you all to the 46th Annual General Meeting of your Company. The Directors' Report and the Audited Accounts of the Company for the year ended December 31, 1984 have been in your hands for some time and before I deal with them, I must place on record the major event of the year which saddened every Indian beyond words. The former Prime Minister, Shrimati Indira Gandhi, who steered the nation and held it together despite serious challenges from within and outside for nearly sixteen years laid down her life for the sake of India's unity and integrity. The best homage we can pay to her would be to do all that we can to make India strong and prosperous as well as to preserve the unity of the country.

It is a happy augury for democracy that the new leader was chosen swiftly and smoothly. The massive mandate that the ruling party received during the recent elections has brought to the helm, young and dynamic Prime Minister, Shri Rajiv Gandhi. In a very short span of time, he has succeeded in creating a new sense of confidence in the nation. He has tackled promptly and firmly many difficult domestic and international issues. A new direction has been given to the country with emphasis on efficiency, modernisation and technology, so that India may enter the twenty-first century with a firm base and competitive strength. Number of policy changes have been made to reduce control & red tape and simplify procedures. The Union Budget for 1985-86 has attempted to give a thrust to the country's economy through a series of bold and innovative steps. There is an endeavour to make Indian industry competitive and cost effective. The attitude towards foreign investment and technology is more open and liberal. All this has generated a new enthusiasm and confidence in India and abroad. This has also put responsibility on industry and trade to respond positively. Your Company will do all it can to play its constructive role and seize the opportunities that unfold themselves. A number of new areas of investment are already under our active consideration.

The Sixth Five-Year Plan has just ended with substantial achievements. We have been able to achieve average annual growth of 5.2 per cent per annum as targeted and sustain foodgrains production of nearly 150 million tonnes for the last few years. The rate of growth of industrial production however has been lower than the target. The Seventh Five-Year Plan envisages a growth of 5 per cent per annum of GNP and 6.7 per cent in industrial sector. A greater responsibility has been envisaged for the private sector. It is possible for the corporate sector to achieve a growth rate of 10 per cent per annum provided certain constraints are effectively tackled. The major problem is of financial resources. The issues of higher debt equity ratio, lower promoter's contribution and removal of convertibility clause need re-consideration in order to stimulate higher investment. Minority foreign investment in some traditional industries could be permitted to raise additional resources.

Problems of infrastructure like power, coal, transport and communication continue to be the weak spots and the Government has to accomplish breakthrough in these sectors to ensure targeted growth. It is not enough to achieve physical targets, it is equally essential to improve the quality performance. Poor quality of coal, frequent interruptions in power supply, wide voltage fluctuations and unreliable communication are not only frustrating and affect production but seriously damage machinery and adversely affect costs.

Labour productivity and discipline is yet another area which needs urgent attention. Trade Union movement will also have to positively respond to the changing economic imperatives.

What is now needed in India is not only new investment but better utilisation of the existing capacities through improved management, consolidation and technology upgradation. We have become a high cost economy and we have to get out of this rut both from the domestic as well as international angle. If India is to achieve higher economic growth so important for the well-being of its masses, it has to earn foreign exchange needed for its development by becoming competitive exporter in many fields, particularly manufactures. To my mind, this basic approach should pervade our decision-making.

For political stability and social harmony, it is essential that there should be price stability and generation of massive new employment opportunities. We will have to search for areas which generate large number of jobs in the short run. To my mind, two areas which can provide the answer are: (i) massive road building; and (ii) extensive house construction. We already have the required basic inputs–steel, cement and other materials. Creation of large scale employment by these activities would also generate additional purchasing power in the hands of rural masses. It has been the experience of Indian economy that the growth of many industries has been stunted because of inadeqate demand due to lack of purchasing power. Moreover, there has also been the problem of increasing migration to urban areas in search of jobs and opportunities, which in turn have given rise to new problems. These activities therefore would have a multiplicity of benefits. The enormous political, social and economic advantages which would accrue from such programmes lead me to suggest that we should not hesitate to resort to even unconventional methods of raising resources for these purposes.

## COMPANY PERFORMANCE

Coming to the Company's performance during 1984, I am happy to state that there has been an all round improvement in production, turnover and profits of the Company. The Cement Division achieved a capacity utilisation of 96 per cent with a production of 4.81 lac tonnes. The Paper and Board production at 65,848 tonnes was also higher as compared to last year. Sales and other income of the Company increased to Rs. 106.09 crores against Rs. 87.84 crores in the previous year. Profit before interest and depreciation was higher at Rs. 16.99 crores compared to Rs. 12.98 crores in 1983, showing an increase of 31 per cent.

The modernisation and renovation scheme of Paper Mills in Orissa with an investment cost of Rs. 23 crores is expected to be completed in phases in 1986 and 1987.

As you are aware, your Company has promoted Orissa Synthetics Limited (OSL) jointly with Industrial Promotion and Investment Corporation of Orissa Limited to manufacture 15,000 tonnes per annum of polyester staple fibre at Dhenkanal, a backward area of Orissa with an investment of Rs. 73 crores. I am happy to state that the plant is expected to go in production well within the targeted date during 1986. OSL will be entering capital market to raise equity capital in the next few months.

## PAPER

Last year, I had pointed out to the gradually deteriorating capacity utilisation in the Paper Industry which had come down from nearly 75 per cent in 1981 to less than 59 per cent in 1983. I am sorry to state that this has declined even further to 56 per cent in 1984. Such a low capacity utilisation is a gross waste of capital resources which our country can ill-afford. The bulk of this unutilised capacity is in the medium and small scale sector which accounts for nearly half of the overall installed capacity in the industry. The basic reason of this is that most of these plants are unviable and have obsolete second-hand machinery. Despite heavy excise concessions and no obligation to produce controlled variety of White Printing Paper, these units are unable to stand on their own because of the inherent weaknesses. In my view, such uneconomic capacity should not be allowed to be created any further and the existing plants should be enabled to become economic by expansion and technical upgradation.

As far as large integrated mills are concerned, the infrastructural constraints, inadequate returns and lack of modernisation are the key problems. The obligation on the integrated mills to produce and supply White Printing Paper at prices which are grossly below cost of production continue to affect the returns. It is unfortunate that the price revisions to compensate even the increase in cost of production are too late and are far from adequate. The last price revision was done more than a year ago in May 1984. Here I would like to suggest that the concept of requiring a particular industry to bear the entire social cost of subsidising supplies to certain sections of society or for important social causes needs reconsideration. For instance, the cost of subsidising paper for the Education Sector has to be entirely borne by the paper industry and that too only by a segment of the industry having less than half of the installed capacity. The burden on the industry should not be beyond its capacity to bear and should not jeopardise its health.

In this context, it might be mentioned that according to an Expert Committee, during the last ten years, the cost of production of the Paper Industry in general increased by 186 per cent whereas the sales realisation increased only by 129 per cent. This points to the continued decline in the rate of return in the Paper Industry over the years.

Modernisation of the existing Paper Mills to economic size requires huge investment. It has been estimated by the Working Group on Paper & Paper Board Industry set up by the Planning Commission that a sum of Rs. 690 crores is required for modernisation during Seventh Plan period. In order to encourage rapid moderisation, it is necessary to ease the norms of lending and the rate of interest.

Availability of raw materials has been one of the key problems facing the Paper Industry for quite some time. The basic raw material in India so far has been bamboo of which very few untapped areas are now available. Recognising this problem, the Government has permitted the import of wood chips, wood pulp and waste paper without any import duty. This is a welcome relief. However, the long term solution lies in replantation. In this direction also, the State Governments have recently shown some interest and I sincerely hope that concrete steps will follow.

## CEMENT

Cement Industry has made unprecedented progress as a result of assurance of 12 per cent post-tax return made in 1979 which was reiterated again in early 1982 at the time of partial decontrol. As a result, massive investment has been made in the industry and the installed capacity has increased from 24 million tonnes in 1979 to 43 million tonnes in 1984-85. The industry is expected to continue the pace of this growth during the Seventh Plan when capacity is expected to go up to 60 million tonnes. This will however require Government to take necessary steps, as in the past, to keep investment in Cement attractive.

Unfortunately continuous increase in cost of production, inadequate increase in price of levy cement and steep fall in the prices of non-levy cement have made the working of existing new cement plants unremunerative. These new plants set up at high investment cost are hardly able to meet the interest charges leave alone depreciation and the promised 12 per cent post-tax return. I would earnestly appeal to the Government to grant excise duty rebate of 50 per cent and other remedies requested by Cement Manufacturers' Association to the new plants established in 1982 and onwards without loss of time to mitigate at least part of their financial problem. It is not out of place to mention that the new cement plants constitute nearly half of the present installed capacity.

There was an assurance from the Government that there will be regular review of the levy cement price in order to compensate for increase in cost of inputs. The cost of production, because of steep increases in cost of inputs like coal, power, transport, labour etc., all beyond the control of the industry has been increasing continuously since partial decontrol was introduced in February 1982. The Government made the first price revision after a lapse of more than two years with effect from 18th July 1984 and that too by inadequate amount of Rs. 40 per tonne besides 5 per cent reduction in levy quota. Since then there has been further increase in the cost of production besides rise in the railway freight. It is unfortunate that the Government has decided against granting any increase in levy cement prices and has reduced levy quota by mere 5 per cent with effect from 4th June 1985. This will hardly provide any relief to the industry which is forced to sell levy cement much below cost. There is an urgent need to revise the levy cement prices to compensate for the increase in cost of inputs and such a revision should be made every quarter.

Cement is an energy intensive industry. Therefore level of production and cost of production is dependent on continuous and adequate availability of power. Power situation has been really bad in large number of States where cement plants are situated, particularly in Rajasthan, where your plant is located. Apart from heavy power cuts for long periods, the industry is subjected to frequent power interruptions and very wide voltage fluctuations. To maintain production, your Company, like many other cement units, has installed 15 MW standby diesel generating sets at a huge cost of Rs. 6 crores. Due to serious power situation, these diesel sets are no more standby but have to be operated almost continuously. The cost of power from DG sets is nearly three times the cost of power supplied by the Electricity Boards, apart from high expenditure that has to be incurred in maintaining these Sets. Hence, it is absolutely necessary to continue the DG Relief Formula in one form or the other to compensate for the extra cost incurred to produce the cement from captive diesel generation.

Coal, the conventional fuel used for manufacture of cement, is a source of great worry due to constraints of rail transport. The industry, has to work at very low levels of stocks of coal and is compelled to move coal by road raising the cost of production substantially. In order to optimise production and to minimise the cost, high priority should be given to the cement industry in allocation of power and wagons for movement of coal.

Before I conclude, I would like to place on record my appreciation to the management team, the workers and the staff at all levels for their dedication and hardwork to improve production and productivity. I would also like to thank the Governments of Madhya Pradesh, Orissa and Rajasthan and the Financial Institutions and Banks for their continued support and co-operation.

Thank you.

*This does not purport to be a record of the proceedings of the Annual General Meeting*

# In the Mirror of National Accounts

VVD

**National Accounts Information System** by Uma Datta Roychoudhary and Moni Mukherjee; Macmillan India, 1984; pp 296, Rs 80.

BOTH the authors are eminently qualified to write a book which has its focus on India's national accounts. Both have worked long years in India in this field, and have contributed a lot to the development of a system of national accounts for India, including the development of the information system relevant to estimation of macro-aggregates used in the system.

During the last thirty-five years or so, the national accounting framework has developed and become more and more complex. Starting with the estimation of GDP, investment, saving, consumption, expenditure, etc, economic macro-aggregates, the system has grown into an articulated set of accounts and standard tables as recommended in the UN's System of National Accounts (SNA), 1968. The SNA, 1968 has completely replaced the earlier SNA, 1953. Efforts of all countries, developed and developing, are directed at conforming to the SNA standards and reaching the level of excellence and sophistication envisaged in the SNA. India is no exception. CSO regularly publishes its annual 'National Accounts Statistics' (NAS) which contains Consolidated Accounts of the Nation more or less on the lines recommended by the SNA, and also a number of other tables bringing into focus disaggregated accounts classified by sectors, by kind of activity, by organisation, etc, categories and cross-classified categories.

The book under review is concerned with such macro-aggregates. The first seven chapters are generally all devoted to the technical aspects of national accounting work. Chapter 1 deals with the questions 'why national income and what it attempts to measure'. Historical notes are found in chapter 5. One who is familiar with the SNA and CSO's publication Sources and Methods (April 1980) may find these chapters easy reading. No doubt, technical aspects are also discussed in the remaining three chapters but they are more subject-specific discussions like those on poverty and its measurement; the factor inputs in the GDP growth process; and the national accounting framework in plan formulation and evaluation and in short-term forecasting of GDP and other macro-variables. Chapter 3 is also in a way subject-specific, concerning inter-regional or inter-country comparisons of GDP.

The authors have done well to make it quite clear that it is difficult to quantify the margins of errors for the estimates of various macro-aggregates. Not all data are so collected that standard errors of the estimates can be worked out. Even where sample survey methods are used to collect relevant data, final estimates contain several other data or assumptions regarding allocations, ratios and proportions used with the result that calculation of standard errors becomes meaningless. Even the sample survey data may contain unknown non-sampling errors. Previous efforts at quantifying errors were at best 'informed opinions' or 'expert guesses'. Ultimately, the best insurance against inaccurate or widely-off-the-mark estimates is to improve the quality of primary data and develop cross-checks to obtain an idea about the reliability of the estimates. Secondly, one can observe "the extent to which the estimates for a given year undergo revisions as a result of the use of fresh and more recent data". "Finally, one could consider the measures of 'statistical discrepancy' which appears in the consolidated accounts of the nation or the extent of the difference between the alternative estimates of the same aggregate to obtain an overall idea of the reliability of the estimates."

Having said this on the technical aspects, one may raise a few questions or expressions of doubts or make differing points. First, the term 'net output' which is used interchangeably with 'net product' appears alien to national accounts terminology. Neither SNA nor CSO's Sources and Methods recommend 'net output'. Secondly, on page 25, the authors define national income as "domestic product minus that part of domestic product which accrues to foreigners plus *the net output* of enterprises owned by the nationals but located in foreign countries" (emphasis added). It is not clear why the entire net output (as defined in the book) created in foreign land has to be added. Only the factor incomes flowing into the country from this activity has to be added. Thus national income is net domestic product plus *net* factor income accruing to residents. This, therefore, requires elucidation, maybe correction. Thirdly, the authors suggest that where the double-deflation method cannot be used for want of the detailed data it needs, or because factorisation between price and quantity is not possible (e g, for services), value added at base period prices are computed using procedure in which *base period cost ratio* is applied on deflated value of output. For manufacturing industry groups, for want of detailed data value added is deflated, but then it is by deflating the current price cost ratio and current price value of output (or what is the same thing, current price value added) that the constant price value added is obtained.

The authors state (page 5) that "an area with large per capita income be regarded as rich while another with low per capita income as poor". However, for a country like India with considerable pressure of population on agricultural lands making marginal labour productivity zero or near zero, it has been shown that it is only those states which have relatively high per capita income and high density of population that are really rich, and states which have low per capita income and low density of population that are really poor. States with the status of high per capita income and low density of population or low per capita income and low density of population cannot be ranked without considering other relevant factors.

## INDIAN ECONOMY: OVERALL PERFORMANCE

So much about the technical aspects. In chapters 8 to 11 the authors take us on a journey through data-land in a time and space frame and show us the various facets of the Indian economy. In chapter 8 this is done in terms of (i) overall performance as revealed by national income and per capita income levels and their growth rates, etc, (ii) analysis of structural shifts in production, distribution of the products and the income generated therefrom, and (iii) utilisation of the product by different institutional sectors of the economy. While the economy has advanced during the period 1950-51 to 1980-81, it has charted the growth course at its own sweet will. The real NNP increased at an annual rate of 3.6 per cent and per capita income at the rate of 1.4 per annum (Table 8.3). The increase has neither been smooth nor as planned by the authorities. Three times in thirty years the total income and 10 times out of 30 years (Table 8.1) per capita incomes have shown decline over their previous years' respective figures. Only six times annual per capita income growth has been above five per cent. It is ironical that the plan holiday period 1966-67 to 1968-69 showed the highest growth rate of 4.1 per cent in total NNP. Since then the fifth plan period 1974-79 has a growth rate of 5.2 per cent per annum for total income and 2.9 per cent for per capita income. In recent years the amplitudes for annual growth rate fluctuations seem to be widening.

The sectoral growth rates (Table 8.7) show that for any given decade in the Table and for the entire overall period 1951-81, the annual growth rates for the primary sector are the lowest among the sectors and that for each successive decade they have shown a decline. So much for the green revolution. The secondary sector also shows similar declines but at a higher level of growth of over five per cent. The annual growth rate for the entire period was 4.68 per cent. This is a sad commentary on the planned economy. The authors add: "Table 8.7 does not indicate any pattern of growth or acceleration in growth rate in secondary sectors."

This is putting it mildly.

As regards the price trends, the indices of implicit prices (1970-71 = 100) show that the index for all sectors combined (Table 8.2) has risen four-fold and more during these 30 years. Prices seemed to be changing in favour of the primary sector (mainly agriculture) after 1964-65 but after 1975-76 the trend was reversed and prices have risen faster in the secondary and tertiary sectors than in the primary sector. The price advantage accruing to farmers during the decade 1965-66 to 1974-75 has thus subsequently greatly eroded. During the initial period 1951-72, i e, 21 years, the annual rise in overall implicit price index exceeded the double digit mark only once in 1966-67, but in the subsequent nine years of 1972-73 to 1980-81, the price index showed five such annual increases, the highest annual increase being 19.2 per cent in 1973-74. In three consecutive years 1972-73 to 1974-75 prices increased by almost 55 per cent, and again for 1979-80 and 1980-81 the aggregate increase was 26 per cent. Table 8.4 gives 'annual average change' in prices by sectors. However, the figures seem to be very high. The annual average change for the entire 30-year period (line 1) is 10.57 per cent for the overall series, whereas the compound growth rate per annum comes to 4.88 per cent. This is because the authors take an arithmetic average of the difference between the values of two end years and divided by the value at the beginning year. The average annual change is thus $\frac{220.7 - 52.9}{52.9} \times \frac{1}{30}$ (Table 8.1) which is .1057 or 10.57 per cent. The above expression is equivalent to $\frac{1}{n}(Y_t/Y_{t-n} - 1)$, where n is the time span, and $y_i$ represents the price index for the year i $(i = t - n, t - n + 1, \ldots t)$, $Y_t/Y_{t-n}$ is again the product of successive years' ratios, i e, $Y_t/Y_{t-1} \times Y_{t-1}/Y_{t-2} \times \ldots \times Y_{t-n+1}/Y_{t-n}$. When such products are taken, one does not generally choose arithmetic average but geometric average as the n th root of $Y_t/Y_{t-1}$. This then leads to the compound annual average. The method followed by the authors will not probably affect the relative picture of changes in price rise but surely creates an impression of higher annual changes. Table 8.4 supports what has been said earlier about the sectoral price changes.

The authors make a valid point that since factorisation into price and quantity cannot be made in the case of the services sector, indicators have been used to work out 'real' incomes in this sector. For the 'revised' series and the 'conventional' series of earlier years different indicators have been used. They warn about the use of price deflators for the initial part of the 30-year period in respect of the services sector.

### SECTORAL AND REGIONAL SHIFTS

There has been a distinct shift in the pattern of production in favour of the non-primary products. The share of primary products has declined from over 61 per cent in 1950-51 to around 42 per cent in 1980-81. The fall seems more marked since 1975-76. Notwithstanding the decline in the share and the low growth rates of the primary sector, its contribution to the total growth is still the highest, although fluctuating a great deal from year to year (Table 8.8).

Organisationally, the public sector's share in GDP has almost doubled during the 20-year period 1960-61 to 1980-81. The private sector, however, still has a dominating share of about 80 per cent in GDP. Within the private sector, it is the unorganised sector which claims about 65 per cent and the organised private sector 15 per cent. The primary sector has hardly yielded much ground within the unorganised sector since its share under this sector was 94.5 per cent in 1960-61 and 91.1 per cent in 1979-80. There is some marked shift towards public sector from 1.4 per cent in 1960-61 to 5.7 per cent in 1979-80. The secondary sector on the other hand shows a decline in share of NDP both in the organised and unorganised private sectors during this period, the share of public sector going up from 6.7 per cent in 1960-61 to 19 per cent in 1979-80 (Table 8.11). The authors make the point: "It is important to remember that the growth in public sector is not always because of establishment of new enterprises but is also due to nationalisation which has spread over several activities from mining, manufacturing and electricity generation to transport services and financial establishments." It may however, be added that the real advance of the public sector's dominance cannot be judged by these figures but by the kind of activities it commands—the types of institutions and industries, trade, transport and finance over which it has acquired ownership by nationalisation or by starting new ventures.

A number of geographical or area patterns can be envisaged in order to study regional disparities through the use of macro-economic aggregates. Obviously, the most useful of these are the States as one such pattern and rural-urban divisions, either at national level or, if data so permit, at State level as another pattern. Politically also, States and rural-urban areas deserve to be specially studied. This is what the authors do. They study the economy through per capita State Domestic Product (SDP) in respect of States and rural and urban per capita incomes for the rural-urban areas. The reason for using SDP and not net State income (income accruing approach) is that net factor incomes across the State boundaries cannot be determined and hence income originating approach imbedded in SDP has to be necessarily used. As the authors explain, SDP estimates can be used to study overall performance of the State economy as also structural shifts, etc, for each State.

The difficulty in studying regional incomes arises because we have two sets of figures. One set is the SDP figures prepared by State Statistical Bureaus (SSBs) and the other set prepared by the CSO, which they call 'comparable' estimates. These are required by the Planning Commission and other bodies like the Finance Commission whenever they come into existence. It is a pity that with all the deliberations over all these years the 'comparable' estimates continue to be computed. The 'comparable' estimates use the same concepts, definitions and standards and a common methodology for all States. Since the methods are inextricably dependent on the data-base, it follows that common methodology would mean using the methods suited to some particular State for which the data-base is the weakest. In the process, States in which more refined methods are in use because of better data-base suffer. One can understand the need for uniformity in concepts, definitions, standards, etc, but to insist on the methods applicable to the State with the weakest data-base cannot really be appreciated. Why cannot the Planning Commission insist on uniformity only of concepts, etc, and not on a common method, and why cannot the CSO, a technical organisation whose views should be heard with respect and authority, persuade these other commissions, etc, to give up a false stance? But then, as things are two sets persist. The authors use the comparable series SDP figures for analysis.

The authors also state that "since these estimates are comparable between States on all counts, *viz*, concepts, definitions and coverage of sectors and are prepared taking care that maximum use is made of all data available *at the State level* the picture of disparity in development between States brought out by the estimates may be taken to reflect the real situation" (emphasis added). But it is doubtful if State level data can be put to maximum use for computing comparable series. They also give justification for two series when they say, "the two sets of estimates are relevant for studies of different aspects of the economics of the States. Thus for inter-State comparison it would be desirable to use the comparable series only and this would be true for most of the policy requirements at the national level where the comparative levels of economic development need to be studied for all simultaneously. For inter-temporal study of development and structural change within individual States, on the other hand, the estimates prepared and released by the State governments would be equally appropriate." They also relax the requirement of adjusting comparable series for differences in purchasing power parities by saying that State-to-State differences in this matter are not likely to be very large.

It is a novel argument to hear that two series may be needed for the same macro-aggregates, say SDP or per capita SDP, or SDP by industrial origin for sectoral analysis, for two or more different purposes.

However, one may go through the set of Tables 8.13 to 8.15 for the interesting set of data and the features they focus on. Table 8.13 gives a ranking of the States according to per capita SDP for 1975-76. These figures differ for some States considerably from those given in the CSO's latest publication: "Estimates of State Domestic Product, 1960-61 to 1982-83", June 1984, which gives State series figures. Table 8.14 brings out inter-State differences in compound annual rates of growth of per capita SDP. Each State's progress towards development of primary, secondary and other sectors can be seen in Table 8.15. It also gives structural differentials in terms of share of each sector in SDP. It is, for example, of considerable interest to learn that "the share of the primary sector is as low as 31 per cent in Maharashtra in 1977-78 declining from 41.8 per cent in 1960-61. The proportion is also low (33.6 per cent) in Tamil Nadu which had in 1977-78 a sharper fall (from 52.0 per cent in 1960-61) than Maharashtra". Gujarat also depicts a lower share than the national share. West Bengal presents a stagnant structure with very little change in the sectoral shares over the 1960-61 to 1970-71 period. Tamil Nadu on the other hand presents a dynamic change in favour of advance of non-primary sectors (except services). Punjab has the highest per capita SDP even though the share of the primary sector is as high as 55 per cent.

Rural-urban inter-State comparisons are also made by the authors but it is doubtful if these have much validity, particularly when one talks of changes over time. While the definition of rural-urban areas can be uniformly followed for all the years it is the allocation of the total NDP to these two divisions that creates difficulties. No standard procedures exist and the results used by the authors are those worked out by various research scholars or institutions. For example, by and large agricultural and allied industries belong largely to the rural area but to assign the entire such income to the rural area would not be correct. Similarly, all income originating in manufacturing cannot be considered urban. The problem of allocating transport, trade and infrastructure tertiary incomes is even more difficult and would therefore involve more arbitrariness in different hands. CSO itself has done a study for 1970-71 NDP. The analysis of change should be read and imbibed with some reservation.

Reviewing the latest CSO publication (referred to earlier) on State incomes, S P Gothoskar (*EPW*, November 3, 1984) has brought out the differences between the CSO's comparable SDP series and the State series for 1975-76. V K R V Rao also treats the subject of regional or State incomes in his book "India's National Income 1950-1980: An Analysis of Economic Growth and Change". The data used here are based on RBI publications, which means State-compiled series and not the comparable series. He has analysed the figures in great depth. Readers may like to consult this book. His book also deals with rural-urban differentials in per capita SDP, State-wise. Such analysis is not undertaken in the book under review.

### FACTOR INCOME DISTRIBUTION

Net Product gets distributed to different factors of production in terms of compensation of employees (or wages and salaries), interest, rent, profit and dividends and mixed income of self-employed. The last item is typical of developing economies and belongs to the 'unorganised' sector where the labour and profits of the self-employed cannot be segregated. These various factor incomes are analysed by the authors for productive enterprises classified according to character of output, type of organisation (organised and unorganised sectors) and type of ownership (public and private sectors). Ownership classification is applied to organised sector only, the unorganised sector being fully private sector. The shares of these incomes are then analysed. The analysis does not cover, for instance, differentials in per worker compensation of employees, or per worker mixed incomes of self-employed, by industry of origin, or by public and private sector classifications, as may be relevant. Perhaps this is because figures of numbers of workers by these classifications are not easily available. The period covered is 1960-61 to 1979-80.

The overall position (Table 8.18) shows the dominance of mixed income, although over the years it has somewhat declined (42.0 per cent in 1979-80 from 51.2 in 1960-61), followed by compensation of employees whose share has gone up from 33.7 per cent in 1960-61 to 40.1 per cent in 1979-80. Share of property income (i e, interest, rent and profits and dividends) has also increased from about 15 per cent to 18 per cent. The dominance of mixed incomes is however wholly confined to the unorganised sector and it claimed 68.8 per cent of income generated in this sector in 1960-61 and about 65 per cent in 1979-80 (Table 8.19). Compensation of employees increased its share from about 22 per cent to 25 per cent during the period. Within the unorganised sector, the agriculture and allied industries group showed a much higher level of dominance of mixed incomes and even showed slight increase over the years from 69.7 per cent in 1960-61 to 71.4 per cent in 1979-80. But the share of compensation of employees was also, surprisingly, more than for other unorganised industries (Table 8.21) for 1960-61 and 1965-66. Rent also appears to be an important factor for the residual section (i e, other than agriculture and allied industries) of the unorganised sector.

For the organised sector, compensation of employees is the most important factor income, both for the public and the private sectors. But, for the public sector, its share is more than in the case of the private sector for any given year. Over the years both sectors show slight declines in these shares. Interest has shown increase in its share particularly in the private sector, but level-wise, the share in public sector is much higher. As is to be expected share of profits and dividend income for public sector is much lower than for the private sector and has shown some deterioration over the years. There is also a decline in the share of this factor for the private sector, particularly after 1966-67.

These factor incomes ultimately flow to sectors where they are utilised. However, the data are not sufficient to show how much belongs to these different sectors. Thus, employees' compensation and mixed incomes of self-employed belong to the household sector, but the rest of the incomes—interest, rent and profit and dividends—is also shared by the households, the incorporated companies and government (by way of direct taxation). In fact, even from the household incomes, government will have a claim in terms of direct taxes paid by households.

### UTILISATION OF NATIONAL PRODUCT

Among the various components of expenditure on GDP, private final consumption expenditure (PFCE) and gross domestic fixed capital formation (GDFCF) are the most important. Between them, they accounted for 93.23 per cent of GDP in 1950-51 and 87.26 per cent in 1979-80. Of these, PFCE was 79.76 per cent and 70.16 per cent in these two years, respectively. While PFCE declined over these years, GDFCF increased its share. Government final consumption expenditure increased its share from 5.10 per cent in 1950-51 to 12.58 per cent in 1979-80. Why the authors call this substantial increase "a marginal increase in the share of public consumption expenditure" is not quite clear. The picture is more or less the same when figures are given at constant or current prices. The authors compare levels of per capita household disposable income (HDI) with the levels of per capita PFCF (Table 8.25) and find the ratio of HDI to PFCF rising from 1.06 in 1960-61 to 1.16 in 1979-80. These are at current prices. The authors feel that "disposable income and savings at constant prices are not meaningful concepts and the real per capita consumption can only be compared against per capita national product". One knows that it may not be possible to compute saving at constant prices, but why HDI and saving at constant prices are not meaningful concepts requires further elucidation. The estimates of consumption expenditure by 'objects' (Table 8.27) show that expenditure on food at constant price has shown a decline from 67.6 per cent in 1950-51 to 56.5 per cent in 1979-80. It just shows that we have yet to go a long way to reduce this percentage to about one-third the total consumption expenditure, which percentage is achieved generally by prosperous countries. Percentages have gone up for clothing and footwear, medical care, furniture and furnishings, etc, group transport and education. We are moving in the right direction although at snail's pace.

Gross Domestic Capital Formation (GDCF) has increased from 10.0 per cent of GDP in 1950-51 to 24.2 per cent in 1980-81 at current prices. Since the prices of capital goods have shown a higher rate than the overall implicit deflator for GDP, the rates at constant prices are somewhat lower in more recent years. This has been observed by the Raj Committee on Capital Formation and Savings. However, there is also some reason to believe that the method of estimation in vogue leads to overstatement of capital formation as estimated and hence the real situation may be that rates will be still lower. The growth rates in GDP are still low around 3.6 per cent although rates of capital formation are high. There is much debate going on on this question.

Several breakdowns of capital formation are given by the authors and they reveal interesting patterns. Briefly the position is as follows: the share of the public sector in GDCF has increased from about 23 per cent in 1950-51 to 43 per cent in 1980-81. The net domestic capital formation (NDCF) in the private sector is shared by private corporate sector and the household sector. In 1960-61 the share of the household sector was 45.8 per cent and of the private corporate sector 54.2 per cent. In 1980-81, the share of the household sector had gone up to 80.7 per cent. This is presumably because of considerable increase in industrial, trade and transport activities in the unorganised sector. The three components of capital formation are construction, machinery and equipment and change in inventories. The first two constitute fixed capital formation. The last named is a very small part of the GDCF or NDCF. The index of growth (Table 8.34) shows that fixed capital formation in machinery and equipment has advanced at a much more rapid pace than in construction. The latter increased by less than three times in the last 29 years whereas the former increased by over five times. The pace was much more in public sector than in the private sector for both the components, but more so in the case of machinery and equipment. Table 8.37 shows massive investment in manufacturing, electricity, gas and water supply as also mining and quarrying activities.

Capital formation needs finance which must primarily come from the savings of the government or the public sector, the private corporate sector and the households. Partly, the country can borrow from abroad or otherwise earn foreign exchange in current activities to bring in finance from abroad. But as the figures show, the public sector and the private corporate sector need more funds than they internally save; i e, they are deficit sectors. It is only the household sector which is on the whole a surplus sector with less spending on capital account than its saving (Table 8.33). Thus savings are diverted from the household sector to the other investing sectors through the banks and other financial institutions including government post offices and small saving organisations. In the process, households hold claims on the institutions to whom they lend their savings and they come to possess a wide variety of financial instruments. They can also directly invest, say, in the corporate sector in terms of shares, fixed deposits, debentures and other instruments. This is the net picture. In a gross way, the households might even borrow from banks, but their borrowings are less than their deposits with the banks. The structure of household saving (net) can be seen in Table 8.31.1. Thus arise the financial flow of funds, and the intersectoral patterns of net borrowings and net lendings. This last part is not covered in the book in detail. Savings are always dealt with at current prices. The net saving rate (as per cent of NNP) has increased from seven per cent in 1950-51 to 16.9 per cent in 1980-81, as against the NDCF rate of 19 per cent. The gap between domestic capital formation and domestic savings has to be bridged through net inflow of foreign funds. Generally this gap has existed except for a few years—1950-51, 1952-53, 1953-54, 1975-76, 1976-77 (not stated in the book) and 1977-78.

It is of interest to note that the household capital formation is also its savings in physical assets. And, this portion constitutes a fairly high proportion of the household total saving. Over the years this proportion has, however, declined, the households evidently preferring to hold their savings in financial form.

Another point of interest is that capital formation is computed in three ways and all the three series differ. The first, which serves as the 'control' series is made up of domestic saving plus net inflow of foreign funds. The second, worked out through the commodity flow method for pucca capital formation and expenditure method mainly for kutcha capital formation, is called GDCF by type of assets. The third series is primarily by expenditure method and for different industries of use. The aggregate capital formation in each series should tally, but they don't. But then that itself is a long story.

## MEASUREMENT OF POVERTY

The concept of poverty has been discussed in chapter 1 and further elaborated in chapter 9 which also discusses the methods and the results. To be able to measure poverty from time to time is an important function of the statistician and the economist. As related in chapter 1, poverty of a person or a household may be conceived of both in absolute terms and relative terms. In an absolute sense, a person may be deemed poor if he cannot get that level of consumption which is considered necessary to sustain him biologically. Say, he needs 2,000 calories per day. If a household cannot have such daily per capita energy then it is said to be poor. The nutritionists decide on some such minimum requirements which sets a line below which persons will be considered poor. As for poverty in the relative sense, the authors write: "The notion of poverty is perhaps better understood in a relative sense ... The general notion is easy to understand even though it is difficult to define exactly when a person A is better off than person B, particularly when their pecuniary statuses are not widely different." Talking about the nutritional criterion the authors say in chapter 9: "Similarly, other consumer needs like that of minimum clothing requirements will have to be determined regionally, keeping in view the local customs, disparities in habits, cultural differences and variations in climatic conditions and socio-economic conditions ... By its very nature poverty is multi-dimensional."

Poverty measurement involves data on distribution of income by size of income groups in respect of persons or households. One could then apply one or more of the measures of inequality to obtain a summary or parametric index of inequality. Based on the notion of absolute poverty line, an income level can be determined so that the proportion of persons or households below the poverty line and their share in the total income can be estimated. Income of course is one aspect. One could also measure inequalities in physical assets or in any particular part of these assets, say land, or one can even speak of geographical inequalities in, say, SDP. The authors have discussed these various facets of the problem in detail. They also suggest that in measuring inequalities socio-economic groupings, household size adjustments, occupational groups, etc, could be considered. The authors also mention several measures of inequality in measures like the Lorenz ratio or Gini coefficient, relative mean deviation, standard deviation or logarithms, and Theil's entropy measure, and discuss their limitations (except in the case of Theil's measure).

## DISTRIBUTION OF INCOME

The difficulty is that there is just no data on distribution of incomes for India. As the authors point out, studies have been made to somehow amalgamate consumption expenditure distribution by size class and the total household saving data and derive the income distribution of households. Some have used income-tax data. But each such attempt has its limitations. No direct data have been obtained. In the case of rural areas the debt and investment surveys conducted earlier by the RBI has thrown up useful data on distribution of assets and these have been studied. One is thus left with the only alternative to use the consumer expenditure data to study inequalities. What the authors say in this regard about the attempt by NSSO to obtain income data from households through the Integrated Household Survey (IHS) in a number of rounds beginning with 19th (1964-65) and ending with the 25th (1970-71) round is of interest. The authors say: "These data have not however been processed by the NSSO particularly because a closer examination of returns reveals that because the reference period for the data was only one month, due care could not be taken of fluctuations in the receipt of income, particularly in the rural areas due to seasonality and non-uniform flow of incomes." This is presumably a consequence of the monthly rounds of households selected for specific months so that each household is covered for the past month's data. But if NSSO envisaged collection of data on distribution of income one does not know what to say about the colossal failure on the part of NSSO to realise this elementary need to take into account the seasonality factor in planning the IHS. And for six years this went unnoticed! What a pity and what waste of resources. The authors deserve commendation for pointing out this huge failure. It has also been pointed out that IHS suffers from another limitation as a result of exclusion of imputed values of receipts.

So perhaps the most meaningful way to study the inequality may be through the household consumption expenditure data by deciles and apply one or the other measures of inequalities. This has been done by various experts and some results are given by the authors (Tables 9.5 to 9.11). It must however be pointed out that the inequality of consumer expenditure will be as a rule lower than that for income distribution. Even the poorest may spend something for food and some other basic amenities even by dissaving or debt and the rich will not of course spend all their income on such items.

The relative aspect of poverty is studied through the head-count ratio, i e, the proportion of people below the poverty line and the income-gap ratio, i e, "the aggregate income needed to bring all the poor upto the poverty line". The poverty line is determined on calorie needs per person per day and the monetary figure is worked out from time to time on this consideration. In 1979-80, at current prices, it was Rs 76 for rural areas and Rs 88 for urban areas. Table 9.12 gives a time series giving various relevant averages and ratios or measures for urban and rural areas. The authors conclude that "the results suggest that both in rural and urban areas there have been tendencies in inequality in the distribution of consumer expenditure as well as in population below the poverty line to increase in mid-sixties and decline thereafter. The authors, however, feel that "the alternative measures of Gini coefficient of distribution of consumer expenditure below the poverty line, Sen's measure and the income-gap ratio ... are of academic interest only". The high head-count ratio indicates the extent of the problem and this measure is in terms of absolute poverty, i e, absence of basic amenities. In this context, it is of interest to note that the Planning Commission's target for the Sixth Plan was to reduce the proportion of persons below the poverty line from 48.4 per cent in 1979-80 to 30 per cent in 1984-85. But the more interesting part is the announcement that 34 per cent of the target has been already achieved in the first two years of the plan. This statement is made in the face of evidence that over the last 13 years to 1973-74, the head-count ratio has hardly fallen from its earliest level of 0.56 (or 56 per cent) in urban areas to only 0.55 and has, if anything, shown a tendency to increase in rural areas from 0.55 in 1960-61 to 0.61 in 1973-74. Some experts outside the citadel of Planning Commission have disputed this claim; but the official assertion at the technical level does provide a big opportunity to politicians at the right time to propagate this figure in quantitative absolute terms. After all, what are the all pervading AIR stations and 180 and odd TV stations meant for?

A new dimension to this is imparted by an eminent economist member of the Planning Commission saying that it is not only nutrition-based poverty line that should be considered for calculations, but also the basic amenities provided free or almost free by government to people in terms of education, health and medical facilities, etc. He has quoted increases in per capita figures for these items. He does not and cannot say how these figures can be fitted into the *distributions* of present consumer expenditure. Per capita increases do not necessarily mean gains for the really poor. The gains could have been appropriated more than proportionately by those immediately above the poverty line. After all they are not by any stretch of imagination well-to-do households. Besides, the statement made by the eminent member of the Planning Commission only means that we really should have income distribution data including all the various imputations like free education, health, medicines, etc, apart of course from other imputations like owner-house rent. It is, however, amazing how liberties with concepts and data are taken by some economists.

Chapter 10 is a short one on factor inputs and growth of national income. Essentially, this chapter focuses on the questions of factors affecting long-term growth of GDP or NDP. "Given the stock of capital and labour force, an economy can potentially turn out a particular level of GNP when existing capacities are more or less fully utilised." Regarding developing countries like India. "the more important point which needs to be answered in this context is regarding the determinants of long period growth in national income and the extent to which the growth in physical assets and labour force

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are responsible for this rather than the actual level of GNP for a year given the potential income for the year". The authors then present a Table giving results of some limited studies made in this context (Table 10.2). The authors conclude: "While the post-Independence growth is much higher than the pre-Independence growth, this has been achieved largely by increasing factor inputs rather than by enhancing factor efficiency." Several Tables in this chapter give useful data. It is interesting to see that compared to 1950-51, all the sectors—modern commodity producing, modern services and the traditional—show increases in fixed capital/NDP ratio. For the modern services sector the capital/output ratio has increased much faster (2.35 in 1950-51 to 5.71 in 1970-71) and has overtaken the ratio for the modern commodity producing sector. Interestingly the ratio for the traditional sector has also exceeded 1. The authors observe that "the answer to higher economic growth lies not only in higher investment but higher investment in traditional industries with intensive utilisation of capital resulting in much higher productivity of capital and labour".

### PLANNING AND SHORT-TERM FORECASTING

Chapter 11 relates to describing how national accounts information system, at the official level, is used for macro-balancing, plan targeting and short period projection. "The overall macro-balance uses the matrix form of presentation to check the consistency of plan targets" and for plan formulation and evaluation. Prior to the formulation of the Fifth Plan, the different macro-aggregates were being used independently to predict and evaluate different aspects of the system. But since the Fifth Plan, an overall macro-balance is also attempted. The authors then proceed to describe the process. The model consists of three parts: (i) macro-economic model; (ii) input-output model; and (iii) consumption model. Deliveries of different sectors to public consumption, exports and to gross fixed investments are estimated exogenously in this model. The macro-model gives projections based on a gradual growth path for GDP at factor cost. The investment required for the five-year plan are estimated by applying a global incremental capital-output ratio consistent with the past data but taking care that the past ratios are affected by the extent of capacity utilisation. The aggregate terminal net imports of all types of goods and services are obtained with the help of the input-output model and are used to derive domestic savings necessary for achieving the desired level of investment. Aggregate private consumption is obtained as a residual after allowing for public consumption. The basis for projection of output levels is the inter-industry current flows in value terms at producers' prices and consist of 66 sectors. The projections and actual achievements are compared for plan evaluation at the end of each year.

The authors then describe how the system of national accounts is used in India, in a limited way for short-term forecasting. The forecasting is done through a simplified aggregative econometric model built around the aggregate GDP and broad categories of national expenditure. This procedure is preferred to use of disaggregated analysis similar to those in advanced countries "because of meagre knowledge of economic realities in a country like India and because of lack of theoretical basis necessary to explain the complexities encountered here". Perhaps the disaggregationists will contest this statement. "Dearth of relevant economic information at the micro-level and the use of unsatisfactory data base have also been responsible for the unrealistic results obtained from such exercises."

The basic model uses constant price variables and the exercise is carried out in two phases. Phase I of the model consists of a system of linear regression equations. It is seen that equations (1) and (2) of Phase I use the same two variables only and the third is a linear regression of deviations of total domestic product from the trend value on the same two variables in a way. The two exogenous variables are deviations from trend values of agricultural and industrial production. Equations (4) to (6) give the trend values. Equations (7) to (9) are the identities which yield estimates of primary, secondary and total domestic products as additions of deviations to trend line figures. The tertiary sector estimates are then obtained as residuals, given primary, secondary and total domestic production. In Phase II, disposable income, private final consumption expenditure, imports and gross investment, are first obtained in a system of linear regressions wherein estimated values of total domestic product and lagged variables are used as exogenous variables. Then through the identity relation

$Y = C + I + G - T + X - M$, Y is obtained (i e, GDP), in this, G, government current expenditure, T, indirect taxes, and exports X are exogenously determined outside the system of equations. Thus Phase I is used to estimate GDP from production side, Phase II obtains GDP from expenditure side. A simulation exercise with successive approximations of GDP estimates is then undertaken "to obtain a reasonably satisfactory estimate of GDP from two independent approaches". Further, a system of log-linear equations is used involving constant price variables and wholesale price indices for agricultural commodities, manufactured articles and all commodities. In all 23 equations and identity relations are made use of. Using the data for 1960-61 to 1973-74 the authors show projections for 1975-76. The real growth rate for GDP is indeed very close to the project one.

In this rather long review, an attempt has been to bring out the salient aspects of the book. Although at some places the reviewer may differ from the authors, there is no doubt that the book deserves commendation and is a useful addition to the literature on India's national accounting system. There is a good and detailed description of concepts, sources of data, methods employed to compute macro-aggregates, and the uses to which these processed data are put. The book does not contain any critique of the methods, but to that extent for the uninitiated the book is a good starting point, particularly since CSO's Sources and Methods and UN's SNA (1968 revision) are difficult and rather dull publications to digest. If the book is to be useful to students in India, a cheaper paper-back edition would be a welcome gesture.

## Telco

TATA ENGINEERING AND LOCOMOTIVE COMPANY (TELCO) and Honda Motor Company of Japan have signed a technical collaboration agreement for the manufacture of passenger cars in India. The agreement was concluded at a signing ceremony held at Honda's Head Office in Tokyo on July 10, 1985, between S Moolgaokar, Chairman of Telco, and Tadashi Kume, President of Honda. The agreement, which is subject to the approval of the Government of India, also provides for Honda to take a stake of around 10 per cent in Telco's equity. Telco will invest approximately Rs 200 crore in Pune for the manufacture of passenger cars and will produce the new model of 'Accord' which Honda has introduced only last month in Japan. Production is expected to commence in 1987 at a rate of 10,000 cars per year, rising to 40,000 per year in the fifth year. Starting with a high indigenous content, Telco expects to reach the level of 90 per cent within a reasonable period. Telco, the country's largest automobile manufacturer, also has the best record of product innovation, quality and ancillary development, amongst all Indian manufacturers. So far, Telco was concentrating only on the manufacture of commercial vehicles in view of the government licensing policy. The recent liberalisation of licensing will enable it to make a move into passenger cars. It is expected that Telco's project will be a pace-setter in the Indian passenger car industry. It will use the latest technology and will generate employment in a host of ancillary activities, including the supply of components and the service of cars. Indian consumers can now look forward to a truly modern, international car for families and executives.

# Educational 'Miracle' in Third World, 1950 to 1981

**Surendra J Patel**

*This paper aims to survey how far the Third World countries have succeeded, at least in quantitative terms, in their ambitious plans to improve rapidly their skill profiles over the last thirty years. The picture is general and will obviously not apply to all countries of the Third World.*

*The study begins with a general consideration of the strategic role of social technology in economic development and then moves on to look back at the advance achieved in the developed countries in the field of education over the last century. The next section then reviews the expansion in educational enrolment that has taken place in the Third World since 1950. This is followed by a summary indication of the educational distance between the developed countries and the Third World and of the implications of the findings of this study for the educational transition in the Third World.*

SINCE 1950 most of the countries in the Third World have emerged into independence. Their newly-established national governments were keen to accelerate the pace of their economic and social development. But the current thinking at the world level had condemned them to a vicious circle of poverty. They were poor, it was said, because they were poor in capital and skills. Their rapid economic development therefore could be ensured only through receiving as large a flow of foreign assitance as possible. These countries were thus urged to prepare the ground for obtaining an ever-enlarging inflow of foreign capital and skills and technology.

It is widely accepted that technology is embodied in capital goods, equipment and in skills. But in the final analysis even capital goods require technical skills for their production. In this sense, then, skill formation is the final embodiment of technology. Technology is thus the key to economic and social progess.[1] It was in recognition of this fact that the Third World countries had set in motion ambitious plans to improve rapidly their skill profiles. This study aims to survey how they have succeeded—at least quantitatively—in this objective over the last thirty years (1950 to 1981).

The basic data used in the study relates to the Third World (including China and the socialist countries in Asia) as a whole. The picture is general and would obviously not apply to all countries of the Third World. There are vast differences among these countries. Some have rather advanced skill profiles. In others skill development is just beginning. These differences are of critical importance in understanding the present level of the development of each individual country and in influencing the course of its future.

The study begins with a general consideration of the strategic role of social technology in economic development and then moves on to look back over the advance achieved in the developed countries, both capitalist and socialist, in the field of education over the last century. The next section then reviews quantitatively the expansion of enrolment that has taken place in the Third World since 1950. This is followed by a summary indication of the educational distance between the developed countries and the Third World and of the implications of the findings of this study for the educational transition in the Third World.

## I

## Strategic Role of Social Technology

Technology has generally been taken as a constant or a neutral factor in economic theory. It was therefore not considered an important subject for attention. Nor was it assigned any significance in the two-factor (capital and labour) production function. Harrod's model of development assumed a given set of capital-labour ratios and no technological development.[2] The urgent pressures of development of the Third World helped centre attention on the role of technology as embodied in capital goals and skills. It is now generally accepted that technology is the key element in economic and social transformation. Most of the past discussions on the role of technology had, however, concentrated upon what might be called physical technology—that is technology embodied in capital goods, equipment, tools and other instruments of production Relatively very little attention was given to what might be considered, in a broad sense, social technology.

The publication in 1957 of R Solow's major study underlined the limitations of the two-factor aggregate production function. It showed that nearly nine-tenths of the growth of per capita income in the United States of America over the four decades upto 1949 was due to technological progress. Only one-tenth could be attributed to inputs of capital and labour.[3] Since then other studies have corroborated the importance of Solow's findings.[4] Technology was thereby brought to the centre of development thinking, at least in academic circles. Examining historical evidence about the several factors which have contributed to the economic development of nations, Kuzntes concluded:

> The inescapable conclusion is that the direct contribution of man hours and capital accumulation would hardly account for more than a tenth of the rate of growth in per capita product—and probably less. The large remainder must be assigned to an increase in efficiency in the productive resources—a rise in output per unit of input, due either to the improved quality of resources, or to the effects of changing arrangements, or to the impact of technological change, or to all three.[5]

The three elements mentioned by Kuznets above constitute what may be conveniently called social technology. Defined this way, social technology covers all advances in skills acquired by people—individually and collectively. These skills are not limited only to the process of physical production. They also cover a wide spectrum of individual and social skills: for instance, for organising and managing the efficient working of the entire economic system; the distribution and marketing of goods and services; the provision—at present and over time—of the needed infrastructure; the innovation and introduction of new products and processes; research and development and design engineering, and many others. Social technology thus covers not only the individual's skills employed in the performance of his job, but also the collective influence of the working together of all the components of the economy, including division of labour and economies of scale.

Technology could thus be defined for analytical convenience in terms of its two elements—physical and social, each of which is embodied in capital goods and skills. There is little doubt that education at all levels—and the consequent upgrading of the skill profile—is the key factor in accelerating the improvement of social technology. It is the most powerful liberating instrument for economic and social progress.

It is not easy to measure precisely a country's skill profile. Education may be taken as the basic proxy indicator of progress in skill formation. There are, however, other important elements: for instance, informal education, on-the-job training, learning by seeing, doing and copying and technical education and experience, and so on, which significantly influence the formation of skills. But they are not easy to quantify in comparable numbers.

Even concerning the one single indicator of education, there are several considerations which have a direct impact on its effectiveness—for instance, the structure of education (division between technical and social training), inter-relationships between first, second and third levels of education, and above all the quality of training. Moreover, an expansion of the educational system is a necessary, but not a sufficient, condition for the acceleration of economic and social development. There are many examples of wasted educational investments. Apart from many other factors, it is equally important to ensure that the outputs of the system, that is the skilled men and women, have adequate equipment and tools and are employed effectively in the development process. Moreover, while educational enrolment, skill development and social technology are integrally linked together, it should not be imagined that a mere recital of educational achievements gives an indication of equivalent development of social technology. A system of individual and social motivation and opportunity binds these three together, and its absence could lead to ineffectiveness of education and skill formation. All these qualifications notwithstanding, formal education would still remain perhaps the most important, the largest, and decidedly the most measurable indicator of the advance of a country's skill profile. That is why as an initial attempt this study concentrates on advances in the first, second and third levels of education.

## II

## Skill Advance in Developed Countries

In order to appreciate more adequately the changes in the educational profile in the Third World countries, it may be helpful if a broad bird's-eye view were to be taken of the developments in education in the developed countries. It could help see more clearly the points of time when their educational advance gathered momentum, the pace of their advance, and the period of time taken by them to reach the levels current in the early 1950s. Such an understanding would be of considerable significance in appreciating the educational advance already made in the Third World countries and the future possibilities.

Over the last hundred years, much attention has been given to a study of the history of education. The reform of the educational system has been an active item on the social and political agenda. Changes in curricula and the methods of teaching have been studied by a continuing stream of commissions and committees. And yet, it is striking indeed that a systematic construction of comprehensive series on the levels and rates of development of education at various stages of the past history of the developed countries has so far received relatively limited attention. Long term series on education covering all the developed countries are far more difficult to find than, say, similar series on economic indicators. The description here is therefore only illustrative, pointing to major landmarks in the development of primary, secondary and higher education in only a few developed countries.[6]

In the history of civilisations the temples of worship and the temples of learning were to be found most often under one roof. But until the recent period, learning consisted mostly of the three Cs: catechisms, classics and counting. Secondary education meant being a journeyman or an apprentice. And higher education barely went beyond the superior faculties: theology, law and medicine. Even Voltaire emphasised the enlightenment of only the elite. Adam Smith advocated education mainly to relieve the boredom of the labourers, and that too in homeopathic doses only. As late as 1903, Mercedez thought that only the world's richest one million families would ever buy motor cars since too few servants had the ability of being trained as chauffeurs. Despite all the popular pressures, education particularly at higher levels was throughout the nineteenth century essentially a privilege of the aristrocratic and the very well-to-do. It is only in the recent period, mainly the last decades of the nineteenth century, that education began to be imparted to the large masses of the population of the developed countries.

### ILLITERACY

In view of this it is not surprising at all that the ratio of illiteracy in the mid-nineteenth century Europe was very high. It was over 40 per cent in England and Wales, and France. In Belgium it was around 50 per cent. Seventy-five per cent of all men and 89 per cent of all women in Spain were said to be illiterate in 1860. In Southern Italy, the ratio was as high as 90 per cent of all inhabitants.[7] Even in the United States, where education was given greater importance, the rate of illiteracy was under 40 per cent for the total population in 1877, but as high as 80 per cent for the non-white population.[8]

### PRIMARY EDUCATION

The universality of primary education is a relatively recent phenomenon. Upto the eighteenth century, it was limited to the clergy and aristocracy. The French revolution gave a great push to popular education. But despite that, the general education of the masses of the people was to remain mostly the concern of the Church in England and France upto the last quarter of the nineteenth century.

Let us take the case of England, the leading industrial nation throughout the nineteenth century. England had 13,000 Church schools with about 400,000 pupils in 1830. Only about three per cent of the total population of England and Wales attended primary schools in 1830. The progress thereafter was rather slow. The numbers of pupils rose to 1.2 million by 1870 or to between 4 and 5 per cent of the population. During the decade of the 1870s Disraeli introduced universal compulsory education, with certain exceptions. There was, therefore, a very rapid expansion between 1871 and 1880. The enrolment in primary education jumped from 1.2 million in 1870 to 4 million by 1881 and to 6 million by 1900, or to some 160 pupils per thousand of population. It may be pointed out in comparison that the ratio for the Third World as a whole was 49 students per thousand of population in 1950 and 137 in 1981.

While England was a pioneer in industrialisation, its educational progress was very limited. For illustrative purposes, we may relate the number of pupils in primary schools in a few of the countries in Europe to the relevant school-age population group. At mid-point of the last century, the proportion was 1:7 in England, 1:9 in France, 1:8 in Holland and 1:6 in Prussia which had fostered primary education more vigorously than elsewhere. Between 1840 and 1880s the population of Europe rose by 33 per cent, but the number of its children attending school by 145 per cent.[9] This may sound like striking progress, but its annual growth rate was a modest two per cent. The comparable rate for the Third World was 5.6 per cent between 1950 and 1981.

### SECONDARY EDUCATION

The expansion of industry and commerce, the enlargement of services both public (civil and military) and private—and the extension of the right to vote generated strong popular pressures for a faster increase in secondary education. Even then, its massive rise is a more recent phenomenon than that of primary education. The Bruce Commission was appointed in England in 1894 and the Act dealing with secondary education was passed in 1902. In consequence there was a near doubling of the schools on the grant list from 575 in 1904 to 1,047 in 1914. The number of students enrolled in secondary schools also more than doubled, increasing from 2.9 per thousand of population in 1904 to 5.5 in 1914, or about the same proportion as in the Third World as a whole in 1950. It may be pointed out that even in Africa, educationally the least advanced continent in the Third World, the comparable proportion was over six in 1957/58, or in fact higher than in England as late as 1914.

We may examine the experience of the United States. The first public high school was established in Boston in 1821. The proportion of high school age group attending school rose from only 10 per cent in 1900 to 50 per cent in 1930 and 75-80 per cent in the 1950s. The number of high school graduates per year rose from only 95,000 in 1900 to 1,860,000 by 1960 or by nearly 20 times.[10]

The development of secondary education in Japan was even more striking. The enrolment in secondary schools in as late as 1885 was only 20,000 students. The number increased rapidly to 100,000 by 1900, and around 10 million by 1960, or one hundredfold in 60 years.[11] The annual rate of growth was very high—8 per cent. But that in the Third World between 1950 and 1981 was even higher—9 per cent.

### Higher Education

Information about enrolment in higher education is very scattered. During the 14th century, the number of genuine undergraduates working for a degree could not have been much higher than 1,500 at Oxford, 2,500 at Bologna and some 3,000 students at the University of Paris. The enrolment at these universities is reported to have declined steadily thereafter so that the enrolment levels till the early part of the nineteenth century were not altogether dissimilar.

We may illustrate the long-term movement in higher education by an examination of the experience of the United States which has now the world's highest enrolment at the third level of education. But the beginning there was very modest. The number of students at the third level of education in 1870 was only 52,000. This increased to 238,000 by 1900 and to some 2.6 million in the late 1950s, or eleven times. The annual growth rate was around four per cent, compared with 9.8 per cent in the Third World from 1950 to 1981. The United States had by the 1950s some 16 students per 1,000 of its population. In line with the expansion of university enrolment, the number of graduates coming out of the universities and institutes of higher learning also rose from some 10,000 in 1870 to 500,000 by 1956.[12]

In comparison with the United States the enrolment in universities and institutes of higher learning had been much lower in Western Europe. Comprehensive estimates for the continent as a whole are not available. But it would seem that the enrolment could not have been much higher than one to two per 1,000 of its population in 1900. It rose to four per 1,000 in late 1950s. It may be added that the comparable level in the Third World as a whole was 0.6 in 1950. The proportion in the Third World in 1981 was over 5 per 1,000 of its population if China is included, and over 7 per 1,000 of the population if China is excluded—that is, higher than in Western Europe in late 1950s or only a little more than just 30 years ago.

The experience of Japan also underlines that the expansion of enrolment in the third level of education was mostly a 20th century phenomenon. There were barely 10,000 students in universities and institutes of higher learning in 1885. The number doubled to 20,000 by 1900. The pace accelerated thereafter, the number rising to 600,000 by 1960.[13] This means that there was less than one-half student per 1,000 of its population in 1900, or about the same situation as in Africa in 1950. The proportion in Japan rose to about 7 in 1960 or about the same as in the Third World excluding China in 1981. The point to note is that the Third World took only 30 years to attain a rise in this level which was achieved in Japan in 60 years.

The expansion of university enrolment in the Soviet Union is an even more recent phenomenon. As late as 1928 there were only 190,000 students, that is around one per 1,000 of its population or not much higher than in the Third World in 1950. This number rose very rapidly to 812,000 in 1940/41 and 3,258,000 by 1963-64, or some 15 students per 1,000 of its population.[14]

The third level enrolment directly influences the stock of scientific workers available to society. For example, it was reported at the International Conference on Organisation of Research and Training in Africa, organised jointly by the UNESCO and Economic Commission for Africa in 1964 that about a century ago the number of scientific workers in Western Europe was very low. It was a little above 20 per million of its population or not much higher than in the developing countries at that time.[15] It should be added that the proportion in Western Europe had by 1964 risen to over 2,000 per million of its population, which had more than trebled in the century.

The review above of the educational change in the developed countries is sketchy. But it helps to pinpoint the major landmarks of the change in the scene to obtain an overview. The rapid expansion of primary education on any scale began only towards the end of the 19th century in the developed countries; that of secondary education in early 20th century and that of higher education only around the years of the First World War.

## III

## Educational 'Miracle' in Third World

The Third World countries had become fully aware, often through very painful experiences of their own, of the superiority of the Western countries in skill formation. Among the very first acts of the newly-formed governments after gaining independence was to establish educational plans, setting forth ambitious targets. Till independence, a few students from the Third World were sent to the West for education. But the needs were so vast and the costs so forbidding that there was no real substitute for expanding, as rapidly as possible, national facilities for education at all the levels of learning.

The thirty years since 1950 mark a watershed in their history. Whatever views one may have on the quality of education offered or on the priorities established among the three levels of learning (not to mention adult education and other forms of informal training), one fact sharply stands out. There was a veritable educational explosion in the Third World. The thirst of their people for mastering the magic of enlightenment was unquenching. The people absorbed all—bad, and good and indifferent—they were offered.

In the process, an educational miracle took place in these thirty years. Its full story yet remains to be told by historians of educational advance. Its magnitude needs to be carefully measured. And its impact on the Third World itself and the world as a whole for the period ahead will have to be adequately assessed. As a beginning, we have put together at least the vast numbers which were involved in this educational miracle (see Table 1).

The information concerning the growth of enrolment between 1950 and 1981 in the Third World (including China and East Asian socialist countries) and other regions of the world is summarised in Table 1. We have also given comparative data for the developed countries—both capitalist and socialist—for the same period. The Table contains information on absolute numbers, the size of the increase between 1950 and 1981, the expansion in the number of students enrolled, annual percentage growth rates, and relative shares in world totals in 1950 and 1981. The data are sufficiently comprehensive so that there is no need to describe in detail each of the elements. The observations below therefore are only of a summary nature.

### Total School Enrolment

The enrolment in all the levels of education from first to the third one for the world as a whole expanded from 250 million in 1950 to 865 million in 1981. It increased some three and one half times rising annually at 4.1 per cent per year. It may be noted here that during this period the world population increased by some 2,000 million persons. Of this increment, as many as 620 million, or nearly one-third of the entire rise in world population, were absorbed in school enrolment spread over the three levels. It is difficult to imagine any comparable period in world history when the educational expansion was so rapid, the numbers involved so overwhelming.

Of much greater significance was the enlargement of total enrolment in the Third World. It increased from some 90-100 million students in 1950 to 627 million in 1981, or some six and one-half times. The size of the sheer numbers is staggering. It may be pointed out that of the entire increment of 620 million in the world school enrolment, the Third World contributed 530 million, or nearly 85 per cent of the total. Quite clearly, the educational advance of the post-Second World War period was mainly a Third World phenomenon.

In consequence there was a decisive reversal of the shares of the developed countries and the Third World in world enrolment. For instance, the developed countries accounted for two-thirds of the world enrolment in 1950, whereas the Third World's share was only one-third. This asymmetry was fundamentally altered by 1981. The Third World's share went up to 73 per cent of the world total. The share of the developed countries, both capitalist and socialist, shrank to only 27 per cent. These changes have thereby brought the educational shares more or less in line with the population shares of both the Third World and the developed countries.

The Third World is far behind the developed countries in many areas: for instance, in per capita national product, industrial output, foreign trade, and several other indicators. But as far as enrolment in education is concerned the Third World has covered in just 30 years the vast gap that separated it from the developed countries in 1950. People will continue discussing the income gap, the food gap, the foreign trade gap, the balance of payments gap, the industrial gap, the technological gap, and several other gaps, which are, or may become, the current fashion. With the enrolment gap now clearly covered by the Third World's lightning sprint, one can write an epitaph for at least one gap.

## PRIMARY EDUCATION

We may quickly review the Third World's advance at the first, second and the third levels of education. Third World enrolment in the first level rose from 80-90 million students in 1950 to over 456 in 1981, or some five times. The expansion was at about 5.6 per cent per year or slightly faster than that (5.4 per cent) in its overall gross national product.

It is noteworthy that in 1950 the developed countries with only 25 per cent of the world population accounted for 57 per cent of the world enrolment in the first level of education. Even in absolute numbers, the developed countries had 75 per cent larger enrolment in 1950—148 million in comparison with 80-90 million in the Third World. By 1981, however, this share was reduced to 21 per cent. Nearly the entire increment in world enrolment at the first level was from the Third World. In consequence, the Third World share in first level world enrolment rose to 79 per cent. This was slightly higher than its share in the world population, reflecting in part the predominance of younger age groups in its population. The enrolment gap, both in absolute numbers and in relative shares, was closed.

In 1950, a bare five per cent of the population of the Third World was in primary schools. By 1981, the share had risen to 14 per cent. One out of every seven persons in the Third World is now absorbed in primary education, deciphering the magic of the written word. The comparable level for the developed countries is 10 per cent, again reflecting in part the larger share of the aged in their population.

## SECONDARY EDUCATION

Between 1950 and 1981, the enrolment of Third World students at the second level grew at about 9.0 per cent per year, or faster than that for the first level of education. The total number in its secondary schools has gone up from only 10 million in 1950 to 143 million in 1981, or some 14 times. Per thousand of its population, there were less than six students at the second level in the Third World in 1950; by 1981 this number had risen to 46; or higher than the level current in the developed countries in 1950 (see Table 2).

In 1950, the developed countries had 31 million students at the second level, or three times more than those in the Third World. These relationships were almost reversed by 1981. The Third World now has 75 per cent more students enrolled in its secondary schools than the developed ones have in theirs. The big gap in absolute numbers has by now been covered.

As a result of differences in the relative growth rates in the Third World and the developed countries, the Third World has improved its comparable position from 24 per cent of the World total in 1950 to 64 per cent by 1981—that is, raising its relative share by 40 percentage points in 31 years, or by 1.3 percentage point each year. If these rates are continued, it is easy to see that the Third World enrolment in the second level of education will in less than a decade be on par even on a per capita basis with that in the developed countries. At the past rates, such a transition should occur by or around 1990. Not all that far away!

## HIGHER EDUCATION

The place of pride for Third World achievement in education belongs to higher education. The most impressive expansion has taken place in enrolment in universities and institutes of higher learning in the Third World. There were less than one million students in such institutions in 1950. The numbers multiplied to 18 million by 1981,

TABLE 1: EDUCATIONAL ADVANCE IN THE DEVELOPED COUNTRIES AND THE THIRD WORLD: 1950, 1981

| Areas and Enrolment Levels | In Millions | | | Index 1950=100 | In Per Cents | | |
|---|---|---|---|---|---|---|---|
| | 1950 | 1981 | Increases 1950-1981 | | Annual Growth | Share in World 1950 | Totals 1981 |
| Developed Countries[a] | | | | | | | |
| Level I | 112 | 120 | 8 | 107 | 0.2 | 57 | 21 |
| Level II | 31 | 87 | 56 | 280 | 3.4 | 76 | 36 |
| Level III | 5.4 | 30 | 25 | 555 | 5.7 | 85 | 62 |
| Total | 148 | 237 | 89 | 160 | 1.6 | 60 | 27 |
| Third World[b] | | | | | | | |
| Level I | 80-90 | 456 | 370 | 535 | 5.6 | 43 | 79 |
| Level II | 10 | 153 | 143 | 1430 | 9.0 | 24 | 64 |
| Level III | 1 | 18 | 17 | 1800 | 9.8 | 15 | 38 |
| Total | 90-100 | 627 | 530 | 670 | 6.3 | 40 | 73 |
| World | | | | | | | |
| Level I | 200 | 576 | 376 | 288 | 3.5 | 100 | 100 |
| Level II | 41 | 240 | 200 | 585 | 5.9 | 100 | 100 |
| Level III | 6.4 | 49 | 43 | 670 | 6.3 | 100 | 100 |
| Total | 250 | 865 | 620 | 346 | 4.1 | 100 | 100 |

*Notes*: Totals may not agree owing to rounding.

a Covering OECD countries, USSR and East European countries.

b Including China; 1950 figures include rough guesses for Chinese data.

*Sources*: For 1950, "UNCTAD, Co-operative Exchange of Skills among Developing Countries: Policies for Collective Self-reliance" (TD/B/C 6/AC 4/8/Rev 1); for 1981, Binod Khadria, 'Generation and Efficient Utilisation of Skills for the Technological Transformation of Developing Countries' (unpublished manuscript, October 1984), based on data from UNESCO, "Statistical Yearbook 1983".

or 18 times. They were growing at 9.8 per cent per year, or doubling every seven years. This rate of growth of enrolment at the third level was nearly twice as high as that of the combined GNP of the Third World countries. It should be noted here that of the 30 million students enroled at the third level in the developed countries, nearly one-half million are overseas students from the Third World.[16]

Education at the third level was mainly a developed country monopoly in 1950. As high as 85 per cent of the world enrolment in this level was concentrated in the developed countries. In 1950, only one out of every seven students enrolled in higher education came from the Third World. There was a big change in this one-group concentration by 1981. The Third World's share in higher education rose to 38 per cent. Four out of every 10 students enrolled in institutions of higher learning came from the Third World in 1981. It should perhaps be added that this share would have been even higher were it not for the fact that the cultural revolution in China had decimated its enrolment at the second and third levels. The ground lost is now being rapidly covered by China with the result that its high rates in future will help raise, rather than lower as in the past, the growth rate of third level enrolment.

The Third World has raised its share in world enrolment in higher education from 15 per cent in 1950 to 38 per cent by 1981, or by about 0.7 percentage point per year. If the past growth rates continue in both the areas, these shares shoud be equal in about 15 years. It would take longer to reach equality on a per capita basis—say, half a century or so from 1981, based on a simple extrapolation of past trends.

It would seem, however, that such a simple extrapolation would be unrealistic in view of the fact that the 15-24 years age-group of the population of the developed countries is estimated to decline at an annual rate of 0.3 per cent between 1980 and 2000.[17] The past growth in third level enrolment in the developed countries, particularly rapid upto early 1970s, is unlikely to be sustained for this reason. It may well be that the actual rate might be nearer zero, as has been the case in recent years, or only marginally above. In that case, the educational transition for third level enrolment—shares being equal to population shares—would require a five-fold rise in Third World enrolment in higher education. A continuation of the past growth—9.8 per cent per year—could accomplish this in some 20 years, or just around the turn of the twentieth century.

TABLE 2: EDUCATIONAL DISTANCE BETWEEN THE DEVELOPED COUNTRIES AND THE THIRD WORLD: 1950-1981

| | 1950 | 1981 | Change 1950 to 1981 |
|---|---|---|---|
| | Number per thousand of population of each area | | |
| **I Areas of Enrolment Levels** | | | |
| Developed countries[a] | | | |
| Level I | 149 | 103 | 46 |
| Level II | 41 | 74 | 33 |
| Level III | 7.2 | 26 | 19 |
| Total | 197 | 203 | 6 |
| Third World[b] | | | |
| Level I | 49 | 137 | 88 |
| Level II | 5.7 | 46 | 40 |
| Level III | 0.6 | 5.4 | 4.8 |
| Total | 54 | 188 | 134 |
| World | | | |
| Level I | 80 | 128 | 48 |
| Level II | 16 | 53 | 37 |
| Level III | 2.6 | 10.9 | 8.3 |
| Total | 98 | 192 | 94 |
| | Number in millions | | |
| **II Population** | | | |
| Developed countries | 750 | 1,170 | 420 |
| Third World | 1,750 | 3,330 | 1,580 |
| World | 2,500 | 4,500 | 2,000 |

*Notes:* Totals may not agree owing to rounding.
a Covering OECD countries, USSR and East European countries.
b Including China; 1950 figures include rough guesses for Chinese data.

*Sources:* For 1950, 'UNCTAD, Co-operative Exchange of Skills among Developing Countries: Policies for Collective Self-reliance' (TD/B/C 6/AC 4/8/Rev 1); for 1981, Binod Khadria, "Generation and Efficient Utilisation of Skills for the Technological Transformation of Developing Countries" (unpublished manuscript, October 1984), based on data from UNESCO, "Statistical Yearbook 1983".

It needs no emphasis that the contours of the transition and the period it would take depend on the relationship between the growth rates of third level enrolment in the two groups of countries. The logic of numbers and growth rates simply compel the conclusion that this is a matter of a few decades. The age of enlightenment for the Third World is not endless centuries away. It is easily forgotten that growth rates cannot be considered quite the same way as speed of cars: three times the speed would need one-third the time for covering the given distance. Nine per cent growth rate is three times as high as a three per cent one; but in 30 years, the final outcome is 13-fold at the former and only 2.3-fold at the latter—the ratio of rates being three, but of outcomes six. The ratio rises rapidly as the dimension of time is extended: for fifty years, it would be 17. This is all rather simple and straightforward, and need not have been stressed here, but it is too often overlooked in growth dynamics.

## IV

## Educational Distance among Nations and Its Implications

The preceding review of education developments in the Third World since 1950 brings strikingly a number of conclusions of considerable operational significance. Some of the more important ones may therefore be briefly summarised.

To begin with, the nineteenth century educational landscape in the most developed countries was not altogether dissimilar from that in the Third World in the 1950s. Broadly stated, the rapid development of primary education began in the developed countries during the closing decades of the nineteenth century; that of secondary education in the first decade of the twentieth, and of higher education only around the first World War if not later. These benchmarks are very approximate for experience varied from one developed country to another. Bearing this in mind, the educational distance[18] between the developed countries and the Third World around the 1950s, if measured in terms of years, would appear as follows:

—primary education: 60-70 years;
—secondary education: 40-50 years;
—higher education: 30-40 years.

Second, the advanced countries had developed by 1950 a considerable lead over the Third World countries in all the three levels of education. They accounted for some 30 per cent of the world population. But their share in world enrolment was 57 per cent for primary, 76 per cent for secondary and as high as 85 per cent for higher education. The Third World countries were plainly on the periphery of educational progress.

Third, the educational advance in the Third World between 1950 and 1981 has been simply spectacular. A "miracle", according to its dictionary definition, is an event inexplicable by natural laws and so ascribed to divine or supernatural action; or a marvel, an extraordinary event or object. The Third World's educational progress was by no means promoted by divine or supernatual forces. It was the crowning result of hard effort involving immense costs in financial and human resources. By any standards, it was a miracle, a marvel, an extraordinary event. By 1981, the Third World had on a comparable per capita basis:

- —equalled (or surpassed) the levels of primary enrolment in the developed countries;
- —reached mid-1950 levels of secondary enrolment in the developed countries; and
- —nearly attained the levels of enrolment in higher education in the developed countries in 1950.

Fourth, the educational distance between the two groups of countries is being rapidly covered. The gap in primary education, as described above, was practically closed by 1981. The attainment by the Third World of the second level enrolment levels in the developed countries is only a decade away and those for third level not much more than two to three decades away. Thus, catching up with comparable numbers is no longer a visionary's dream, a fantasy of the daydreamer. It has become plainly a task manageable in a finite time framework. That by itself is a landmark.

Fifth, the implications of this catching-up. It should be recalled that heated debates are going on about several questions: for example, the ways of improving the quality of education in the Third World; the drop-out and stay-on ratios; the appropriate choices in devoting resources to one or the other level, type or the form of education; the provision of mass literacy; democratisation of education by reducing the resources catering to the needs of the elites; the wastefulness of creating so many educated unemployed; decisions on the relevance of several types of education; such as, liberal, vocational and technical and scientific; and elements to be included in this or that type of strategy and plans to be followed in the future. These debates are very essential; their results have a direct bearing on the future. The problems are very real, and they merit continuous attention. They cannot, however, obscure the fact that the batteries of skilled men and women who will be called upon to steer technological transformation of the Third World countries are now all on the scene in most of these countries.

Finally, many problems still remain to be solved before the newly acquired skills began to yield dividends in terms of extra output and additional personal satisfaction, since education, we must rememer, is at the same time both an investment and a consumption good. Like mercy, it benefits the nation which gives it, and the citizens who receive it. The stock of skilled personnel is still small, since there is a time-lag between enrolment and graduation and between graduation and seasoning of the graduates by experience. It is too young, over 75 per cent of it being under the age of 40. The quality and the relevance of education needs to be improved considerably. There are yet miles to go in this respect. In many instances, the critical-mass has not yet been reached. Nearly everywhere the complementary infrastructure—equipment, facilities, laboratories, institutions, R and D resources, incentives—is very poor; and the interlinkages among disciplines and sectors are nearly non-existent. Individual and social motivation matters most in bringing about an efficient utilisation of skills already acquired; there is a great scope of improvement here. In consequence of all these weaknesses, collective efforts do not yet yield benefits larger than the sum of individual components: All these and many other shortcomings remain to be overcome to ensure an optimal use of the skill capacities which at great cost and sacrifice have been built up over these years. They need to be studied carefully, and their incidence has to be clearly identified so that each country devises an appropriate educational strategy to guide its development plans.

We have only given an overall image of the educational transformation of the Third World. The attainments vary from country to country. Several countries are far better and many others far behind, particularly the least developed ones; they were late-starters and their progress will no doubt require even more vigorous efforts in the future. And yet, the fact stands out that the thirty years have witnessed an immense advance, the impact of which will be felt in the years ahead. Despite all the problems outstanding, one would still have to say in admiration of these three decades: "What a great sprint it was!"

## Notes

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7 UNESCO, "Progress of Literacy in Various Countries" (Paris, 1963), pp 168 ff; and "World Literacy at Mid-Century" (Paris, 1957), pp 180-181; also, Hobsbawm, op cit, pp 58, 227.

8 United States, *Historical Statistics*, Series H 384-394.

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10 United States, *Statistical Abstract* (1963).

11 Ministry of Education (Japan) "Education in Asia: A Graphic Presentation", (Tokyo, 1964), p 29, Chart VIII.

12 United States, *Historical Statistics*, Series H 316-326 and H 327-338.

13 Ministry of Education (Japan), op cit.

14 "USSR in Figures" (Moscow, 1963).

15 UNESCO and UNECA, "Final Report of The Lagos Conference" (Lagos, July 28 to August 6, 1964).

16 For a discussion of an alternative scenario, see Khadria, Binod, "Generation and Efficient Utilization of Skills for the Technological Transformation of Developing Countries" (an unpublished study prepared for the UNCTAD secretariat, October, 1984).

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## LIC

LIFE INSURANCE CORPORATION OF INDIA (LIC) has a new Managing Director. S V Narayanan, who was the Executive Director (Investment), Central Office, Bombay, has taken over as Managing Director of the Corporation on July 2, 1985. A fellow of the Institute of Actuaries (London), Narayanan has more than 30 years' experience in insurance and has held various senior positions in LIC such as Zonal Manager, Kanpur, Bombay and Madras. He has travelled widely in Europe and was a delegate to the International Congress of Actuaries at Oslo in 1972. He was also a delegate to the Ninth African Insurance Conference held at Addis Ababa in 1982.

# Employment Goals and Development Priorities

**S P Gupta**
**T G Srinivasan**

*By adopting a concept of standard person-years in the Sixth Plan for measuring employment, the earlier neglect of the productivity aspect of employment was partly removed and the concept of gainful employment was emphasised. In this sense in the Sixth Plan for the first time the goal of employment and the goal of poverty eradication were reconciled and the apparent trade-off between employment generation and growth largely rationalised.*

*However, the earlier approach of treating employment as a recursive process remained unchanged in the Sixth Plan. No new approaches for choosing the production sectors keeping in view the need for maximising employment, say, by an appropriate policy of demand management or choice of techniques, were explored. In recent debates on the choice of the desired employment strategies for the Seventh Plan, this aspect has been specially emphasised. But at the same time not much thought has been devoted to the selection of a 'choice criteria' for prioritisation of sectors for making investment decisions keeping in view optimisation of employment as a major objective. This paper is an attempt towards filling this gap.*

GENERATION of employment has been a major goal in all our plans. However, after the Third Plan the quantitative estimates of generation of employment in the Plan have been discarded. This resulted in our inability to monitor the employment generation potentialities of the Fourth and Fifth Plans. In the Sixth Plan, the practice of making quantitative estimates of employment targets has been revived. In this process of revival one major improvement has been made specially in conceptual terms. In our previous attempts, the estimates of employment were done in terms of "head counts". The employment implication of this approach would literally ignore (1) the minimum needs for earnings and therefore welfare of the employees, and (2) the needs for improving productivity in terms of the use of resources, specially in countries where underemployment is very high. By adopting a concept of standard person years in the Sixth Plan for measuring employment, the earlier neglect of the productivity implication has been partly removed and the concept of gainful employment has been emphasised. In this sense in the Sixth Plan for the first time the goal of employment and the goal of poverty eradication have been reconciled. The apparent trade-off between employment generation and growth has been largely rationalised. But unfortunately, the earlier approach of treating employment as a recursive process, i e, as a product of a production choice remained unchanged even in the Sixth Plan. No new approach for choosing the production sectors keeping in view the need for maximising employment, say by an appropriate policy of demand management or choice of techniques, has been explored. In recent debates regarding the choice of the desired employment strategies for future plans, this aspect has been specially discussed. But at the same time, not much thought has been devoted to the selection of a "choice criteria" by which the prioritisation of sectors could be done for making appropriate investment decisions keeping in view the optimisation of employment as a major objective.

The general practice, so far has been to rank the activities or sectors in terms of their employment intensity per unit of output, measured either as a coefficient or an elasticity with respect to output. In this paper we are trying to prove that this selection criteria may not give the right choice of priority between sectors. This is mainly because the operative decisions in a planned economy work primarily *via* the choice in the investment allocations and that also in the public sector investment activity and not usually by the choice in the unit of output to be produced. Therefore, it is more important to examine the employment generation potentiality from a unit of investment and its consequences in production rather than exclusively by a unit of output produced for optimising employment over the Plan period. If the two criteria will give more or less the same rankings of industries or sectors then any choice between these two criteria could be academic. But our present analysis will show that the use of these two criteria give completely different pictures. Besides, the generation of employment by an investment activity has a direct employment impact and also has an indirect employment impact by the forward and backward linkages of the sector concerned. In many sectors the direct impact is very slow

TABLE 1: BASIC PARAMETERS USED IN THE EMPLOYMENT COMPUTATIONS

| Sl No Sector | Labour Use for Rs One Million Output (in Standard Person Years) | | | Incremental Capital Value Added Ratio | Value Added Per Unit Output | Ratio of Inventories to Fixed Investment | Incremental Output-Capital* Ratio | Incremental Employment Capital Ratio* | Composition of Fixed Asset | | Gestation Lags (Years) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Direct | Indirect | Total | | | | | | Construct | Mech Eqp | |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
| 1 Agriculture and allied | 174 | 37 | 211 | 3.7067 | 0.7405 | .0417 | 2.6349 | 0.3795 | 0.6250 | 0.3750 | 1 |
| 2 Mining and quarrying | 35 | 27 | 62 | 4.8220 | 0.7666 | .0417 | 3.2708 | 0.3057 | 0.3438 | 0.6563 | 4 |
| 3 Manufacturing | 35 | 74 | 109 | 4.2921 | 0.2796 | .2195 | 0.9841 | 1.0162 | 0.3902 | 0.6098 | 3 |
| 4 Construction | 60 | 68 | 128 | 0.2046 | 0.3185 | .1494 | 0.0567 | 17.6383 | 0.5402 | 0.4598 | 3 |
| 5 Electricity, gas and water supply | 19 | 37 | 56 | 25.9968 | 0.4344 | .0638 | 10.6157 | 0.0942 | 0.4844 | 0.5156 | 6 |
| 6 Railways | 82 | 38 | 120 | 6.1566 | 0.5961 | .1765 | 3.1194 | 0.3206 | 0.5412 | 0.4588 | 3 |
| 7 Other transport | 90 | 46 | 136 | 8.2730 | 0.4482 | .0753 | 3.4483 | 0.2900 | 0.5376 | 0.4624 | 2 |
| 8 Communication | 92 | 8 | 100 | 6.4119 | 0.9177 | 0. | 5.8842 | 0.1699 | 0.6400 | 0.3600 | 3 |
| 9 Trade, etc | 65 | 26 | 91 | 1.1992 | 0.7424 | 0.6667 | 0.5342 | 1.8721 | 0.5000 | 0.5000 | 2 |
| 10 Banking and insurance | 31 | 11 | 42 | 0.0820 | 0.8506 | 0. | 0.0410 | 24.3909 | 0.5000 | 0.5000 | 2 |
| 11 Real estate, etc | 1 | 15 | 16 | 5.4600 | 0.8760 | 0. | 4.7830 | 0.2019 | 1.0000 | 0.0000 | 2 |
| 12 Public administration, defence and other services | 70 | 49 | 119 | 1.3009 | 0.5272 | 0.0526 | 0.6516 | 1.5348 | 0.9474 | 0.0526 | 1 |

*Note:* * The estimates are at 1979-80 prices and capital refers to fixed capital only.

but the indirect impact is significantly large enough to justify giving a very high rank to these sectors in terms of their total employment generation capacity from given investment programmes. Our manufacturing sector is one such case in point.

Further, there are certain investment activities where the gestation lag of investment is very small and the production phase comes rather early. Certain other investments would take place in sectors like power and steel where the gestation lags are very large and therefore the asset formation stage would continue for a longer period before the production phase would come. We know that the employment generation capacities are very different between the asset formation phase and the production phase in many sectors. Also the nature of employment generation is different between the two phases; in the production phase it is more or less of a flow nature whereas in the asset formation phase it is of a "stock nature", i e, once for all over the gestation period. Therefore, we have to take all these into consideration for assessing the employment generation potentialities of different sectors. They are (a) the level of investment expenditure net of interest payments, (b) the time span of the plan and the direct and indirect employment generation from unit net investment. When all these factors are considered we may find a case where a sector which looks to be unattractive on the basis of direct employment generation per unit of output may prove to be very attractive taking direct and indirect employment into consideration and its investment costs.

## MODEL STRUCTURE

As has been mentioned already, in choosing the alternative investments, one has to decompose the effect of employment between 'direct' and 'indirect'. With the increase in the interdependence of the economy (inter-industry linkages) the forward and backward linkages of some of the activities are ever on increase. Unless, therefore, the policy-makers take into account the total effect of employment, the investment choices may get distorted. For this purpose it is found necessary to visualise the employment effects of an investment activity into two phases. In the first phase, which can be called the asset formation phase, the investment activity should be confined to the building of capital asset. This activity may spread over a period of time, depending on the gestation lag of investment of a sector. Subsequent to this, the capital asset thus created is put to productive use wherefrom a stream of output and employment would flow per period of time. This second phase is generally described as the production phase. In both the asset formation and the production phases, we can decompose the employment effects into direct and indirect. By direct employment generation we mean only that part of demand for labour which is placed by the concerned activity. On the other hand, indirect employment generation sums up all the employment of labour which has been associated for the production of the inputs required for this concerned activity both in the asset formation and in the production phases. This element of employment is generally known as the backward linkage effect. Leontief technical coefficient matrices are used for tracing the indirect employment effects. However, in order to assess the indirect employment effect of an activity, we should confine ourselves only to the domestic inputs required in the process of production; since the imported inputs would result in employment generation outside the country. However, if the imported inputs in question are of a competitive nature, given the scope for substitution, a part of the imported inputs can be combined with the domestic inputs for estimating employment generation within the country. In the present analysis we kept the domestic input ratio of the base year unchanged thereby implicitly treating all imported inputs as non-competitive. Similarly, in estimating the employment impact at the stage of asset formation, the likely import substitution should be also assessed. This applies mainly to the import of machineries and equipment, given that construction by definition is non-tradeable. In this analysis, all capital goods are assumed to come from domestic production. Thus our calculations of employment genertion in the production phase is slightly underestimated since over time imported inputs are likely to decline in the development process. On the other hand, the estimation of employment at the asset formation stage may have been slightly overstated since a part of machinery can also be imported. Algebraically,

$$e_i = 1' \, (I\text{-}A^d)^{-1} \left\{ K_i^c + K_i^m + F_i \right\} \, Q_i \quad \ldots(1)$$

$$e_i^{*} = 1'(K_i^c + K_i^m + F_i) \, Q_i \quad \ldots(2)$$

$$e_i(c) = 1' \, (I\text{-}A^d)^{-1} \left\{ K_i^c + K_i^m \right\} \quad \ldots(3)$$

$$e_i(p) = 1'(I\text{-}A^d)^{-1} . \, F_i \, . \, Q_i \quad \ldots(4)$$

$$e_i^{*}(c) = 1' \left\{ K_i^c + K_i^m \right\} Q_i \quad \ldots(5)$$

$$e_i^{*}(p) = 1' \left\{ f_i Q_i \right\} \quad \ldots(6)$$

where

$e_i$ : Total employment effects for the ith sector,

TABLE 2: EMPLOYMENT GENERATION DURING THE CREATION OF FIXED ASSETS WORTH RS ONE MILLION

*(In standard person years)*

| Sl No Sector | In One Year of the Gestation Period | | | Over the Gestation Period | | |
|---|---|---|---|---|---|---|
| | Direct | Indirect | Total | Direct | Indirect | Total |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 1 Agriculture and allied | 51 | 70 | 121 | 51 | 70 | 121 |
| 2 Mining and quarring | 11 | 18 | 29 | 44 | 72 | 116 |
| 3 Manufacturing | 15 | 24 | 39 | 45 | 71 | 116 |
| 4 Construction | 16 | 24 | 40 | 49 | 70 | 119 |
| 5 Electricity, gas and water supply | 8 | 12 | 20 | 47 | 71 | 118 |
| 6 Railways | 16 | 24 | 40 | 49 | 70 | 119 |
| 7 Other transport | 24 | 36 | 60 | 48 | 71 | 119 |
| 8 Communcations | 17 | 23 | 40 | 51 | 70 | 121 |
| 9 Trade, etc | 24 | 36 | 60 | 48 | 71 | 119 |
| 10 Banking and insurance | 24 | 36 | 60 | 48 | 71 | 119 |
| 11 Real estate, etc | 30 | 34 | 64 | 60 | 68 | 128 |
| 12 Public administration defence and other services | 59 | 68 | 127 | 59 | 68 | 127.9 |

TABLE 3: EMPLOYMENT GENERATION DURING PRODUCTION WITH RS ONE MILLION FIXED ASSETS

*(In standard person years)*

| Sl No Sector | In a Typical Year | | |
|---|---|---|---|
| | Direct | Indirect | Total |
| (1) | (2) | (3) | (4) |
| 1 Agriculture and allied | 66.0 | 14.1 | 80.1 |
| 2 Mining and quarring | 10.7 | 18.3 | 19.0 |
| 3 Manufacturing | 35.6 | 75.2 | 110.8 |
| 4 Construction | 1058.3 | 1199.4 | 2257.7 |
| 5 Electricity, gas and water supply | 1.8 | 3.5 | 5.3 |
| 6 Railways | 26.3 | 12.2 | 38.5 |
| 7 Other transport | 26.1 | 13.3 | 39.4 |
| 8 Communications | 15.6 | 1.4 | 17.0 |
| 9 Trade, etc | 121.7 | 48.7 | 170.4 |
| 10 Banking and insurance | 756.1 | 268.3 | 1024.4 |
| 11 Real estate, etc | 0.2 | 3.1 | 3.3 |
| 12 Public administration, defence and other services | 107.4 | 75.2 | 182.6 |

$e_i^*$ : Direct effect for the ith sector,
$l'$ : Row vector of labour use per unit output,
$A^d$ : Matrix of domestic input-output coefficients,
$K_i^c$ : Column vector with construction proportion of fixed investment in the Jth cell and null otherwise when J sector represents construction activity,
$K_i^m$ : Column vector with machinery and equipment proportion in fixed investment in the Rth cell and null otherwise, when R sector represents machinery production,
$f_i$ : A column vector with incremental output to fixed capital ratio in the ith cell and null otherwise,
$Q_i$ : Fixed investment (net) in the ith sector (Rs one million),
$e_i(c)$: Total employment in the construction phase only,
$e_i(p)$ : Total employment in the production phase,
$e_i^*(c)$: Direct employment in construction phase,
$e_i^*(p)$: Direct employment in production phase.

The first two terms within the chain bracket in equation 1 measure the demand on fixed assets placed by the investment level 'Q' in a sector. The direct and indirect employment generation in the supply of these capital assets in the form of construction and machineries constitutes the employment effects in the asset formation phase. The third term in the chain bracket captures the employment effects which occur as a stream of activity per period over the lifetime of the asset.

TABLE 4: DIRECT EMPLOYMENT GENERATION OVER FIVE YEARS

*(In standard person years)*

| Sl No | Sector | Employment Generation during | | | | | | Employment Multiplier |
|---|---|---|---|---|---|---|---|---|
| | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Years 1 to 5 | |
| (1) | | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| 1 | Agriculture and allied | 51.0 | 66.0 | 66.0 | 66.0 | 66.0 | 315.0 | 1.40 |
| 2 | Mining and quarring | 9.35 | 9.35 | 9.35 | 9.35 | 10.7 | 48.1 | 2.40 |
| 3 | Manufacturing | 13.5 | 13.5 | 13.5 | 35.6 | 35.6 | 111.7 | 2.93 |
| 4 | Construction | 14.4 | 14.4 | 14.4 | 1059.0 | 1058.0 | 2159.2 | 2.14 |
| 5 | Electricity, gas and water supply | 6.1 | 6.1 | 6.1 | 6.1 | 6.1 | 30.5 | 2.51 |
| 6 | Railways | 14.4 | 14.4 | 14.4 | 26.3 | 26.3 | 95.8 | 1.93 |
| 7 | Other transport | 22.8 | 22.8 | 26.1 | 26.1 | 26.1 | 146.7 | 1.58 |
| 8 | Communications | 15.3 | 15.3 | 15.3 | 15.6 | 15.6 | 77.1 | 1.84 |
| 9 | Trade, etc | 22.8 | 22.8 | 121.7 | 121.7 | 121.7 | 410.7 | 1.52 |
| 10 | Banking and insurance | 22.8 | 22.8 | 756.1 | 756.1 | 756.1 | 2313.9 | 1.38 |
| 11 | Real estate, etc | 28.5 | 28.5 | 0.2 | 0.2 | 0.2 | 57.6 | 2.28 |
| 12 | Public administration, defence and other services | 59.0 | 107.4 | 107.4 | 107.4 | 107.4 | 488.6 | 1.75 |

TABLE 5: TOTAL EMPLOYMENT GENERATION OVER FIVE YEARS

*(In standard person years)*

| Sl No | Sector | Employment Generation during | | | | | |
|---|---|---|---|---|---|---|---|
| | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Years 1 to 5 |
| (1) | | (2) | (3) | (4) | (5) | (6) | (7) |
| 1 | Agriculture and allied | 121 | 80 | 80 | 80 | 80 | 441 |
| 2 | Mining and quarring | 24.7 | 24.7 | 24.7 | 24.7 | 19 | 117.8 |
| 3 | Manufacturing | 35 | 35 | 35 | 111 | 111 | 327 |
| 4 | Construction | 36 | 36 | 36 | 2258 | 2258 | 4621 |
| 5 | Electricity, gas and water supply | 15.3 | 15.3 | 15.3 | 15.3 | 15.3 | 76.5 |
| 6 | Railways | 36 | 36 | 36 | 38.5 | 38.5 | 185 |
| 7 | Other transport | 57 | 57 | 39.4 | 39.4 | 39.4 | 232.2 |
| 8 | Communications | 36 | 36 | 36 | 17 | 17 | 142 |
| 9 | Trade, etc | 57 | 57 | 170 | 170 | 170 | 624 |
| 10 | Banking and insurance | 57 | 57 | 1024 | 1024 | 1024 | 3194 |
| 11 | Real estate, etc | 61 | 61 | 3.3 | 3.3 | 3.3 | 131.9 |
| 12 | Public administration, defence and other services | 127 | 182.6 | 182.6 | 182.6 | 182.6 | 857.4 |

In the numerical exercise that has been attempted a few assumptions have been made which need to be borne in mind.

In sectors where employment coefficients are estimated as elasticities they have been converted as a fixed coefficient at a particular level of production and employment for linearising the model specification. This would mean that in sectors where employment elasticity is much less than unity, calculation of employment generation will suffer from an upward bias. Besides the employment coefficient in the machineries sector which is in fact a sub-sector of manufacturing has been assumed to be the same as total manufacturing.

The basic parameters used in the exercise are consolidated and presented in Table 1. The Technical Note to the Sixth Five-Year Plan (TN) is the main source of information. However, the capital output ratios in the TN are with respect to gross capital formation and incremental value added in each sector. For our purpose we require the incremental fixed capital to output ratio. The relation between the incremental fixed capital to output ratio ($K^*$) and the conventional 'ICOR' of the TN (K) is

$$K^* = \frac{K\vartheta}{(1 + \lambda)} \qquad \ldots(7)$$

Where $\vartheta$ : value added to output ratio.

$(1 + \lambda)$: ratio of gross investment to fixed investment.

The employment effects are presented for all the 12 sectors against an equal investment of Rs one million in each sector. The analysis is done in a partial equilibrium frame in the sense that the investment postulated is applied to one sector at a time keeping all other sectors frozen at 'nil' investment. Also this analysis is rather static in the sense that the employment coefficients are regarded as remaining unchanged over the entire output changes assumed in this exercise (i e, elasticity of employment to output has been assumed to remain at unity over the relevant range).

As the gestation lag for investments of different sectors are different and the life-time of assets differ from sector to sector, in order to estimate the total employment generation of any sector for a given investment, we need to know not only the length of the gestation lag of investment in that sector but also the length of life of assets created. Although we have some information regarding the average gestation lag of sectoral investment, the information regarding the life-time of assets

TABLE 6: EMPLOYMENT GENERATION POTENTIALITY RANKING
(In Descending Order)

| Sl No | Sector Name (1) | Direct Labour Intensity of Output (2) | Total Labour Intensity Per Unit Inv (3) | Employment Multiplier (4) |
|---|---|---|---|---|
| 1 | Agriculture and allied | 1 | 6 | 12 |
| 2 | Mining and quarring | 8.5 | 11 | 3 |
| 3 | Manufacturing | 8.5 | 7 | 1 |
| 4 | Construction | 7 | 1 | 5 |
| 5 | Electricity, gas and water supply | 11 | 12 | 2 |
| 6 | Railways | 4 | 8 | 6 |
| 7 | Other transport | 3 | 3 | 9 |
| 8 | Communications | 2 | 9 | 8 |
| 9 | Trade, etc | 6 | 5 | 10 |
| 10 | Banking and insurance | 10 | 2 | 11 |
| 11 | Real estate, etc | 12 | 10 | 4 |
| 12 | Public administration, defence and other services | 5 | 4 | 8 |

is not always available. Keeping in view we have a five-year plan, the estimate of the employment generation potentiality of a given sectoral investment has been computed on a five-yearly basis. Also the sectoral investment should be on a net basis, i e, net of interest liability over the gestation period. Accordingly equations (3) and (4) have been revised as following:

$$e_i(c)_{pl} = \sum_{\lambda=1}^{la} l \quad (I\text{-}A^d)^{-1} \qquad K_i^c + K_i^m \quad Q_{i_\lambda}$$

When la $\leqslant 5$; if la $> 5$, than treat
la $= 5$ ...(8)

$$e_i\,(p)_{pl} = (5 - la)^*[l \quad (1 - A^d)^{-1}\; f_i Q_i] \quad \ldots(9)$$

$$e_{i\ pl} = e_i(c)_{pl} + e_i(P)_{pl} \quad \ldots(10)$$

When la is number of years of lag when $\lambda = 1$ to la, $e_i(c)_{pl}$, $e_i(P)_{pl}$ and $e_{ipl}$ define total employment direct plus indirect in construction phase, in production phase, and in both the phases together, over a five-year plan period. Tables 2 and 5 present employment generation effects of Rs one million fixed investment (gross 7) in the asset creation phase and in the production phase.

## FINDINGS

There are altogether six tables. Table 1 presents the direct employment coefficients of unit output, the sectoral incremental capital-output ratios, and the gestation lags of investment in all the respective sectors. Although the sectoral classifications used in the Plan are in more details, for our present exercise they have been aggregated into 12 sectors matching with the sector classifications of the national income accounts. Table 2 presents direct and indirect sectoral employment generated during the phase of asset formation, over (a) the first year and (b) covering the entire period of gestation of the investment activity. Table 3 presents direct and indirect employment generation in each sectors during the production phase per annum resulting from an investment of Rs one million on fixed assets in the respective sectors. Table 4 presents the direct additional employment generation in each sector aggregated over a five-year period, arising from an additional investment of Rs one million on fixed assets in each sector. Col 9 of the Table gives the estimates of employment multipliers in each sector of the economy, the employment multiplier being defined as the ratio between the total employment generated from an activity to the direct employment generated in that activity. Table 5 presents the employment generation over five years in each sector including both the direct and indirect employment generation from an investment of Rs one million on fixed assets in each sector. Table 6 presents the rankings of the sectors in the descending order of the employment generation potentialities on the basis of their (i) employment intensity per unit output, (ii) employment intensity per unit investment, taking in the latter case the direct and indirect employment generation, and (iii) the estimate of employment multipliers. They are given in columns 2, 3 and 4. On the basis of these results we infer that the prioritisation of sectors for employment maximisation based on the employment intensity per unit of output will totally differ from those based on the direct and indirect employment effects per unit of investment. For example, according to former, sectors like agriculture, communication and other transport will be the top priority sectors from the point of view of employment generation whereas according to the latter, sectors like construction, banking, insurance and other services, and other transport will top the list.

The rankings of sectors by adopting employment intensity of output as the selection criterion is given in column 2 of Table 6, and corresponding rankings according to direct and indirect employment generation per unit of investment are given in column 3 of the same Table. The rank correlation between column 2 and column 3 is as low as $-0.281$ suggesting that selection of ranking of sectors by the two criteria will be totally different and therefore any choice of sectors for employment maximisation will need a prior agreement regarding the choice of the 'ranking criteria'. In our view although the former criteria, i e, employment intensity of output, is more in fashion in our country, for meaningful application of investment planning as a tool for optimum resources allocation for the country as a whole (and not exclusively for a given sector and for a given time) the latter criteria will be more appropriate. Column 4 of Table 6 gives the rankings of sectors in descending order according to the sectoral employment multipliers in each sector. Here again we find that the rankings are very different. The rank correlation between column 3 and column 4 is $-0.587$. This suggests that the priorities of different sectors will totally change if we take this third criteria (i e, employment multipliers). For example, according to this criteria, the manufacturing sector would top the list followed by electricity and mining. Indeed, it is clear from Table 6 that the indirect employment generation of manufacturing is nearly double even that of agriculture.

All these show that sectors like construction, other transport, finance and banking are extremely important as instruments of employment generation in the immediate future whereas manufacturing and electricity are important taking the long and medium term future into consideration. Although agriculture has a large direct employment generation capacity, it will be wrong to put all efforts into one basket, i e, concentrating all employment generation activities in agriculture, for solving our employment problem. Indeed, the prudent approach should be to attempt to achieve a faster growth of industries and expansion of the transport, construction finance and banking sectors of the economy, and to see that agriculture grows *pari passu* to be able to supply necessary additional inputs in the accelerated industrial process and also meet the demand for food from the growing income and employment base. This will reconcile the goals of employment generation and productivity.

[The views are of the authors and not of the organisation where they belong.]

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# Economic Issues in Sericulture: Study of Karnataka

**H G Hanumappa**

**S Erappa**

*The potential of sericulture for generating employment and income in rural areas is the basis for the programmes initiated by the Government of Karnataka for promoting sericulture. This potential, however, varies as between traditional and non-traditional areas because of differing costs of production of mulberry leaf and rearing of silkworms.*

*This note attempts to assess the extent of these differences by working out the comparative costs of production on the basis of a sample of households for two points of time, 1980-81 and 1983-84. Broadly the results indicate that the employment potential is higher for hired labour in the case of mulberry leaf cultivation, while the family labour component is more pronounced in the case of silkworm rearing.*

CULTIVATION of mulberry leaf and silkworm rearing in Karnataka dates back to the 18th century. From the beginning, the Government of Karnataka played the important role of a catalyst to keep the sericulture industry going. It established a separate department in 1913-14 to look after some of the needs and also the problems of sericulturists.[1] Encouraged by the achievements of the sericulture industry, the state government undertook an ambitious plan for the expansion of sericulture covering a period of five years (1980-85), through a World Bank loan, and known as the Karnataka Sericulture Programme (KSP). This programme envisaged introducing sericulture in certain new areas of Karnataka, so that it can serve as an important source of employment and income generation in rural areas. The Government of Karnataka launched this programme in 1980 in 13 districts. For the traditional mulberry growing areas, this programme envisaged a further improvement in the existing infrastructural facilities, along with extending the area under improved mulberry and also encouraging rearing of improved and bivoltine silkworm. In the non-traditional areas, the plan was to introduce sericulture activities on a large scale to bring about economic transformation in these areas. In addition to providing the necessary infrastructure, the plan envisaged an effective extension of facilities so as to popularise sericulture activities.

There are very few studies which throw light on the process of socio-economic change brought about by the expansion of sericulture activities in a predominantly agricultural country like India. Also the studies tend to be either too general in their analysis of the situation or they are too narrow in their approach to provide insights or clues for a better understanding of the issues involved in sericulture activities. However, there are some exceptions.[2]

We are attempting here, on a modest scale, to present an overall view of the changes which have taken place at the household level in both traditional and non-traditional regions of the state in terms of sericulture activities. Further this note tries to find out at two points of time whether there is any change in the structure of costs and labour needs for the cultivation of mulberry leaf and silkworm rearing on the one hand and on the other, whether any change has taken place in the income earning capacities of the sericulturists. For this exercise, we are principally depending on the household data generated through periodic sample surveys which were undertaken at the Institute for Social and Economic Change since 1980. These data are supplemented by information gathered through intensive field visits to some of the non-sample villages also, where sericulture is making inroads into the economic life, particularly in the new sericulture regions of Bijapur, Raichur and Gulbarga districts. The two points of time selected for the present exercise are 1980-81 and 1983-84.

Both the number of sampled sericulturist households and the area under mulberry, at the two points of time, is not the same. The sample set selected for the year 1980-81 covered 747 sericulturists. When the frequency of the household survey was switched over

TABLE 1: PERCENTAGE DISTRIBUTION OF SAMPLE SERICULTURISTS AND AREA UNDER MULBERRY BY REGIONS IN 1980-81 AND 1983-84*

*(Area in acres)*

| Regions | 1980-81 | | 1983-84 | |
|---|---|---|---|---|
| | No | Area | No | Area |
| Traditional: | | | | |
| I | 35.79 | 60.04 | 31.68 | 54.94 |
| II | 32.44 | 16.42 | 32.30 | 16.21 |
| III | 31.77 | 23.54 | 36.02 | 28.85 |
| Sub-total | 80.05<br>(598) | 83.47<br>(1037.13) | 71.88<br>(161) | 74.43<br>(218.24) |
| Average size of mulberry holding | | 1.74 | | 1.36 |
| Non-traditional: | | | | |
| IV | 64.43 | 60.96 | 68.25 | 62.84 |
| V | 35.57 | 39.04 | 31.75 | 37.16 |
| Sub-total | 19.95<br>(149) | 10.53<br>(205.36) | 28.12<br>(63) | 25.57<br>(74.99) |
| Average size of mulberry holding | | 1.38 | | 1.19 |
| Grand Total | 100.00<br>(747) | 100.00<br>(1242.49) | 100.00<br>(224) | 100.00<br>(293.23) |
| Average mulberry area | | 1.67 | | 1.31 |

*Note:* * 1983-84 figures refer to the results of two quarterly surveys conducted in July and October 1983. (Absolute figures are given in the brackets.)

TABLE 2: COST OF MULBERRY LEAF PRODUCTION BY REGIONS, VARIETIES UNDER RAINFED CONDITIONS

*(Value in Rs)*

| Regions | | Rainfed | | | |
|---|---|---|---|---|---|
| | | Local | | M5 | |
| | | 1980-81 | 1983-84 | 1980-81 | 1983-84 |
| I | T C | 484 | 250 | 734 | 420 |
| | C | 0.23 | 0.23 | 0.30 | 0.26 |
| III | T C | 1226 | 510 | — | — |
| | C | 0.37 | 0.35 | — | — |

*Notes:* T C = Total cost per acre (Rs)
C = Cost per kg (Rs)

from annual to quarterly in 1983-84, a sub-sample of 224 out of 747 was drawn and surveyed. Thus while the 1980-81 results presented here refer to those derived from the annual survey conducted in 1981, the results presented here for 1983-84 refer to those derived from the two quarterly surveys conducted in July and October 1983. Further it is important to note that though the number and area covered differ for the two points of time, the results are still comparable as the samples covered belong to the same frame and as the average mulberry area under each family has not varied much even though the sample size differs (Table 1). Also, the agro-climatic regions and the total number of sample villages remained the same. We have divided the study area into five regions, and grouped regions I, II and III as traditional, and IV and V as non-traditional (for details of the names of districts which come under the different regions, see the Appendix). Region-wise coverage of both the sample households and the area shows that a greater share of the samples lie in traditional region than in the non-traditional region.

Broadly speaking, sericulture activities at the farm household level comprise of two distinct phases. The first phase of the activity concentrates on the cultivation of mulberry leaf and forms part of the cultivators' overall farm level (outdoor) activities. In the second phase, rearing of silkworm is taken up as part of the cultivator's overall household level (indoor) activities.

If we begin looking at the variations in costs of production of mulberry leaf by regions, varieties and sources of water by and large the trend seems to be that in most of the cases under rainfed conditions the total costs as well as the cost per kg of leaf has shown a declining/stagnant trend (Table 2). But under irrigated conditions though the total costs of M5 are reported to be declining, the cost per kg of leaf yield is increasing in some cases (Table 3). This seems to be mainly due to declining leaf yields in gross terms over the two periods. However, when we attempt to work out the costs involved in sericultural activities we should bear in mind that, the total costs calculated here include those incurred on inputs like manure, fertiliser, irrigation costs, if any, and labour costs.[3] Under labour costs, we have included the imputed value of family labour utilised for the activities and the paid-out cost for the hired labour. Since we have included the imputed value of family labour, we arrive at a higher total cost. This needs further probing, and it is necessary to find out whether this is due to farm level inefficiency of the sericulturists or due to any other natural factors which might have affected the leaf yields in particular during 1983-84.

Another interesting issue which deserves consideration is the proportion of family and hired labour involved in the cultivation of mulberry leaf. Table 4 shows that hired labour seems to play a very crucial role in the farm level activities of sericulturists, which is an outdoor activity. This is strengthened by the fact that the coefficient of variation worked out for these two regions on the number of mandays (in terms of family and hired labour) indicates that over the period, the variation has increased for the number of mandays of family labour from 6.44 per cent to 25.83 per cent. But this variation has decreased from 15.83 per cent to 2.34 per cent (Table 4) for hired mandays. This indicates that there has been a rise in employment opportunities for hired labour at the farm level (outdoor) activities of sericulturists in both the regions.

This phase of activity of cultivating mulberry leaf is closely followed by the rearing of silkworm which is mostly an indoor activity. Employment generation in this phase has a greater implication for the absorption of family labour as it keeps most of the

TABLE 3: COST OF MULBERRY LEAF PRODUCTION BY REGIONS AND VARIETIES UNDER IRRIGATED CONDITIONS

*(Value in Rs)*

| Regions | | Irrigated | | | |
|---|---|---|---|---|---|
| | | Local | | M5 | |
| | | 1980-81 | 1983-84 | 1980-81 | 1983-84 |
| Traditional | | | | | |
| I | T C | — | — | 760 | 680 |
| | C | — | — | 0.22 | 0.40 |
| II | T C | 1365 | 964 | 1279 | 885 |
| | C | 0.24 | 0.28 | 0.22 | 0.35 |
| III | T C | 1173 | 1038 | 1492 | 974 |
| | C | 0.24 | 0.47 | 0.29 | 0.23 |
| Non-traditional | | | | | |
| IV | T C | — | — | 1048 | 872 |
| | C | — | — | 0.22 | 0.38 |
| V | T C | — | — | 872 | 691 |
| | C | — | — | 0.34 | 0.69 |

*Notes:* T C = Total cost per acre (Rs)
C = Cost per kg (Rs)

TABLE 4: LABOUR (MANDAYS) UTILISATION IN MULBERRY CULTIVATION PER ACRE AND PER CROP

| Particulars | 1980-81 | | 1983-84 | |
|---|---|---|---|---|
| | Own | Hired | Own | Hired |
| Traditional region | 36.34 | 57.15 | 20.07 | 43.18 |
| Non-traditional region | 30.09 | 44.91 | 28.26 | 44.62 |
| Mean | 35.69 | 54.71 | 22.42 | 43.59 |
| Coefficient of variation (per cent) | 6.44 | 15.83 | 25.83 | 2.34 |

TABLE 5: AVERAGE COCOON YIELDS PER 100 DFLS BY VARIETIES AND REGIONS

| Regions | Local | | Improved | | Bivoltine | |
|---|---|---|---|---|---|---|
| | 1980-81 | 1983-84 | 1980-81 | 1983-84 | 1980-81 | 1983-84 |
| Traditional | | | | | | |
| I | 19.74 | 19.46 | 26.33 | 23.88 | — | 39.55 |
| II | — | 24.00 | 19.08 | 25.56 | — | — |
| III | — | — | 25.12 | 24.00 | 12.14 | 45.00 |
| Non-traditional | | | | | | |
| IV | — | — | 23.92 | 21.45 | — | 15.86 |
| V | — | — | 27.16 | 29.41 | — | 17.10 |

*Notes:* i Local variety silkworm rearing is not reported in III, IV and V regions.
ii Bivoltine silkworm rearing was not reported in most of the regions during 1980-81.

TABLE 6: LABOUR (MANDAYS) UTILISATION IN SILKWORM REARING

| Particulars | 1980-81 | | 1983-84 | |
|---|---|---|---|---|
| | Own | Hired | Own | Hired |
| Traditional region | 23.67 | 13.18 | 26.67 | 14.39 |
| Non-traditional region | 12.67 | 20.70 | 18.74 | 16.98 |

family members fully engaged (mainly those who might have otherwise remained unemployed) through the rearing period.

With regard to changes in cocoon yields[4] between the two points of time, the bivoltine variety seems to have picked up in the traditional regions I and III (Table 5). But by and large, bivoltine rearing has not picked up as expected in the beginning of the KSP. Owing to failure of monsoons during 1983-84, we do find a marginal decline, in some regions, in the yields of the improved variety. However, there seems to be stability in both traditional and non-traditional regions in the yields of improved cocoons.

If we take a look at the labour utilisation aspect of silkworm rearing, we find that over the period the dependence on family labour increased in both traditional and non-traditional areas (Table 6). In the case of hired labour there is a marginal increase in the number of mandays required for rearing activity in the traditional areas while there is a reduction in the non-traditional area. This is an important trend as it brings out the fact that the contribution of the family labour component is increasing in the rearing activity which is indoor in nature. It also implies that family members, who were otherwise unemployed, get absorbed as regular labourers engaged in this activity.

In terms of net returns, at the outset, Table 7 gives us an impression that sericulture is not a viable activity. But as we have already noted, a major portion of the total costs worked out include imputed family labour value. If we add the imputed value of wages of family labour to what we have derived as net returns (Table 3), we do find sericulture as a profitable activity. In spite of adding up imputed values of several items, including the notional wages of family labour, the traditional regions shows greater stability than the new region. Hence, a careful look at the costs and returns structure does indicate that the activity provides greater employment opportunities for both family and hired labourers and also supplements considerably the total income of the family. Among different varieties, the improved and the bivoltine rearings showed signs of better prospects for earning higher returns than the local variety in the traditional region. In the non-traditional region the results show a mixed trend.

TABLE 7: TOTAL COST, GROSS RETURNS AND NET RETURNS PER 100 DFLS BY REGIONS AND VARIETIES

*(Value in Rs)*

| Regions | Total Cost | | Gross Returns | | Net Returns* | |
|---|---|---|---|---|---|---|
| | 1980-81 | 1983-84 | 1980-81 | 1983-84 | 1980-81 | 1983-84 |
| Traditional | | | | | | |
| I Local | 279.19 | 473.00 | 345.00 | 507.00 | 68.81 | 34.00 |
| Improved | 322.21 | 746.00 | 747.36 | 892.00 | 425.15 | 146.00 |
| Bivoltine | — | 1281.00 | — | 1317.00 | — | 132.00 |
| II Local | — | 555.00 | — | 490.00 | — | −65.00 |
| Improved | 399.44 | 659.00 | 627.57 | 729.00 | 228.13 | 70.00 |
| Bivoltine | — | 782.00 | — | 75.00 | — | −707.00** |
| III Improved | 396.90 | 742.00 | 724.35 | 931.00 | 327.44 | 189.00 |
| Bivoltine | 347.48 | 924.00 | 432.38 | 2208.50 | 84.90 | 1284.50 |
| Non-traditional | | | | | | |
| IV Improved | 404.38 | 560.50 | 757.02 | 610.00 | 352.64 | 49.50 |
| Bivoltine | — | 563.50 | — | 428.00 | — | −135.50 |
| V Improved | 527.61 | 937.00 | 815.55 | 797.50 | 287.94 | −139.50 |
| Bivoltine | — | 831.00 | — | 982.00 | — | 151.00 |

*Notes:* * Net returns presented here has been derived after including the imputed value of wages of family labour.

** Negative returns are due to failure of crops.

Added to these dimensions, our recent field visits to certain villages in Bijapur and Gulbarga districts revealed that in spite of problems of marketing, many sericulturists have been successfully producing both improved and bivoltine variety of cocoons. The transition from traditional crops to new crops like mulberry has been taking place in some of these villages at a remarkably rapid rate. We came across a cross-section of farmers who have recognised the advantages of pursuing sericulture as a profitable economic pursuit. Right from large joint families of dominant caste households, having the capacity to rear in batches of 500 to 600 dfls at a time, to a small holder belonging to the scheduled caste have all expressed their happiness over the benefit derived from shifting to sericulture. In the so-called non-traditional region of Bijapur, Gulbarga and Raichur several pockets of successful sericulture have emerged. As per our observations the main factors favouring this success include extension work of the sericulture department, the availability of water and labour and above all the interest and the enterprising nature of the new sericulturists. While our sample surveys have revealed the operational details of the activities, the field visits to successful sericulture villages have revealed the greater potentialities of the non-traditional region for expanding these activities.

## Appendix

DISTRICTS AND TALUKAS BY REGIONS OF THE STUDY AREA

| Regions | Districts | Talukas |
|---|---|---|
| I Rainfed | Mysore | Kollegal, Chamarajanagar, K R Nagar |
| II Semi-irrigated | Mandya | Malavalli |
| | Bangalore | Ramanagar, Doddaballapur |
| III Irrigated | Kolar | Kolar, Siddlaghatta |
| | Tumkur | Pavagada |
| IV Inner non-traditional | Chitradurga | Davangere |
| | Hassan | C R Patna |
| | Bellary | Kudligi |
| V Outer non-traditional | Raichur | Manvi |
| | Gulbarga | Jeevargi |
| | Bijapur | Mudhol |

## Notes

[The authors wish to thank Abdul Aziz for his comments on an earlier draft of this paper. The authors are also thankful to the participants of the XIV International Sericultural Congress held at Bangalore recently for their comments. However, the views expressed and the inferences drawn in this paper are authors' own and they do not represent the views of the ISEC or any other agency.]

1 Government of Karnataka, "Karnataka State Gazetteer", Part V, 1982, Bangalore, p 849.

2 See for example, (a) S R Charsley, "Culture and Sericulture—Social Anthropology and Development in a South Indian Livestock", Academic Press, London, 1982; (b) D L Narayana, "Economics of Sericulture in Rayalaseema", S V University, Tirupati, 1979.

3 Total costs on this account have been calculated by adding up both imputed costs as well as paid-out costs.

4 Cocoon yields are expressed in terms of kilograms per 100 dfls (disease free layings).

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# Export Illusions

A COMMITTEE of officials has prepared an assessment of the country's likely balance of payments situation in the Seventh Plan, according to one newspaper report. Why precisely this exercise has been undertaken at this stage is not quite clear. It is also not known how the committee's projections compare with those of the Planning Commission itself, since the draft Seventh Plan, which has been submitted to the Prime Minister this week, has not been made public yet. Another set of projections of India's balance of payments in the Seventh Plan has been prepared by the World Bank and is contained in the Bank's latest annual review of the Indian economy. It is interesting to note that, at a first glance, the view of the country's balance of payments prospects taken by the committee of officials seems to differ quite markedly from that of the World Bank.

The committee has projected the trade gap in the Seventh Plan at Rs 40,000 crore, the annual trade deficit rising from Rs 6,500 crore in 1985-86 to Rs 9,100 crore in 1989-90, the last year of the Plan. Net earnings on the invisibles account, including remittances, are estimated at Rs 18,000 crore in the Plan period, leaving a current account deficit of Rs 22,000 crore. To finance a current account deficit of this order, the committee has apparently worked out, it may not be necessary to rely on commercial borrowing in the international capital to the tune of more than Rs 5,000 crore, after taking credit for multilateral and bilateral assistance conservatively estimated at Rs 10,000 crore over the five-year period and for non-resident Indian deposits and investments at around Rs 500-600 crore annually. What thus seems to stand out in the committee's report is the reassuring suggestion that the balance of payments position in the Seventh Plan is unlikely to be so difficult as to require very large amounts of commercial borrowing, raising the threat of the country getting ensnared in a debt trap.

It is in this respect that the prospect as sketched by the committee of officials seems to differ the most from the World Bank's prognosis. In its latest report on the Indian economy, the World Bank has estimated that the Seventh Plan will call for a rough doubling of the gross capital inflow into India to $ 34.5 billion during the Plan period from $ 17.5 billion in the Sixth Plan. In turn this would imply, according to the World Bank, commercial loan commitments of the order of $ 4.5 billion a year in the Seventh Plan, or roughly five times as large as the amount of commercial borrowings the committee of officials deems necessary. The World Bank offers us the soothing reassurance that since our commercial borrowings so far have been relatively small we should face "no difficulties in raising the projected amounts in the commercial markets". That, however, is hardly the point. The question is whether we should go in for commercial borrowing on such a massive scale in the Seventh Plan. There can be no doubt that even those who are not easily fazed by the prospect of a sharp rise in the size of the country's debt servicing obligations would like to see commercial borrowing abroad in the Seventh Plan confined to the level indicated in the report of the committee of officials, if that were possible.

The question then is how realistic is the committee's projection of the requirement of commercial borrowing abroad given the Seventh Plan's overall growth strategy and in particular the policy of liberalisation of imports. There is, it appears, not much difference between the reports of the committee of officials and the World Bank in regard to the soundness of the strategy of permitting liberal imports. The committee, according to the newspaper report, has reiterated the essentiality of easy import of capital goods and raw materials for achieving the growth rates aimed at in the Plan. It is in their assessment of the growth of exports likely to be achieved in the Seventh Plan that the two reports seem to differ, and differ sharply. The committee has based its projections on the assumption of a 13-14 per cent annual growth of exports. The World Bank is markedly less hopeful about the prospects for India's exports in the next five years. True, the rate of growth of exports in the Sixth Plan was not unimpressive. But before assuming that this rate will continue and even accelerate, allowance has to be made for some special factors in operation in the last few years. One of these was the purely temporary emergence, for reasons of imbalances in refining capacity, of substantial exportable 'surpluses' of crude petroleum. Another is the continuous decline since 1980 in the exchange value of the rupee in relation to the dollar which has had the effect of inflating export receipts expressed in rupees. It is also worth remembering that there has been no worthwhile increase in exports of manufactures which have consequently been declining as a proportion of total exports. All this is common knowledge and has evidently weighed with World Bank—which can hardly be accused of 'export pessimism' ordinarily—in regard to its assessment of the likely growth of India's exports in the Seventh Plan. If the committee of officials has deliberately chosen to try a different track, will it be altogether uncharitable to suggest that the purpose is to lull anxieties about the likely consequences of a liberal import regime? It is possible, the committee's report would have us believe, to have the best of both worlds of liberal imports and strictly limited recourse to commercial borrowing abroad.

## *Kerala*

### Return of the Prodigal

BY now it has become fairly clear that the All-India Muslim League parted from the Left Democratic Front in Kerala last month essentially due to electoral and power considerations rather than for ideological reasons as claimed by the party's leaders. The state working committee of the AIML formally decided to quit the LDF at its meeting on July 19. The committee resolution on the subjects stated that the AIML had been part of the LDF for the last eleven years as the Front was seen as "a set up that opposed imperialist and communal forces and worked for the welfare of all sections of the people". The AIML had forged a relationship with the CPI(M)-led LDF "in spite of the fundamental and ideological differences between Communism and Islam with a view to protecting the interests of the Muslim minorities". However, the CPI(M), the resolution continued, "has now deviated from its line and failed to distinguish between organised struggles for rights of minorities and communalism of the majority".

The ideological rhetoric notwithstanding, the conditions which led to the formation of the AIML can hardly be regarded as ideological. The AIML leaders had functioned for a while within the parent Indian Union Muslim League as dissidents dissatisfied with the distribution of power following the death of the League's key leader, Syed Baffakki Thangal, in 1974. They broke off and formed the AIML ~~on being~~ consistently sidetracked. The IUML was, and still is, part of the United Democratic Front led by the Congress(I). The AIML hence could not possibly join the UDF as a separate entity and so probably had little option but to team up with the LDF.

The LDF's hopes of gaining Muslim votes through the AIML did not materialise. On the contrary the other LDF partners, chiefly the CPI(M), lost both electorally and politically; electorally, since safe seats had to be given to the AIML candidates to placate its leaders—in fact the present four AIML MLAs are said to have won from traditional CPI(M) strongholds—and politically since the CPI(M) stood accused of encouraging communal forces because of its alliance with the AIML.

The CPI(M) in Kerala now appears to be actively trying to rid itself of the charge of compromising with communal and regional groups for short-term electoral ends. The reasons underlying this change of stance could be partly the failure of such compromises to deliver the expected results and partly the need to restore a purer leftwing political line which could hopefully pull the party out of the long phase of stagnant, even declining, popularity in the state. The CPI(M) has launched a mass campaign calling for the abrogation of Muslim personal law which legitimises polygamy and oppresses Muslim women in other ways. The AIML says that the CPI(M) has no business to attack the Muslim faith. This deviation of the CPI(M), the AIML claims, led it to leave the LDF.

The AIML leaders may genuinely disagree with the CPI(M) campaign against the Shariat. But other stronger compulsions seem to have influenced their decision. First, they were probably fearful of losing support amongst the Muslims by continuing their alliance with the CPI(M). Second, the AIML leaders probably viewed the CPI(M) campaign as a good opportunity to secure a share in political power and try and ensure their future political survival by distributing patronage. So although the AIML leaders, while breaking from the LDF in July, claimed they would function as a separate neutral entity, the party has now merged with the IUML and is therefore a part of the ruling UDF.

## *Civil Liberties*

### Murder by Policemen

DEATH of people in police custody under suspicious circumstances has become a regular, and seemingly growing, occurrence in India, irrespective of the colour of the local administration. It has taken place in Delhi under the nose of the Union government, in West Bengal where the CPI(M)-dominated Left Front holds sway, in Andhra Pradesh ruled by a saffron-clad matinee-idol, not to mention the notoriously oppressive and mal-administered state of Bihar with the Congress(I) at the helm. Some of the victims may really be hardened criminals, though that does not provide either justification or even extenuating circumstance for their casual liquidation; in most cases, however, investigative journalists, civil liberties activists and even ordinary local people have identified the victims as objects of ire of the local establishment.

What is worse is that due to their continued and increasing incidence, such deaths, though widely suspected as and sometimes proven to be deliberate murders by the policemen, seem to be evoking less and less indignation among the people, which is a sign of a certain decomposition of the country's political culture. If allowed to persist thus unchallenged, they can ultimately seriously weaken the spirit of resistance against oppression and repression and thus deal a severe blow to the already much softened up democratic superstructure of our polity.

It is, therefore, high time that there develops a concerted nationwide campaign to check, it not totally eradicate, this brutal phenomenon. This campaign should be directed towards achieving the enactment of a Central Act under which a statutory body would *suo moto* initiate investigations and in appropriate cases take penal actions against the policemen found guilty. There should also be provision for immediate and automatic suspension of the implicated policemen, pending the statutory investigation.

Will our civil liberties MPs and other public men take up this question earnestly and without delay?

## *International Capital Flows*

### Glaring Asymmetry

THE international financial market has undergone two major changes during the first half of the 80s. Firstly, the share of bond issues has increased at the expense, naturally, of bank credit. Between 1981 and 1984 the share of bond issues improved from 40 per cent to 50 per cent. In the first six months of 1985, new bond issues reached a record figure of $ 80 billion whereas new bank credit added up to only $ 45 billion. Secondly, the access of the developing countries to the international financial market has come down drastically. The share of the developing countries in the total new finance raised declined from 24.3 per cent in 1981 to 14 per cent in 1984. Their share in the first six months of 1985 is believed to have come down to less than 10 per cent.

The two changes are closely interlinked. The share of the developing countries in bond issues was always very small, never above 10 per cent in a year. So naturally, as the share of bond issues increased, the access of the developing countries to the financial market taken as a whole declined.

But it was not just that. The developing countries' share in international bank credit, as distinguished from bond issues, also has declined. The decline has been both relative and absolute. In 1981 the developing countries could raise over $ 45 billion. The figure is believed to have come down to less than $ 15 billion in 1984.

Indeed, it can be argued that the relative decline of bank credit, i e, relative to bond issues, itself has something intimately to do with the upsurge of problems developing country debtors have been exposed to in recent years with regard to their external borrowing, especially market borrowing. Since, unlike in the late 70s access to international market borrowing is now confined almost altogether to developed country clients, official or private, and since the preference of the developed country clients is for bonds rather than bank credits, it was only natural that bond issues would become more prominent.

It is also of interest to note that although initially in the aftermath of the developing country debt crisis of 1982, the turnover of the international market declined, this is no longer so. Judging by the quantum of bond issues and bank credit in the first six months of 1985, it is not unlikely that the total turnover for the year as a whole may exceed $ 200 billion and approach even $ 250 billion. The highest turnover recorded so far was $ 186 billion and that was in 1981. This upsurge is not unconnected with the record trade deficits posted from month to month by the US which are necessitating larger and larger net inflow of foreign funds into the US. But to the pundits of international finance, the market acted stupidly when it lent to the developing countries, not when it lends massively to the US to finance its trade and budgetary deficits. Not unnaturally, Ronald Reagan is a great votary of the so-called free market ideology which sanctifies such asymmetry.

## *Prenatal Testing*

### Use and Abuse

*A Correspondent writes:*

PRENATAL testing for the purpose of early detection of diseases is expanding as a result of the recent advances in biotechnology which allow scientists to pinpoint disturbances in genetic material, DNA, which cause inherited disorders. Last year, scientists in the US made the breakthrough which helped to diagnose haemophilia prenatally by locating the gene responsible for producing the material that clots human blood. People without this gene suffer from haemophilia, a condition in which even a minor injury can cause prolong bleeding. Scientists at Johns Hopkins University are reported to have now developed genetic probes whereby prenatal tests can usefully be conducted to detect pregnancies with a high risk of haemophilia.

Sixteen medical centres in the US are currently studying a technique of prenatal testing called chorionic villus sampling or CVS. Through this test it is possible for doctors to detect taysachs, a genetic disorder whose victims tend to die in early childhood. A couple could no doubt learn whether or not their child would have taysachs through amniocentesis, a prenatal test which has been in use for several years now. But under amniocentesis, foetal cells are obtained by inserting a needle through the woman's abdomen and drawing fluid from the amniotic sac surrounding the foetus. The test cannot be performed until the 16th week of pregnancy, when the sac is large enough to be penetrated. Then the cells have to be cultured. So the results are not available for another two to four weeks by which time a foetus may be six months old. In CVS foetal cells are analysed from the chorionic villus and this test is possible to perform on a pregnant woman weeks before a pregnancy is noticeable or foetal movement is felt. Furthermore, chorion cells often do not have to be cultured. So the test results can be available within hours, if necessary. As for the test's safety, it is expected that it will be as safe as amniocentesis, although the present rate of miscarriage associated with CVS is much higher.

Researchers at Michigan State University are due to report on their experiments on a blood test that might be as fast as CVS but much simpler and less expensive.

US doctors hope that these new prenatal tests will radically alter the care provided in early pregnancy. Some expect prenatal diagnosis for potential genetic problems to become as common as blood test to detect pregnancy. But there is at the same time concern that the relative ease and speed of newly developing prenatal tests may cause them to be abused. It is known, for instance, that even in the US—but much more in countries and communities with a strong male preference—couples might choose to abort a pregnancy on the basis of the child's sex. The new prenatal tests, once they are sufficiently developed, would not be difficult to perform in undeveloped countries. In the case of amniocentesis in these countries it is common knowledge that most, if not all, couples want to know the sex of their would-be child and not whether the child would suffer from a genetic disorder. Should not some advance thinking be done here so that when we import new prenatal tests their abuse can be avoided, or at least controlled?

## *Indonesia*

### Execution of Mohammed Munir

A FRONT-RANK leader of the outlawed Indonesian Communist Party (PKI) and former chairman of the All-Indonesia Trade Union Federation (SOBSI), Mohammed Munir, was executed by the country's military regime on May 14, under cover of secrecy made possible by the severe censorship of news and stringent control over the media. What makes this execution particularly shocking is the fact that it has taken place 13 years after the passing of the death sentence and 18 years after Munir's arrest.

Mohammed Munir was sentenced to death by a lower court in 1973 and his appeal against the sentence was rejected by the High Court after a long time—only in November 1981. Later, the Supreme Court refused to entertain an appeal against the High Court judgment on some flimsy technical ground and Munir's wife's clemency petition on his behalf was rejected by the top ruler, General Suharto, in May 1983. A full year after that the military authorities in power decided to execute the death sentence all on a sudden. They did not agree to put it off even by a couple of days to enable Munir's wife to come to Jakarta from Surabaya for a last meeting with her husband.

Its inhumanity apart, this execution is considered significant for a variety of reasons. First, during the last decade and a half, no political prisoner, arrested and convicted in connection with the events in October 1965, has been executed. Second, there are at least four other condemned leading members of the PKI still waiting in their death cells—Gatot Lestario, Djoko Untung, Ruslun Widjayasastra and Rustomo, whose clemency pleas have been rejected by General Suharto. There is, therefore, speculation in Indonesia and concerned circles abroad, whether Munir's execution portends a similar fate for these other condemned communist leaders.

For some reasons or other, the Indonesian regime seems to have decided to make a display of its mailed fist presently. On April 12 this year, a Jakarta court passed sentences of imprisonment ranging from one to three years on 28 persons accused of participating in a demonstration in September last year, in Tanjung Priok. Indeed, some analysts have discerned a streak of nervousness in the junta's conduct since July 1977 when despite all sorts of manipulations within a tailored Constitution and electoral system, the armed forces' official party, GOLKAR, had lost four seats in comparison with the 1971 elections and the Opposition PPP (Development Unity Party) had actually topped the polls in two provinces, Aceh and Jakarta, and scored convincing victories in a number of districts in Java and Sumatra. Since then the ruling junta is reported to have been passing through some internal tensions and engaged in exercises for remodelling the political and military command structures. Whether Munir's hasty despatch has any connection with these political undercurrents remains to be seen. It is however causing concern about the fate of other political prisoners in Indonesian death cells—a concern widely voiced in some countries.

There has, however, been no report of any anger or sorrow expressed either by the communist countries or by communist parties anywhere, except for some peripheral links of the Dutch communists with the protests in Holland. Is it too much to expect some demonstrations organised before the Indonesian legations or some telegrams of protest to the junta demanding that the lives of the surviving communists in the Indonesian death cells be spared?

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# For All Seasons?

NO aspect of the economic scene concerns the common man more than the behaviour of prices as they affect the daily life of every citizen. The behaviour of commodity prices has, of late, been causing considerable concern. On July 20, the wholesale price index for 'all commodities' touched a new all-time high of 362.3, showing an increase of 5.2 per cent over the March-end figure. Based on the rise since the beginning of the current fiscal year, the annual rate of inflation works out to over 15 per cent which, of course, suffers from the usual flaw in such statistical exercises. Rising for the fourth successive month, the all-India consumer price index number for industrial workers reached a record high of 606 in June, a rise of 3.4 per cent over the March figure of 586. The *Economic Times* retail price index for Greater Bombay for July shows an increase of 9.4 per cent over the 12-month period.

It is therefore scarcely surprising that the emerging price situation should have become the subject of animated discussion within as well as outside Parliament. In the debate on prices in Parliament on August 2, members from all sides expressed grave concern over what they termed as steep price rise and called for stern action against hoarders, black-marketeers and profiteers. The most significant aspect of the debate was the harsh criticism by some of the members of the ruling party who accused the government of doling out 'unreal' price statistics, not keeping the promise to hold prices under check, and of tolerating the 'unholy alliance between government functionaries and trade'.

Official assessment of the price situation ran along familiar lines. The Union finance minister V P Singh stated that while the government shared the members' concern over the rise in prices, the rise was 'not alarming' and was within 'manageable limits' and that the rise was due mainly to 'seasonal factors'. He doled out statistics to emphasise that the rate of inflation during the first quarter of the current fiscal year at 3.4 per cent was the lowest for any corresponding quarter over the past seven years and that the 5.6 per cent rise over the 12-month period ended June compared very favourably with the rise during the past few years. He contended that his budget had nothing to do with the rise in prices. Apparently, the finance minister does not think that massive deficit financing has any inflationary implications or the increase in disposable incomes resulting from the tax concessions has any bearing on consumer spending.

Few outside official circles will be inclined to share the finance minister's assessment of the price situation. The wholesale price index provides at best only a very broad indication of the general price situation. The index consists of a number of commodities, each having its own demand and supply equation governed by diverse factors. Experience about wholesale prices varies widely not only from state to state but also from place to place within a state. Sometimes local factors weigh so heavily on the market that difference in prices in the consuming and producing centres cannot be satisfactorily explained in terms of transport and handling costs. At the retail level, differences in prices, at times, exceed 15 to 20 per cent, depending on the commodity and the locality.

The Union finance minister may derive some statistical/psychological satisfaction from the decline in the rate of inflation during the April-June 1985 quarter but it means precious little to the common man who has to pay progressively higher prices for the commodities, including essential items of daily consumption, he buys. Real wages are getting sharply eroded with time. V P Singh cannot be possibly unaware that the average annual rate of increase in prices between 1970-71 and 1984-85 works out to 9.1 per cent in the case of the wholesale price index (average to average basis) and 8.5 per cent in respect of the consumer price index. In terms of 1955 purchasing power, the value of the rupee has come down to around 13.2 paise. There is little evidence to show that excepting a small section of the community family incomes have kept pace with the increase in prices. Worse still, the hardest hit are those who are least able to bear the burden of rising prices.

Finance minister V P Singh's as also of food and civil supplies minister Rao Birendra Singh's assessment that the rise in prices is essentially seasonal is highly questionable. Too much has been made of the steep rise in the prices of sugar, gur, vegetables and fruits. The finance minister has even gone to the extent of saying that "if the prices of vegetables do not come down I will accept the price rise was not seasonal". This is a rash statement, coming from the finance minister. The prices of vegetables vary very widely not only from town to town but also from locality to locality within a town. What has the finance minister to say about the pronounced contra-seasonal weakness in cotton and oilseeds/vegetable oils? Despite record mill consumption cotton prices have remained subdued at the fag-end of the season because of the bumper 1984-85 harvest of over 94 lakh bales (170 kg). And the easier tendency (prices are substantially lower than a year ago) in vegetable oils is attributable largely to massive imports year after year.

That seasonal factors do influence the course of prices will be readily conceded. But their impact can be mitigated through imaginative and efficient management of demand and supply. The seasonality factor is dominant only in the case of agricultural commodities. But the rise in prices since the beginning of the current fiscal year has been all pervasive. This is well borne out by the fact that the rise in prices under the 'manufactured products' and 'fuel, lubricants' groups has been more marked than under 'primary articles'.

The rise in prices is essentially a part of the secular trend, reflecting broadly the continuing wide gap between money supply and gross national product as well as inefficient management of available supplies of which sugar is a telling example. The secular nature of the rising trend in prices is all too evident from the fact that over the past 15 years (1970-71 to 1984-85) only twice (in 1975-76 and 1976-77) has the consumer price index recorded a negative growth and the average annual rate of increase in prices during this period works out to 8.5 per cent. During the 12-month period ended June 1985, the rise in prices has been as follows: jute, hemp and mesta textile 25.6 per cent, iron, steel and ferro alloys 18.5 per cent, gram 17 per cent, basic industrial chemicals 16.2 per cent, gur 15.2 per cent, sugar 13.2 per cent, milk 13.1 per cent, motor vehicles 12.5 per cent, electrical machinery 10.5 per cent, non-electrical machinery tools 8.6 per cent, raw tobacco 8.6 per cent, non-ferrous metals 7.8 per cent, electricity 6.8 per cent, cotton yarn 6.6 per cent, tyres and tubes 5.9 per cent, high speed diesel oil 5.5 per cent, cigarettes 5.3 per cent and cotton cloth (mill) 5 per cent.

Replying to the points raised during the debate on prices, the finance minister and the food and supplies minister were at pains to assure the members that the government was concerned over the rise in prices and that it was doing all it could do to stabilise prices. The price situation is being reviewed on a daily basis. A special action committee of secretaries was set up in March to ensure that there was no shortage of any essential commodity. The state governments have been directed to gear up their machinery to deal firmly with hoarders and profiteers out to hold the society to ransom. In the case of sugar, domestic availability is being augmented through large imports. Viewed in the light of the emerging price trends, the government's claim that the various measures it has taken have had a salutary impact on prices cannot command much credibility.

The price situation is disturbing. Fortunately, the government is comfortably placed in respect of foodgrain stocks and foreign exchange reserves which can be used to hold the priceline. Much will depend on how it goes about managing the economy. A really good monsoon can cover up only some of its shortcomings. Since the south-west monsoon has been very erratic this year, only ideal weather conditions until about the middle of October can ensure normal kharif crops. A setback in agricultural production is almost certain to aggravate inflationary pressures.

## *Power*

### On Starvation Diet

SHORTAGES and frequent breakdown in power supply are said to be a major reason for the inability of various sectors of the economy to attain planned targets. The power situation is therefore held responsibile for slowing down the pace of the country's development. Even so, from current indications the plight of this energy sector is likely to deteriorate in the Seventh Plan period, and probably get worse thereafter.

The Working Group attached to the Union Ministry of Power had sought Rs 65,300 crore from the Planning Commission for the Seventh Plan. However, the Commission has sanctioned only Rs 34,000 crore, reasoning that the Group's projected demand will not materialise, and also that similar cuts had been effected in the Plan outlays of other power dependant sectors, chiefly industry and agriculture. So the funds allocated are said to be sufficient to instal additional generation capacity of 22,000 MW in the coming five years, i e, a fifth lower than the requirement estimated by the Union Power Ministry.

Union Minister of State for Power, Arun Nehru, informed Parliament in this context on July 25 that the shortage of funds will not affect the ministry's performance. The power generation gap of about 7,000 MW would be mostly met by an overall improvement in the functioning of the plants. The minister added that there would be problems of distribution and transmission since the allotment of Rs 8,000 crore for this purpose by the Planning Commission is roughly only a third of what the ministry had sought. The minister's statements in effect imply that though the additional power needed by 1990 may be generated, it would possibly not be fully utilised on account of distribution and transmission bottlenecks. Arun Nehru was hopeful though of being able to mobilise the additional funds required by his ministry.

Raising additional funds is going to be difficult and might lead to problems in other sectors. There is little likelihood of the Planning Commission allocating additional funds to the ministry, given the paucity of resources at its disposal. The ministry has reportedly been working on the idea of setting up a Power Finance Corporation to fund projects. The Corporation would seek to raise money from the market and financial institutions as well as from external borrowing. But it is reported that the proposal is unlikely to be approved by the Union cabinet probably because other ministries too would make a similar demand, and more so, since it would merely add to the debt burden of the Union government. A similar problem of debt might undermine the other proposal of the Power Ministry as well, namely, of securing projects on a turnkey basis from abroad. Such a step would further adversely affect large indigeneous units like BHEL which depend on power projects for their orders.

The minister went on to assert that while power projects handled by the Centre would be completed on schedule the same could not be said of projects under the state government. This was because states initiate too many projects at the same time (in deference to political pressures) and therefore the funds are distributed thinly leading to considerable delays. Moreover, the State Electricity Boards are accumulating losses. At the start of the Sixth Plan the losses totalled Rs 4,400 crore. The state governments then averred that they would ensure that the losses were reduced by 80 per cent by the end of the Plan. Instead, the losses have now almost doubled and are expected to touch Rs 12,000 crore by 1990. Consequently the functioning of the Boards as well as new projects are bound to suffer from severe financial constraints. And, if the Union Power Ministry is unable to secure additional funds, power projects that were scheduled to become operational after 1995 are likely to become the major victims.

## *Plastics*

### Demand Boom

ACUTE shortage of law density polyethylene (LDPE), a vital raw material for the plastic processing industry, has forced a large number of small plastic units to down their shutters in the last few weeks. According to industry sources, even the remaining units have been operating at only 25 to 30 per cent capacity for want of supplies of LDPE at reasonable prices. The total number of plastic processing units in the small scale sector is about 6,000.

The current situation of shortage has arisen mainly because of a sharp increase in demand for LDPE from the packaging and moulding industries as also from the agricultural sector since last year. The milk pouch industry which has emerged in the last two years needs some 12,000 tonnes of LDPE per annum. This new demand coupled with a substantial spurt in the demand from the agricultural sector has resulted in a wide gap between demand and supply.

According to industry sources, the total demand for LDPE in the current year is estimated at 1,60,000 tonnes as compared to 1,39,000 tonnes last year. Since the present installed capacity of the three producers—Indian Petrochemicals Corporation, Union Carbide and ICI—is only 1,05,000 tonnes, production is hardly adequate to meet this demand. According to a source in IPCL, the largest producer of the item, the milk pouch industry and the agricultural sector are treated as priority sectors and their demand is met first and then supplies are made to other users.

The wide gap between demand and production has resulted in a high unofficial premium of about Rs 7,000 per tonne in the open market price of LDPE over and above the IPCL's delivery price of Rs 20,500 per tonne. True, the government has put LDPE imports under OGL in the last Union Budget but imports become costly in view of the prevailing high rate of import duty at 226 per cent *ad valorem*. At this rate of duty, the landed cost of the material works out to Rs 27,000 per tonne. Moreover, as most of the processing units are in the small and tiny sectors requiring from 25 to 100 tonnes of material per year, they are not in a position to directly import it on their own.

The Finance Ministry has recently authorised the IPCL to import 40,000 tonnes of LDPE, LLDP and HDPE for supplying to small scale user units in the country, and the first consignment of 10,000 tonnes is expected to reach Bombay in August this year. IPCL sources, however, feel that at the prevailing rate of import duty, the marketing of the imported material would be difficult. Small units would find the price uneconomical. Meanwhile, Bhogilal J Gandhi, President of the All-India Plastics Manufacturers' Association has urged the government to bring down the duty on LDPE to 156 per cent—i e, the same level as on other plastic raw materials such as HDPE, polypropylene, etc.

A reduction in import duty will enable the small scale processing units to get the imported material at a reasonable price. It would also bring down the unofficial premium in the open market. The domestic producers have been encouraged to raise their prices since the landed cost of imported material works out higher than the prices of the domestic producers in view of the very high import duty.

Of course, the domestic supply of LDPE is expected to increase significantly in the next few years. It is expected to double by the end of the Seventh Plan. A gas cracker complex being set up by PICL at Nagothane in Raigad district of Maharashtra is expected to be commissioned by 1989. New plants are also being planned by Polyolefin Industries and Century Enka. The existing capacities are also being augmented. It is therefore reasonable to expect that the supply position will improve substantially during the next few years. Till then, however, the industry will have to be helped through supplies of imported material at reasonable prices. The demand for the products of the industry is rising and the prospects for increasing exports are also good. The industry has achieved its export target of Rs 65 crore in 1984-85 and a target of Rs 80 crore has been fixed for the current fiscal year.

# Bhopal Tragedy and Sarkari Scientists

PUSHPA M BHARGAVA (*EPW*, June 1) is one of the few scientists who has drawn attention to a tragedy which is much more tragic than the Bhopal tragedy: "the little premium we place on human life—specially those who do not belong to the privileged class". The 'we' referred to by Bhargava include the business interests, their political patrons, the scientists of India, the activists in the fields of science and medicine, the political activists, the thinkers and scholars and the intellegentsia at large. Indeed, through our cynical contempt for the lives of the oppressed we have actively promoted a situation where every day we inflict tens of Bhopals on these people. The significance of Bhopal extends much beyond what is termed as the worst industrial disaster in the world. Bhopal has exposed the entire iceberg. It dramatically exposed the 'sarkari scientists' who were prepared to compromise fundamental scientific and medical ethics to provide a cover to the murderers. Perhaps most dramatic was the exposure of the intellectual, moral and political bankruptcy of those who claim to take the side of the oppressed.

Even if we do not take up the important considerations leading to the location of the plant, criminal negligence in implementation of safety measures and in the contingency plants to minimise damage to people in the event of an accident, the Bhopal tragedy was essentially a *public health* problem: many tonnes of highly toxic chemicals were literally sprayed over an area containing hundreds of thousands of people. It goes to the 'credit' of the sarkari scientists and their hangers on that they managed to convert this public health problem into problems of laboratory and clinical research. Adding insult to injury, they enacted the macabre drama under the strange name of 'Operation Faith'. It was a case of flagrant breach of faith.

There was a "lack of information from those who have it or should have had it" (Bhargava) on such elementary epidemiological aspects as the exact number of the dead, their distribution according to age, sex, place of residence and degree of exposure, the composition of the 'gas', the direction of its flow, its concentration and the rate of its descent in different areas. But, almost overnight, a huge research empire on the Bhopal tragedy came into existence with a fifteen million rupees grant from the government. It is an empire built on the corpses and comatose bodies of the Bhopal victims: While some scientists gleefully danced the macabre 'Dance on the Dead', most of the others decided not to notice it. It is grimly ironical that in the convulsive process of death, disability and suffering, the victims of the Bhopal tragedy have administered a stinging kick to those who pretended to take the side of the oppressed and exposed them in all nakedness for everybody to see. But, irony of ironies, most of viewers pretended not to see the nakedness and insisted that the emperor (of the research empire) is clothed in a most mervellous robe!

The struggle will be long drawn and difficult. I agree with Bhargava that "the epilogue will be longer than the drama". When that epilogue comes to be written, I will have a modest contribution to make. My colleague Lakhan Singh and I carried out a quick epidemiological and sociological study of the Bhopal tragedy during January 5-16, 1985; students of the Centre of Social Medicine and Community Health, JNU, helped us in analysing the data and we presented a preliminary report in a meeting of the School of Social Sciences of Jawaharlal Nehru University on February 11; it was published in the April issue of *JNU News* and in the *Medico Friends Circle Bulletin* of June 1985. When the epilogue comes to be written I would provide documentary evidence of the tremendous obstructions I had to encounter in getting the needed funds (Rs 2,700), in data collection and analysis and in catching the eye of the activists and the committed. Perhaps I (along with Bhargava?) am an intellectual 'chandal' threatening to cause pollution to the blue blodded Brahmans!

D BANERJI

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## Operation Flood and Energy Balance

THE paper "White Revolution in India: Facts and Issues" by K N Nair (June 22-29) presents a meticulously analysed objective viewpoint on the sources of growth in country's milk production. Trying to find statistical evidence to corroborate the higher milk production with increased feed availability in the recent years, the author has in fact established that the milk production estimates of the Ministry of Agriculture are sound. The chief reason cited for increase in feed availability is the increase in crop production which certainly cannot be denied.

The statistical analysis presented in the paper has once again proved the fact that India's milch animals thrive on agricultural byproducts and are capable of yielding higher quantities of milk with adequate feed and this is the approach of Operation Flood as well. With higher cereal production and through adoption of inter-cropping and multiple-cropping system in agriculture, feed availability has increased and this has contributed to breaking the phenomenon of declining productivity due to decline in per capita feed availability of the sixties. As feed supply, both roughages and concentrate from crop production increases, milk production is bound to rise despite lower growth in milch animal population. The study has very correctly established the fact that between 1972 and 1982 the productivity of both buffaloes and cows has increased, more rapidly in the case of buffaloes, and this phenomenon is quite evident in the Operation Flood milksheds. Covering less than 8 per cent of the total milch animal population in the country, a figure too small to contribute anything significantly, Operation Flood, through the spread effects of paying better for 10 per cent of the milk handled, is making a visible impact on the growth of milk production in the country.

While recognising the progress of OF-I as impressive the author has expressed some concern about the Operation Food strategy for increasing milk production. Operation Flood has not adopted any strategy which would upset the positive energy balance in India's dairy economy. On the contrary, emphasising the optimum utilisation of available crop residues and wastages and supplementary feed in the form of balanced cattle feed, Operation Flood has aimed at a National Milch Herd of those milch animals with the co-operative members who would have access to the technical input services provided under this programme. As these technical input services form an integral part of the programme, their extensive use by the members throughout the country would facilitate better upkeep of the milch animals and thus better production. This stock would form the basis for eventual change in the composition and production characteristics of future milch animals reared by the producer members. It certainly does not intend to achieve higher milk production through cross-breeding alone and therefore is nowhere close to the western model of dairying as mentioned by Nair.

In the US the per capita consumption of foodgrains is 1,000 kg a year of which only 70 kg are consumed directly by humans and the remaining 930 kg are fed to livestock system for producing highly valued animal foods including milk. In India the per capita availability of foodgrains is around 200 kg per annum and all of it is directly consumed by humans. Only foodgrain byproducts from milling go to the livestock system. Besides, the economic status of milk-producing farmers is such that they cannot afford uneconomic, wasteful feeding. Therefore, within the system there is a check on feeding practices. The balanced cattlefeed produced as part of Operation Flood II programme comprises upto 20 per cent oilcakes, and urea, molasses and other agricultural byproducts not fit for human consumption. This is the form of concentrates which is fed to milch animals. Thus a negative energy or protein balance in India's food system is nowhere in sight.

P C BARDHAN

National Dairy Development
Board, Anand.

# Beginning to Perform

**Romesh Thapar**

I WAS in the capital of our former colonial masters when Rajiv Gandhi moved to a bold agreement with Longowal. Our newsmen who work for the British wrote of the positive approach praising the young PM for his courageous and successful initiative. Longowal's courage was, of course, forgotten. Sitting there in London, reading skimpy reports, the thought did occur that the move had cut through bureaucratic palsy and that had this been done two years ago it would have prevented the tragic rise of violence and terrorism.

The cynical western world is very impressed with Rajiv Gandhi, almost envious that troubled India has found a Prime Minister who is remarkably decent and upright amidst politicians who flaunt their harlot skills. Apparently, during his encounters abroad he was quite outspoken, even though simplistic at times. And, now, if he takes courage in both hands and begins to settle the many outstanding political problems left behind by his mother, he may well make his mark. But to get a grip over priorities and decide how they have to be sorted out in the complexity that is India is going to be tough, even dangerous.

I wonder if it is realised that the period which follows an agreement with the rebellious section of a community, no matter how 'compromising', can be terribly explosive. The terrorist gangs, facing the threat of losing their base, can lose all control of themselves. Some of the signs are visible. Unfortunately, the bureaucratic ambience of governance in India, and its heavy reflection in the handling of the electronic media, prevents the effective mobilisation of public opinion and the further isolation of the killers in disturbed areas.

Much will depend on the way the Sikh community moves to support intelligent and thoughtful leadership, sees the hollowness of men like Badal and Tohra who are cynical in the context of political commitments, and breaks the back of its lumpen youth who are using terrorism and murder to find for themselves a place in the sun. The stupidity of the psychopathic prattle about discrimination and identity, the one feeding on the other to create a minority status, only damages the community, reduces it to a communal aberration. The 'separate statehood' demand is a caricature. Everyone knows it is. More people need to say this openly and categorically.

Of vital concern to the future of India will be the general effort to see terrorism for what it is. With the growth of lumpenisation, every movement is tending to throw up its quota of persons wedded to violence, indiscriminate killing and a life style full of 'adventure', supported by suspect 'funding' and few 'inhibitions'. Even Gujarat is giving birth to the bomb-makers and bomb-throwers. Others must be planning a similar 'growth in the tempo of struggle'. And when these antics are wedded to religious vows and such clap-trap, there's no end to the disaster scenario.

A major re-think requires that Rajiv Gandhi free himself from the clutches of his authoritarian bureaucrats and corrupt political colleagues to open the way to a more frank and wide-ranging exchange of ideas and perspectives with the various formations of the Opposition, particularly the responsible elements. India at this moment of disarray and confusion cannot be ruled by brain-waving in some offices of the GOI. Significantly, Rajiv Gandhi has been speaking of the need for a new frame of development and growth, both in political and economic terms. Without it, we will only feed violent controversy, ugly confrontations and a general destabilisation which could threaten our fragile democracy.

Already we feel the lack of a serious national consultation on matters like reservation policies, the mandatory disciplines for places of worship, and questions pertaining to the migration of ethnic groups within the sub-continent together with the political repercussions which result. To be content with haphazard 'fire-fighting' would put the cohesion of the sub-continent under rather heavy strain. We have a great deal to learn from the last years of Indira Gandhi if we are to avoid the pitfalls.

Rajiv Gandhi, facing problems within his party over his agreement with Longowal, may well hesitate, and the general advice will be to mark time. The trouble is that a fast-changing India is becoming intolerant of those who prevaricate. And rightly so, because what appear to be political challenges are, in fact, economic—yes, concerned with the future well-being of communities and their place in exercising governing power. We need very much more thorough studies of these changing challenges. They cannot be viewed in the old frameworks. Newspaper reporting is a pathetic and unreliable substitute for deep analysis.

Democratic governance can no longer lull itself into the mistaken belief that popular anger or impatience is a permanent condition of life. That may have been before development consciousness took hold. Now, it is becoming explosive. Indians in power cannot be unaware, for they are being reminded almost daily in one way or another.

The only reassuring fact that is emerging is that this disturbed state is not exclusive to the sub-continent. It is global in almost every aspect, from rapscallion politicians to terrorists murdering in the name of this or that cause. Reassuring? Well, at least Rajiv Gandhi is beginning to perform. That is something.

*August 2.*

## Shree Chamundi Mopeds

SHREE CHAMUNDI MOPEDS' French collaborated plant at Tumkur near Bangalore was formally inaugurated by Giani Zail Singh, President of India. At the ceremony, the French government bestowed its prestigious award 'Chevalier De L'ordre National de Merite' upon A P Mehta, the chief of the Mehta Group of industries. This is the second highest award given by the French government, which is equivalent to British Knighthood. It is in recognition of "foreigners who have distinguished themselves by their merits towards France". Mehta is the third Indian to be so honoured. Karnataka has seen a blossoming of industries under the umbrella of the Mehta Group. The industries cover highly diversified fields such as ball bearings and mopeds. Soon a plant manufacturing cars will become a reality—another monument to the towering personality of Mehta.

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# STATISTICS

## Index Numbers of Wholesale Prices (1970-71 = 100)

| | | | Variation (Per Cent) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Weights | Latest Week (20-7-85) | Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85++ | In 83-84 | In 82-83 | In 81-82 |
| All Commodities | 1000 | 362.3 | 1.4 | 5.4 | 4.9 | 7.0 | 9.5 | 2.6 | 9.3 |
| Primary Articles | 417 | 341.0 | 1.7 | 1.5 | 5.9 | 4.8 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 326.5 | 2.1 | 5.1 | 9.8 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 303.8 | 1.4 | −7.0 | −2.2 | 2.3 | 15.1 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 565.9 | 0.6 | 9.7 | 2.0 | 2.6 | 7.6 | 7.5 | 20.7 |
| Manufactured Products | 499 | 345.5 | 1.3 | 7.6 | 4.9 | 6.0 | 8.7 | 0.6 | 5.2 |

## Cost of Living Index

| | | | Variation (Per Cent) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Base | Latest Month | Over Last Month | Over Last Year | Over March 1985 | In 84-85 | In 83-84 | In 82-83 | In 81-82 |
| For Industrial Workers | 1960 = 100 | $606^6$ | 1.0 | 5.6 | 3.4 | 6.4 | 12.6 | 7.8 | 12.5 |
| For Urban Non-Manual Employees | 1960 = 100 | $546^4$ | 1.1 | 7.1 | 1.1 | 8.1 | 10.3 | 8.0 | 11.9 |
| For Agricultural Labourers | July 60 to June 61 = 100 | $524^5$ | 1.2 | 3.2 | 1.4 | 0.2 | 11.4 | 5.2 | 12.4 |

## Money and Banking

| | | | Variation Rs Crore (Per Cent in Brackets) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Unit | Latest Week (19-7-85) | Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85++ | In 83-84++ | In 82-83 | In 81-82 |
| Money Supply ($M_3$) | Rs Crore | 1,06,839 | 1,223<br>(1.2) | 15,096<br>(16.5) | 5,193<br>(5.1) | 15,443<br>(18.0) | 13,031<br>(17.9) | 10,115<br>(16.1) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 54,497 | 540 | 9,073 | 5,157 | 8,460 | 5,757 | 4,748 | 4,965 |
| Bank Credit to Commercial Sector | Rs Crore | 72,469 | 1,287 | 10,412 | 2,496 | 9,447 | 8,830 | 8,247 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 2,394 | −396 | 593 | −605 | 1,419 | −104 | −977 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 76,570 | 2,300<br>(3.1) | 12,037<br>(18.7) | 5,384<br>(7.6) | 10,590<br>(17.5) | 8,550<br>(16.4) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets** | Rs Crore | 6,291 | −395 | 393 | −670 | 1,463<br>(26.6) | 943<br>(20.7) | 911<br>(27.2) | −1,468<br>(−30.4) |

## Index Numbers of Industrial Production (1970 = 100)

| | | | Average of Months* | | Variation (Per Cent) | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Weights | Latest Month | 1985 | 1984 | In 1985++ | In 1984++ | In 1983 | In 1982 | In 1981 |
| General Index | 100.00 | $191.6^4$ | 204.4 | 195.5 | 4.6 | 6.6 | 4.5 | 4.5 | 9.3 |
| Basic Industries | 32.28 | $280.9^3$ | 265.4 | 248.5 | 6.8 | 11.7 | 5.5 | 8.0 | 14.5 |
| Capital Goods Industries | 15.25 | $244.2^3$ | 222.9 | 232.8 | −1.8 | 9.2 | 4.3 | −0.9 | 8.1 |
| Intermediate Goods Industries | 20.95 | $168.5^3$ | 167.5 | 155.9 | 7.4 | 1.7 | 7.9 | 1.9 | 3.7 |
| Consumer Goods Industries | 31.52 | $174.8^3$ | 170.4 | 170.4 | — | 1.3 | 0.4 | 5.8 | 8.2 |
| Durable Goods | 3.41 | $213.3^3$ | 210.9 | 187.1 | 12.7 | 13.0 | 0.1 | 3.6 | −0.1 |
| Non-Durable Goods | 28.11 | $170.1^3$ | 165.5 | 168.4 | −1.7 | 0.5 | 0.5 | 6.5 | 9.3 |

## Foreign Trade

| | | | Cumulative for* | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Unit | Latest Month (April 85) | 1985-86+ | 1984-85+ | 1984-85 | 1983-84 | 1982-83 | 1981-82 | 1980-81 |
| Exports | Rs Crore | 783 | 783 | 525 | 11,396<br>(15.4) | 9,872<br>(10.8) | 8,908<br>(14.2) | 7,803<br>(16.3) | 6,711<br>( 3.9) |
| Imports | Rs Crore | 1,344 | 1,344 | 956 | 16,592<br>(5.3) | 15,763<br>( 9.8) | 14,356<br>(5.0) | 13,671<br>( 9.2) | 12,524<br>(40.6) |
| Balances of Trade | Rs Crore | −564 | −564 | −431 | −5,196 | −5,891 | −5,448 | −5,868 | −5,813 |

## Employment Exchange Statistics

| | | | Cumulative for* | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Unit | Latest Month (March 85) | 1985 | 1984 | 1984 | 1983 | 1982 | 1981 | 1980 |
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,744 | 23,744 | 22,603 | 23,547<br>(7.3) | 21,954<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) |
| Number of Registrations | Thousand | 454 | 1,362 | 1,681 | 6,220<br>(−6.5) | 6,655<br>(13.5) | 5,862<br>(−6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) |
| Number of Vacancies Notified | Thousand | 49 | 150 | 180 | 707<br>(−15.5) | 827<br>(0.9) | 820<br>(−8.4) | 895<br>(6.6) | 840<br>(−4.1) |
| Number of Placements | Thousand | 29 | 86 | 111 | 407<br>(−16.3) | 486<br>(2.5) | 474<br>(−6.1) | 505<br>(5.2) | 480<br>(2.6) |

* For current year upto latest month for which data are available and for corresponding period of last year.

** Excluding gold and SDRs.

+ Variation in current year upto latest month for which data are available over corresponding period of last year. .

+ + Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript¹ indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

Information Service
30 AUG 1985

# A Bergen Diary

### AM

GIVE or take a few thousand square kilometers, you are still left with 325,000 of them. The population has stabilised at around four million since the end of the Second World War, again give or take a few thousands. So you have barely 12 persons for each kilometer of land. That, if you are brash enough you would be tempted to conclude, is the problem of Norway, and the only one. Like all generalisations, this too would be too simplistic; for one thing, of the 325,000 square kilometers of land, two-thirds are hard rock, and not livable. Norway is one of those rare European nations which never succeeded—for that matter, never tried—to build an empire, or annex other people's land. Its last association with aggression of any kind was when the Vikings were around in the middle Middle Ages; there can be an honest dispute, whether, even during that time, the Norwegians were not more aggressed against. One obvious factor prevented the Norwegians from having an empire of their own: in the eighteenth and nineteenth centuries, while the other European nations were on the annexation binge in Asia, Africa and the Americas, they, the Norwegians, were otherwise engaged, engaged in asserting their own independence. Once the flourish of the Viking kings was over, ever since the trauma of the Black Death, Norway had been a province of Denmark. In the confusion following the dissolution of the Napoleonic empire, Norwegians seized their chance and declared themselves free. But freedom can be a lonely occupation if, over the centuries, you did not quite know about its prerogatives and obligations. So, even as they declared their resolve not to recognise any more the Danish king, representatives of the Norwegian people opted for a union with Sweden; the king of Sweden became Norway's new sovereign. An ambivalence however persisted: reading through Norwegian history books, you will be hard put to make up your mind whether Charles XIII of Sweden was 'elected' as king of Norway in 1814, or was 'acknowledged' as such. This ambivalence continued for nine decades; members of the Storting—and the Norwegian government elected by it—were unable to get rid of the suspicion that Stockholm was not reconciled to the concept of co-suzerainty and took the Norwegians to be their vassals. In 1905, Norway broke away again. On this occasion, once and for all, Norwegians made up their mind: no more sharing of royalty with other people, they must have a king of their own: a king, a king, their kingdom for a king. You could have guessed it, ambivalence is ambivalence, they turned toward the direction of Denmark in their search for royalty. The Danish king's grandson was an acceptable choice; he was duly coronated as Haakon VII, Norway's first own king, really and truly. As he was married to one of Queen Victoria's innumerable granddaughters—a daughter of then reigning Edward VII—the then principal imperial entity, Great Britain, was equally happy at the denouement.

It is a different matter why an emancipated European nation needed a royalty in the twentieth century in the first place. Perhaps a symbol, around which the entire people, free, according to grammar, for the first time since the medieval days, could unite, was desired. Thus a royal family was imported, and grafted into Norwegian soil. By all accounts, the experiment has been a tremendous success; the royal family never behaved as a royal family, and has established, beyond the slightest doubt, its democratic credentials. The residual problems were however a great many. You have no empire and no colony, you are on your own; you are also only a few measly millions; you can fall back on your timber and coal and iron ore and whatever you obtain from your maritime exploits, but would that be adequate to your needs? In the period till the end of the Second World War, defending the country's territorial integrity against the ambitions, both overt and covert, of Britain, Germany and, to a lesser extent, France, almost exhausted Norway. During the Second War, an impossible situation arose: the country got involved simply because the big powers, for their own strategic reasons, would not let Norway alone. The nation could not escape unscathed; while the overwhelming majority of the people rose in revolt against the Nazi occupying force, the episode of Vidkun Quisling still left a deep scar on the Norwegian psyche. Since 1945, the situation has clarified, and Norway is in the repose of the North Atlantic Treaty Organisation. Few people here will care to remember, or like it to be remembered, that Quisling first made his mark in the 1930s as an anti-communist crusader. The strident anti-communism of the North Atlantic Alliance is understandably played down in Norway, it is its aspect of protective shield which is continuously emphasised. But it can be quite a job to shed the ambivalence.

Just as it can be in matters cultural and linguistic. Norwegians have to keep up the pretence of the distinctiveness of their language; after all, it has produced, hasn't it, both Henrik Ibsen and Bjornstjerne Bjornson? But, beyond a point—and a very narrow point—Danish shades off into Norwegian, and Norwegian into Swedish, they being essentially spatial dialects with the same teutonic roots, so much so that a Norwegian does not even have to learn separately Swedish or Danish in school. You are Scandinavian, there is a continuous overlap in culture and attitudes with your proximate neighbours, there is overlap in most commercial and economic matters too and not just in the running of a common airline, and yet, you are Norway, even if you are a nation of only 4 million, even if, all along your eastern frontier, you are hopelessly interwined with Sweden, and, up in the north, it is an intricate threesome, on either side the fjords jut in and jut out, this is Sweden, this is Finland, this is Norway; further north, the tangle is even more hopeless, ask the Lapps, they will be quite confused where they really belong, whatever the formal political geography.

Nonetheless, Norwegians stress their separateness with a fierce ardour, and will gently remind you that, during the war against Hitler's Germany, they were combatants, while Sweden was neutral. There is another part of the story though. It could be a mere happenstance, but whether discrimination was actually practised or not by the mighty ones in Stockholm, the major foundations of Norway's economic growth were in fact built in the decades of the nineteenth century and before the break with Sweden took place. Pine and birch, birch and pine: Europe and America pined for Norway's forest products, and it has been a sequence of expanding exports all along. From lumber exports, the manufacture of pulp and paper became the logical next thing. And with iron and coal and several other minerals in the northern counties, steel and metallurgical industries entered the picture even as the nineteenth century was drawing to a close. If you have both wood and steel, alongside a long maritime history—a history which is a natural adjunct of your geography—you, inevitably, drift into shipbuilding. The shipyards of Bergen built some of the most fabulous ships during the hundred years between the 1850s and the 1950s; the Prime Minister who took the lead to separate Norway from Sweden, Christian Michelsen, was a lawyer, but he made his money in shipbuilding.

Norwegians, besides, had their fishing and whaling. It is from fishing boats that craftsmen branched out to shipbuilding. Fishing provided a key occupation, just as much as it provided a major export item, against which it was possible to import corn and vegetables necessary for a comfortable living, for, excluding the forests, the rest of the land is rugged, and does not easily take to agriculture.

Political contours and contexts got altered, wars intervened, the country was, every now and then, occupied by foreign troops and de-occupied, Bjornson and Ibsen made their cultural revolution, Edvard Munch blazed an altogether unexpected Scandinavian trail among the post-Impressionists, but the placid character of Norway's economic progress was not disturbed through the decades.

A nation may consist of only a few millions, but once it has begun to believe in itself, the belief itself acts as the greatest catalyst, the sense of belonging to each other begins; this sense of belonging, in its turn, generates pride, and from pride comes the strength. During the successive decades of the nineteenth and twentieth centuries, while the pattern of growth did not show much variance, and even the pace did not alter too much, the Norwegian economy continued to expand. Sophistication was soon added to specialisation. With economic growth, the occupational pattern too started to change, service industries, particularly construction, came to claim a larger share of the work force. The more important fact however is the overall advance the economy registered; even the depression of the thirties, one suspects, affected Norwav much less than it affected the other European countries.

But, there can be no mistaking it, the underpinning of growth was provided by the character of the people. It was solid, quiet, systematic application on the part of a proud people, who were jealous of their heritage, the heritage of a maritime nation, who wanted to sustain their distinctiveness as Norwegians first and foremost, and only subsequently as Scandinavians or Europeans. If you are only a few millions, despite your being only a few millions, if you are prepared to work hard—working hard is again a heritage, for you have survived through the centuries against the ferocity of nature by your toil and labour—and if you are singleminded in your objective to exploit the limited resources at your command, you would move forward, inch by inch, and suddenly one day the world would sit up and take notice. After Switzerland, Norway has now the highest per capita income in Europe; very soon, it is likely to be even before Switzerland. Roughly 40 per cent of the national income is earned from exports, exports of paper and pulp, lumber, furniture, electrometallurgical products, marine products, ships—and power. With water gushing down the steep fjords, hydro power is on tap, and Norway has the world's highest per capita consumption of electricity. Between the two World Wars, when the Labour Party was in full bloom, a comprehensive programme of social welfare measures had been taken on hand. The edifice of a welfare state was completed, without fuss and fanfare, in the fifteen years following the end of the Second World War. The average longevity is now around seventyfive years, and somehow fits with Norway's long summer days or long winter nights. You have little choice, in Norway, you have to grow old gently, respectfully, carefully, for, right across the border, you have the example of Sweden, where an excess of prosperity, superimposed on the Nordic psyche, has created different kinds of social turmoil.

Strength with tranquillity, tranquillity with strength, would seem to be Norway's private quest. The strength is assumed to come as much from economic achievements as through drawing on the nation's reservoir of pride. And tranquillity ought to emerge from a milieu which is divested of tension. Issues however do abound. For a nation of only 4 million, and two-fifths of whose national income originates abroad, it is impossible to walk away from the reality of the world's intricate interdependencies. For a country which cherishes tranquillity and peace—it is, after all, Norway's Parliament, the Storting, which awards each year the Nobel Peace Prize—it is equally impossible to be oblivious to the other reality that it shares a border with the Soviet Union too. Not infrequently, Soviet marine vessels allegedly stray into Norwegian territorial waters in the North and Barents seas; there is occasional excitement over reports about Soviet submarines making surreptitious forays into the depth of the Norwegian fjords. Perhaps it is these alarms which have drawn Norway into the net of the North Atlantic Treaty Organisation, into the allure of the supposed security which the umbrella of the combined Western might provides. But, again, ambivalence takes over, you have to draw a line, and, besides, it is not the Soviet Union, but the troops of a revanchist West European power, which overran Norway in the 1940s. So Norway will not allow itself to be tilted too much: it is a part of the customs union which is the European Free Trade Association, but it is not in the economic union which is the European Economic Community, it is not a part of the political union which is the European Community. The ambivalence runs all along. The royal families of Norway, Sweden and Denmark inter-marry, each of the monarchies is unbelievably democratised, but they retain their separate identities, just as the languages of the nations are almost the same, yet not quite; as if to stress the distinctiveness, in Norway's schools, along with the old style Norwegian—which anyone will be hard put to distinguish from Danish—it is compulsory to study the new style Norwegian, which has a larger proportion of the patois of those counties which, two centuries ago, were a part of Denmark, but are no longer so. Ambivalence is the guiding ideology. Don't you know, Norway has only four million people; don't you know, Norway has the highest per capita income in Europe, it has the lowest rate of unemployment . . .

Come to Bergen, you are, once more, face to face with the ambivalence. It is an excruciatingly beautiful place, with seven mountains stringing themselves together and offering to the sea a stretch of a meadow which in due course has become the city, and with literally thousands of tall, deep fjords edging themselves in at every nook and corner. The coexistence of land and sea is echoed in other features. Even a few decades ago, Bergen was the country's leading port, principal wharf, and major seat of shipbuilding. Giant boats from all over would steam into the harbour, lending it a magnificent international flavour; and yet, walk up a few cobbled alleys, Bergen is a quiet, dull provincial town. With off-shore oil explorations gathering momentum in the North Sea, Stavanger has now shot into greater prominence as a port, and, while Norway continues to be Europe's leading shipbuilder, Japan and South Korea are taking away many of the orders. So Bergen too is getting transformed. Just as, in the composition of the country's national income, services have now displaced industry, agriculture and forestry as the principal activity, in Bergen too, occupation is assuming a pluralistic hue. The University at Bergen was a modest event even a couple of decades ago. No longer; as departments multiply and students proliferate, it is now closing in on the the University at Oslo. And every citizen of Bergen would keep reminding you that Ibsen was director of the public theatre here, and not in Oslo, which was then not Oslo, but Christiania. Arts and the crafts, industry and the services, culture and physical endeavour keep meshing into one another; Bergen, with its breathtaking landscape, takes in these assorted ambivalences and weaves them together in a striking harmony, and, talking of harmony, someone will be there to let drop the information that, after all, Edvard Grieg the composer too was a burgher of Bergen.

Meanwhile, as North Sea oil is about to add another chapter to Norway's prosperity, the political scenario does not deviate from its tranquillity. At the last general election, the Labour Party, after umpteen number of years, was edged out from the government, and a delicate coalition of the conservatives and centrist groups took over. Not that it has made any difference to the texture of living for the Norwegians: the established social equilibrium is unlikely to be ever disturbed short of a major cataclysm. Another general election is scheduled for September. Maybe the Labour Party will stage a comeback, maybe it will not, does it really matter? A bit of ancient history, in the first election which took place immediately following the Second World War, the Communist Party, aglow with the glory of the resistance put up by its dedicated cadres, had won as much as 15 per cent of the popular vote. This proportion is now down to 0.3 per cent. Those who splintered away from the party in the 1960s, in the pattern repeated in most countries outside Eastern Europe, aligned themselves with younger elements who cut loose from the Labour Party; they are now known as the Red Electoral Alliance, and command 0.7 per cent of the votes. These days, this latter group is more pro-Albania than anything else. But, never mind, call it pluralism, call it ambivalence, they too coexist and are accorded respect as a germinator of ideas.

A basic question still lies ahead though. In this age of instant telecommunications, space satellites and micro chips, how does a small nation, so utterly dependent on the rest of the world for its living, preserve its personality? For the younger generation, jeans and rock music have been a great leveller. Norway provided the first Secretary General of the United Nations in the person of Trygve Lie; as a proportion of national income, its governmental aid to the developing countries is now the highest among the donor nations. There can be no questioning of its global conscience. But will tomorrow's global political culture permit Norway to stay on as Norway?

It is as good a question to mull over as any in Bergen's excruciatingly beautiful, ambivalent climate, with brilliant sunshine across the sea, the bay and the seven mountains sharing evenly each one of the three hundred and sixtyfive days of the year with steady, persistent, pouring rain.

## INTERNATIONAL AFFAIRS

# Sino-US Nuclear Diplomacy

### GPD

PRESIDENT Li Xiannian's visit to the United States would be remembered for several things. But easily the most important feature of that trip has been the nuclear co-operation agreement between the two countries. The agreement was initialled nearly fifteen months ago. The delay in its formalisation and ratification was taken by many observers as a sign of cooling off of relations between the two countries. In fact the anti-proliferation lobby and the increasing Chinese disenchantment with the United States were thought to be the major reasons why the co-operation project had been perhaps abandoned. With Li Ziannian's visit and the signatures put on the pact the speculation about the role of the agreement as a barometer of Sino-American relations has been laid to rest. A general trend has been confirmed. Sino-US co-operation is not going to remain limited to nuclear affairs. It is likely to extend itself to space technology as well. The American journal *Aviation Week* has started a series on space technology in China. We shall return to the theme at a later date. But it may be mentioned that Zhang Jiqing of the Chinese Ministry of Astronautics told the visiting American delegation that "China wants space co-operation but on an equal basis with the United States". He also said China had made progress with the Europeans and "hoped to make better progress with the US". China was also working on "co-operative space technology pacts with Japan". The message is clear. Politics is no bar to technological co-operation, be it space technology or nuclear technology.

The interesting bit about this agreement has, however, been the assurances the Americans have sought from the Chinese. The agreement does not commit China to any non-proliferation undertakings. In other words, the Chinese have not promised that they will not transfer nuclear technology to a third country. There has been speculation, particularly rife in this country, that the Chinese have supplied nuclear know-how to Pakistan. Neither this agreement nor any other statement by the Chinese confirms or denies this speculation. Yes, there was the statement by Zhao Ziyang that China does not export nuclear technology (like revolution, he might have well added, but for the fact that nobody has lately accused China of exporting revolution). Nobody took that statement very seriously. China would much rather let everyone believe whatever he or she wants to on the subject. Call us bad names if you like but we shall not say anything explicit on the matter, seems to be the typical Chinese attitude.

It makes good political sense, however, to assume that the Chinese have given to the Americans some kind of assurance, in all probability verbal, that they shall not contribute to the process of proliferation. Verbal assurances are not unknown in nuclear diplomacy. As one Indian daily has pointed out, France although not a signatory to the NPT is abiding by the guidelines of the London Club of nuclear suppliers. Being a nuclear power puts a country in a special class. It is like belonging to an aristocracy. A certain behavioural pattern then imposes itself upon the powers concerned. It is not for no reason that terms like 'club' are in vogue when it comes to the nuclear weapon powers. An outcaste does not and cannot belong to a club. Deng Xiaoping and his men would soon realise that their behaviour patterns *vis-a-vis* the big powers, more particularly the nuclear powers, are absolutely the same as the ones they were condemning vocally not so long ago.

It also makes good political sense that in spite of all this they have refrained from giving any written promises. To incorporate the American demand (that China should not export nuclear technology) in an agreement is to concede that a superpower has the right to lay down rules governing China's relations with a third country. In short, there is a problem of sovereignty involved in all this. The US cannot dictate that. China, in any case, will not agree to putting it down in writing. It is a legitimate question of 'face' and also the question of China's past positions. The 1963 partial test ban treaty as also the 1965 non-proliferation treaty were rejected by the Chinese on the ground that the nuclear powers were imposing political decisions on the non-nuclear powers. So written promises are out, at least as long as the Chinese are not full members of the nuclear club.

The question nevertheless remains as to why the Americans have accepted the verbal promises. They tried and pressed the point for a while, for a good fifteen months to be precise. They seem to have given it up now. The reasons are not far to seek. The Americans must have realised that the Chinese have nothing to gain from a nuclear Pakistan.

We know that this is not and cannot be a popular view in India. It would be no small mercy if it is not taken to be altogether blasphemous! A China-watcher was recently asked in an interview by the E A Ministry men as to how he reconciled China's expansionist and hegemonist policies in Indo-China with its professions of socialism. The China-watcher said that it is not for him to reconcile anybody's claims to socialism with his or her policies. We have cited this little story just to demonstrate the general mood of our policy-makers or of a section of them when it comes to China. Given this mood, it would be hardly a surprise if our remark is taken to be blasphemous!

However, power politics and its rules cannot be wished away. That the Chinese would have their finger in the Pakistani nuclear pie is not an altogether meaningless theory. But it is inherent in the logic of being nuclear that the power concerned generally would not like any other power to go nuclear if it could help it. It would be utter madness for the Chinese to have another nuclear power right at their door-step. This is not to say that they can stop it. It is only to suggest that they would not encourage it. In the meanwhile they have a lot to gain from the rather widely held impression that they may have something to do with the Pakistani bomb. 'Keep everybody guessing' is a good foreign policy principle.

It is interesting in this context that the Soviet Union has not said much—in all probability nothing—on the question of Sino-Pakistani nuclear co-operation, and for good reason too. It knows who is really to be blamed if Pakistan in fact goes nuclear. We shall have to wait and see if our new 'dynamic' leadership has the requisite courage to call a spade a spade and act on that understanding.

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# Losing Battle against Rising Costs

### Hansavivek

*ESCORTS* was able to achieve increased turnover in most of its products during 1984, but it had to fight a losing battle on the profitability front due to cost pressure on inputs. Moreover, profits were also affected by prolonged labour unrest at the Bangalore plant, and, the company's new projects of the floating dry dock at Bombay and 350 CC motor cycle, which are still going through the initial stabilisation period. The dry dock, owing to problems of port jurisdiction and environmental controls together with continuing recession in the shipping industry, was functional for only about 5 months in the year. While the company's turnover increased from the previous year's Rs 253 crore to Rs 293 crore, gross profit declined from Rs 23.81 crore to Rs 21.71 crore. With both depreciation and the tax liability claiming more, net profit fell from Rs 14.12 crore to Rs. 8.67 crore. Dividend has been maintained at 22 per cent and is still covered 2.92 times by earnings as against 4.76 times previously. The piston assembly plant at Bangalore resumed working on February 12 last after a production linked settlement was signed.

The floating dry dock, India's first modern ship repair facility imported at a cost of Rs 20 crore, has been plagued with endless problems. Shortly after its commissioning in end December 1983, the government authorities did not permit it work for nearly 6 months until it was finally cleared by the Department of Environment. There were then problems regarding its location which had been temporarily cleared by the Nhava-Sheva port authorities till November 1984 and then extended under bank guarantee till end of February 1985. The company has made many representations to the Ministry of Shipping and Transport and to the port authorities to permit the dock to function at its present location with the assurance that the management would move it to a suitable alternate site as cleared by the government and port authorities within three months of the commencement of any civil or dredging work by the contractors engaged for the development of the port. In the circumstances, it was a credit to the Maritime Division that it earned over Rs 2 crore as 'deemed' exports including Rs 47 lakh as direct foreign exchange earnings. There was however a loss of over Rs 4 crore, mainly on account of interest, depreciation and adverse fluctuations in the Euro-dollar exchange rates. Shifting the dock to another acceptable site is under examination by the Ministry of Transport and port authorities.

The company produced and sold 12,461 Escort tractors and 8,652 Ford tractors maintaining its leadership in the tractor industry with a 26 per cent market share, despite lower sales in the disturbed areas of Punjab and Haryana. The company increased its motor cycle sales by 17 per cent from 69,432 numbers to 81,142 numbers. While the new Rajdoot Super 'D' is generating good consumer acceptance in urban areas, the standard model remains the work-horse of rural and agricultural areas where it is recognised as a rugged cross-country machine. Sales in the current year are expected to exceed the one lakh mark. The projected volumes for the production of

**The Week's Companies**

*(Rs Lakh)*

| | | Escorts | | Telco | | Mafatlal Fine | | Colour-Chem | |
|---|---|---|---|---|---|---|---|---|---|
| | | Latest Year 31-12-84 | Last Year 31-12-83 | Latest Year 31-3-85 | Last Year 31-3-84 | Latest Year 31-3-85 | Last Year 31-3-84 | Latest Year 31-3-85 | Last Year 31-3-84 |
| Paid-up Capital | | 1393 | 1418 | 5442 | 5421 | 677 | 677 | 932 | 932 |
| Reserves | | 4286 | 3722 | 15188 | 14103 | 925 | 911 | 817 | 791 |
| Borrowings | | 6398 | 5421 | 30226 | 24573 | 4037 | 3974 | 1726 | 1501 |
| *of which* Term borrowings | | 3022 | 2415 | 14560 | 11266 | 1255 | 1410 | 350 | 361 |
| Gross fixed assets | | 11910 | 10157 | 50009 | 43807 | 5824 | 5563 | 3874 | 3706 |
| Net fixed assets | | 7560 | 6428 | 25993 | 23785 | 2887 | 2841 | 1511 | 1536 |
| Investments | | 398 | 366 | 2967 | 2920 | 115 | 115 | 66 | 66 |
| Current liabilities | | 9921 | 8921 | 18184 | 16060 | 3633 | 3338 | 1384 | 1334 |
| Current assets | | 13953 | 12688 | 40080 | 34352 | 6270 | 5945 | 3333 | 2998 |
| Stocks | | 6289 | 5568 | 21976 | 21434 | 2800 | 3222 | 1585 | 1429 |
| Book debts | | 2743 | 2536 | 14955 | 9584 | 2728 | 2085 | 1574 | 1409 |
| Net sales | | 29269 | 25262 | 83128 | 75465 | 12398 | 9936 | 5294 | 4598 |
| Other income | | 962 | 708 | 2147 | 2174 | 366 | 155 | 267 | 212 |
| Raw material costs | | 11815 | 9807 | 43608 | 41061 | 5434 | 4447 | 2945 | 2501 |
| Wages | | 2857 | 2469 | 11930 | 11033 | 2108 | 1972 | 635 | 541 |
| Interest | | 760 | 464 | 4686 | 4208 | 817 | 576 | 365 | 336 |
| Gross profit (+)/loss (−) | | 2171 | 2381 | 6598 | 5086 | 311 | 441 | 480 | 433 |
| Depreciation provision | | 849 | 609 | 3895 | 2923 | 227 | 207 | 272 | 273 |
| Tax provision | | 455 | 360 | 390 | 235 | — | — | 78 | 57 |
| Net profit (+)/loss (−) | | 867 | 1412 | 2313 | 1928 | 84 | 234 | 130 | 103 |
| Investment allowance reserve | | 262 | 681 | 1080 | 612 | — | — | 15 | 13 |
| Transfer to reserves | | 302 | 426 | — | 393 | 4 | 154 | 5 | — |
| Dividend | | | | | | | | | |
| Amount | P | 9 | 11 | 20 | 18 | 2 | 2 | 15 | 15 |
| | E | 294 | 294 | 1221 | 905 | 78 | 78 | 95 | 79 |
| Rate (per cent) | P | 13.50 | 13.50 | 15 | 15 | 6.43 | 6.43 | 11 | 11 |
| | E | 22 | 22 | 23 | 20 | 12 | 12 | 12 | 10 |
| Cover (times) | | 2.92 | 4.76 | 1.88 | 2.11 | 1.05 | 2.97 | 1.21 | 1.11 |
| *Ratios* (per cent) | | | | | | | | | |
| Gross profit/sales | | 7.42 | 9.42 | 7.93 | 6.74 | 2.51 | 4.79 | 9.07 | 9.41 |
| Net profit/capital employed | | 15.27 | 27.47 | 11.21 | 9.87 | 5.26 | 14.73 | 7.43 | 5.97 |
| Inventories/sales | | 21.48 | 22.04 | 26.43 | 28.40 | 22.58 | 32.42 | 29.94 | 31.08 |
| Wages/sales | | 9.76 | 9.77 | 14.35 | 14.62 | 17.00 | 19.84 | 10.67 | 11.76 |

Rajdoot-Yamaha 350 CC could not be achieved, partly due to the ban on high HP motor cycles in disturbed areas and partly because of the highprice. Its induction into the army and the police would commence after the extensive testing in progress is completed. The company's new plant at Surajpur in UP for the Yamaha 100 CC motor cycle is nearing completion. This modern facility with an annual installed capacity of 1.50 lakh machines per annum would commence trial production by September. According to H P Nanda, Chairman, this highly fuel-efficient machine generates 11 BHP making it the most powerful yet most economical among the 100 CC motor cycles likely to be introduced in the country. There has been a progressive modernisation of all the plants. The company has invested over Rs 10 crore in 1984 in many new machines, which will contribute to higher productivity and profitability. The company has received approvals and industrial licences for capacity expansion for 15 lakh pistons and 15 lakh automotive shock absorbers plus a new foreign collaboration with Bilstein of West Germany for pressure shock absorbers. The company has also obtained approval for a collaboration with Faun of West Germany for a series of hydraulic mobile cranes with lifting capacities upto 40 tonnes. The Industrial Equipment Division showed a healthy growth during 1984 with sales of 187 cranes, 87 loaders and 252 other industrial machines. Sales of diesel gen-sets were extended to cover a range of 40 KVA to 1,000 KVA from local sources and from one HW to 14 HW from imported sources. Sales increased from 93 units to 206 units. The company's proposal to manufacture 24,000 outboard motors with foreign collaboration is expected to get on stream as soon as government clearance is obtained regarding its relocation in a notified backward area of UP. This would be India's first plant to manufacture outboard motors and would meet a large demand from hundreds of thousands of fishing boats on the coasts and rivers. The railway ancillary unit exported nearly Rs 60 lakh of railway shock absorbers. Capital investments required for the current year will be in the vicinity of Rs 40 crore and the company is making an issue of Rs 20 crore secured non-convertible debentures. The company may additionally raise Rs 20 to 30 crore by another debenture issue.

A major event during the year was the judgment of the Bombay High Court which upheld the decision of the board of directors refusing registration of shares lodged by the non-resident companies of the Caparo Group in May and August 1983. Special leave petitions were subsequently filed by LIC, RBI, Union of India, the company and others. The Supreme Court stayed the operation of the Bombay High Court judgment till the disposal of the appeals. In its order the Supreme Court stated that the "stay of the operation of the judgment hereby granted would not tantamount to acceptance or rejection of the judgment save and except that it requires examination by this court". The appeals have now been listed for hearing by a Constitution Bench of the Supreme Court on July 30. Bharat Ram, Ranganathan and Field Marshal Sam Manekshaw retired on June 30, 1984 having served the board for 5 to 15 years.

*TATA ENGINEERING AND LOCOMOTIVE COMPANY (TELCO)* is developing two series of light commercial vehicles which will be designated as the 407 and the 608 series. The 407 series will be ready for commercial production by December 1985 and the 608 series will be introduced soon thereafter. These vehicles have been designed from scratch for Indian conditions. Apart from some special steels which the company has been forced to import, the vehicles will have a 100 per cent indigenous content from the very start. At the same time, they will satisfy international parameters of performance. Being suitable for a variety of applications, the management feels that they will gain a substantial share of the rapidly growing market for this class of vehicles. Customers for both these new series of vehicles will have access to the same extensive service network and spare parts facilities which cater to the lakhs of TELCO vehicles already on the road. The company is also opening 8 additional stocking points to feed spare parts more speedily to the existing outlets. The lead the company has in commercial vehicles will help it in acquiring a similar position in the passenger car market which has been opened to it for the first time as a result of liberalisation in licensing policies for automobile manufacturers in January last. With the commitment to quality, the large pool of trained manpower and the extensive manufacturing and service infrastructure the company has already built, S Moolgaokar, Chairman, feels certain the cars that it fields will come out on top.

The company has entered into technical collaboration with Nachi Fujikoshi and Nigata of Japan for the production of numerically controlled flexible machining lines and machining centres. A large number of professionals are under training in Japan and India. A new electronics division is being set up at Pune to be manned by top-class electronic engineers to produce the controllers for machine tools. These engineers will also spearhead the company's efforts in factory automation and will support the maintenance of the sophisticated and expensive machine tools which will enable the company to produce efficiently, even at a low volume, a variety of components and aggregates necessary for upgrading and widening the range of vehicles. The company will produce and use more and more such machines in the years to come. The collaboration with Hitachi Construction Machinery Company is proceeding smoothly and facilities for spares, service and training of operators and mechanics are being established with its assitance. Meanwhile, the first Tata-Hitachi excavator was delivered towards the end of last year.

The company has turned in good working results for the year ended March 1985, even though demand during the first 8 months fell short of expectations. By December last, however, the performance began to catch up and the year ended with higher sales than in the previous year. A relentless push in costs kept profitability squeezed. Prices of steel, tyres and bought-out items increased substantially. The company had to increase its vehicle prices in April 1985. The company sold 45,605 vehicles in the domestic market as against 45,805 numbers in the previous year. In the export markets vehicles, spare parts and other products worth Rs 63.04 crore were sold compared to sales of Rs 31.31 crore in the previous year. Excavator sales slowed down during the year, mainly due to curtailment of government spending on large construction projects. The company earned a higher gross profit of Rs 65.98 crore against Rs 50.86 crore in 1983-84 following increase in turnover from Rs 755 crore to Rs 831 crore, reflecting enhancement of gross margins. Net profit came to Rs 23.13 crore (Rs 19.28 crore). Dividend has been stepped up by 3 points to 23 per cent and is covered 1.88 times by earnings as against 2.11 times previously. The company received a letter of intent for setting up a new plant licensed to produce 9,000 vehicles a year in UP. Construction work will start there as soon as the state government hands over the land being acquired by it. The company has also received the govenment's approval for increasing the vehicle manufacturing capacity at Pune to 35,520 numbers a year. This brings the total licensed capacity to 78,000 numbers and permits the company to make 97,500 vehicles in a year.

During 1984-85, over 70 per cent of the workforce went through retraining. To keep pace with the company's needs for manpower skilled in new technologies, time-bound plans for training employees in high technology areas are being implemented. In addition, TELCO has under training in various disciplines around 1,000 full-time trainees year after year.

*MAFATLAL FINE SPINNING AND MANUFACTURING COMPANY* is implementing the modernisation programme of the textiles division which had remained pending since 1983. The financial institutions have sanctioned the balance of term loan of Rs 140 lakh for this purpose. The management is also in the process of preparing a phased programme of replacing obsolete and outdated machinery with machines having improved technology so as to reduce the cost of production to meet the demand of the export market. The company is also continuing its renovation and modernisation programme in the chemicals division taking into consideration the need for balancing production to a large extent. During 1984-85, the company suffered a sharp setback in its working as reflected in a lower gross profit of Rs 3.11 crore against Rs 4.41 crore in the previous year despite the increase in turnover from Rs 99.36 crore to Rs 123.98 crore. This was mainly due to the poor working of the textiles division resulting from the recession in demand, sharp increase in prices of various inputs and severe competition from the decentralised sectors enjoying certain concessions and benefits. The chemicals division performed well with improvement in production as well as sales. Net profit dropped from Rs 234 lakh to mere Rs 84 lakh, which provided a cover of only 1.05 times against 2.97 times previously to the unchanged dividend of 12 per cent.

The company is taking all precautions to control environmental pollution and is implementing measures suggested by the various inspecting authorities to ensure safety. The company has offered for subscription 5 lakh 15 per cent secured non-convertible debentures of Rs 100 each to the existing equity and preference shareholders and 11 per cent debenture holders. In 1980-81, the company had received Rs 2.57 crore (including interest of Rs 91 lakh) by way of refund of excise duty paid by it on blended yarn during the period September 1965 to March 15, 1972, under the decree of Civil Judge, Senior Division, Navsari. On April 6, 1984, the High Court of Gujarat had decided the appeal filed by the government against the said decision in its favour and had directed the company to pay back the said amount to the government. The company filed an appeal in the Supreme Court for special leave to appeal against this decision of the High Court. While admitting the special leave petition of the company, the Supreme Court has granted a stay order and the matter is now pending before the Supreme Court. The company's appeals for refund of excise duty (wrongfully collected from the company in earlier years) on Mafron gases and yarn, were decided in favour of the company by the Tribunal. A refund of about Rs 135 lakh is due to the company on this account and it has taken credit for the same in the year's profit and loss account. Padmanabh A Mafatlal has resigned as Managing Director with effect from May 31 last, but continues to be a Director of the company. Hrishikesh A Mafatlal, Managing Director designated as Executive Vice-President, has been now designated as President of the company from June 13 last. Bhupatirai M Ghia and Shivabhai B Patel have resigned from the board from June 6 last. Ashwin N Shah and Bharat C Gosalia, senior executives of the company, have been appointed as additional directors with effect from June 13, 1985.

*COLOUR-CHEM* is diversifying its activities. It has received a letter of intent for the manufacture of meta phenoxy benzaldehyde, a major intermediate required in the production of synthetic pyrethroids the manufacture of which has recently commenced in the country. The technology for the production of this intermediate has been developed by the company's own R and D centre. The quality of the product has been well accepted. A plant for this purpose is under erection at the Roha factory where regular production is expected to commence from September 1985. As a part of the programme for further diversification, the management is examining the feasibility of investment in the manufacture of additional intermediates needed by the dyestuffs, pharmaceuticals and pesticides industries. The company has shown further improvement in its working results for 1984-85. Turnover has increased from the previous year's Rs 45.98 crore to Rs 52.94 crore and gross profit has looked up from Rs 4.33 crore to Rs 4.80 crore. These figures reflect a decline in gross margins. With the tax liability requiring more, net profit is Rs 1.30 crore (Rs 1.03 crore). Dividend has been raised by 2 points to 12 per cent and is covered 1.21 times as against 1.11 times previously.

There was a slight improvement in the demand for dyestuffs from the textile industry though the acute scarcity in the availability of acrylic monomers in the country, import of which was also banned, hampered the company's ability to meet the demand for binders from the textile industry. The tempo of increased sales of the products to other consuming industries, such as paints, printing inks, plastics, rubber, etc, was maintained at a satisfactory level. The revival in the leather industry helped to augment the sales of leather chemicals and auxiliaries though in relation to the company's installed capacity for these products the extent of improvement could be considered only as modest. The rate of growth of sales of intermediate chemicals manufactured by the company for the dyestuffs, pharmaceuticals and pesticides industries was restricted by the shortage of the essential feedstock, *viz*, acetic acid at a critical time of the year. The company's exports during the year improved by 11.7 per cent to Rs 4.48 crore. The profit margins were strained due to increase in costs of major inputs and the continued unequal competition subsidised by the scheme of differential excise duty on dyestuffs and synthetic resin materials. The steep increases in prices of such major raw materials as acetic acid and butyl acrylate, higher personnel costs consequent upon the new settlement with employees' union and a stiff increase in the cost of water supplied to the company were among the significant areas of cost escalation encountered during the year. Vanavil Dyes and Chemicals, a joint sector venture in Tamil Nadu, in which the company has invested Rs 45 lakh by way of equity participation, completed the installation of its plant for the manufacture of fast colour bases and some dye intermediates in February last and commenced production shortly thereafter. Its products have been well received in the market. It has secured an export order from USSR. The management has initiated steps to undertake the manufacture of other products licensed to it to ensure viability of operations. The operations of the company's joint venture in Sri Lanka, Haycolour, were inhibited by the continuing ethnic disturbances in that country and the prolonged delay in securing tariff protection from the Government of Sri Lanka. Haylays of Sri Lanka, who hold 60 per cent of the equity of that company, have informed Colour-Chem that the operations of the joint venture have started picking up since March last and that they are persisting with their efforts to obtain the necessary assistance by way of tariff protection from the Government of Sri Lanka.

In his Chairman's statement, B M Ghia has welcomed the government's textile policy. He is of the view that this would restore the textile industry to its prime status in the country's economy. He, however, has pointed out that the high level of excise duty of 31.5 per cent *ad valorem* on dyestuffs is a tempting incentive to excise evasion. Unless the duty is reduced to a reasonable level, the units of the industry which contribute more than 80 per cent of the direct and indirect taxes collected from it and account for a major portion of the industry's exports, will continue to remain debilitated. The impairment of their financial stability has obliged them to curtail their investment in R and D and weakened their ability to undertake continuous updating of their technology. Another issue which is causing concern to the industry is the placement of OGL, under the import policy for 1985-88, of many chemicals which have been efficiently manufactured in the country for years. Ghia concedes the need to tone up the indigenous industry by exposing it to international competition, but he observes that the policy of encouraging free imports of finished products manufactured in the country while including the raw materials needed for their manufacture in the 'limited permissible' (that is almost banned) list is harmful to the national industry. In the wake of the 1985 Budget the indigenous prices of many petro-based and agro-based chemicals have gone up steeply. When the indigenous industry has to use such high priced raw materials and can have no recourse to their imports because of their non-permissibility, it is unrealistic to expect indigenous products to withstand international price competition.

**NEW DELHI**

# Early Fruits of New Economic Policies

BM

THE quandary in which the government finds itself over the behaviour of prices, as the Union Food and Civil Supplies Minister frankly admitted during the debate on the prices situation in the Rajya Sabha, was more clearly spelt out by the Union Finance Minister in a letter he is reported to have written to his party MPs after the debate in the Lok Sabha on prices in which he was assailed for not controlling prices not only by the opposition but also his party members. The price rise, he readily agreed in his letter, affects voters directly and whatever else the government might or might not do, it was bound to come in for criticism if prices rise. It was, therefore, essential, he pleaded, that "we collectively apply our minds and see what can be done to restrain the price increase".

After taking such a reasonable stand, V P Singh went on to pose the real dilemmas facing him and the government. He, on his part, was ready and willing to make cuts in government expenditure which is the stock prescription presented by many for holding the price line. Government expenditure was "certainly a matter for worry", Singh admitted. But "this would mean less money for projects, a cut in subsidies and curtailed increase in DA etc", he pointed out. This was meant to put the critics in a spot. Would they in the ruling party as well in the opposition be willing for all or some of these measures to cut government expenditure and bring down prices?

He felt himself to be on even surer ground when he posed the question of containing the price rise in agricultural commodities, including foodgrains, edible oils and sugar. The government, he strongly argued, did not want to "depress prices too much" as that would hurt farmers. He went on to tell his partymen that the government was keen to arrest the tendency for prices of groundnut and mustard to fall and had, therefore, bought nearly 75,000 tonnes of mustard seed in order to keep up their prices. It was the government's duty, he pointed out, to regulate the releases and prices of agricultural commodities in such a manner that the "prices to the farmers remain remunerative". This line of reasoning presumably covered the releases of sugar as well. But the rise in sugar prices has been so scandalous that he wisely chose to refer in his letter to only edible oils and not sugar. Even the most ardent admirers of V P Singh in his party would not credit the government's handling of sugar releases and prices as inspired solely by the aim of ensuring remunerative price for farmer. But the bugbear of 'remunerative prices for the farmer' is unnerving enough as much for the ruling party as for the opposition parties. Neither can be expected to countenance anything less than the so-called 'remunerative prices' for the farmer and both sides clamour all the time for increasing the prices for the farmer. The Union Finance Minister thus found it easy enough to not only neatly side-step but also mock at the more popular bogey of big business and traders bringing about price increases. He was in a position to sharply reject any suggestion that his Budget which gave reliefs in direct taxes for which he had won so many plaudits and levied additional tax on certain selected items of consumption, among them petroleum products, could be held responsible for the rise in prices. Finance Ministry circles, in fact, hold that the sharp spurt in prices in the four weeks following the presentation of the Budget has been contained and it is only in a few selected commodities of daily consumption that inflationary pressures are still being felt because of seasonal factors or a gap between supply and demand. The position, according to them, will begin to ease when the seasonal factor will have spent itself in the case of some commodities and imports are arranged to improve supplies in the case of others.

The line adopted by V P Singh to confound the critics on the question of price rise is reinforced in a more cavalier fashion by other leaders of government, notable among them being the Union Minister of Food and Civil Supplies. Rao Birendra Singh has not hesitated to make even the churlish suggestion that the state governments were 'profiteering' on supplies from the Centre by fixing retail prices of foodgrains at a rate higher than the prices of the Food Corporation of India. He evidently had not provided for the costs incurred by the states on handling food supplies from the Central pool when his own cost of handling, transportation and storage is his ready explanation for the unduly large difference between the procurement prices and the issue prices of the FCI, which result in huge subsidies from the exchequer. Earlier, on another occasion, Rao Birendra Singh had glibly argued that while the Union government had made a 'conscious decision' to impose levies on its Budget on several sensitive commodities of mass consumption which had resulted in a spurt in their prices in order to raise resources for development, the state governments had aggravated the problem by measures only to raise revenues. He completely ignored in a fit of irresponsibility the pressure of the Union Finance Ministry and the Planning Commisssion on the state governments for vigorous measures to raise additional resources. The fact indeed is that whereas the Union government chose this year to propitiate the rich classes by generous cuts in taxes on their incomes and wealth and heavily taxed items of mass consumption, the state governments took far more equitable and commendable measures for the mobilisation of additional resources for planned development. This indeed has been decisive in upholding the size of the Seventh Five-Year Plan. But let petty politicking on the part of the ministers of the Union government in dealing with serious issues be ignored.

## Cuts in Government Expenditure

Let us take up the question of cuts in government expenditure which has been posed by V P Singh. It is obviously necessary to contain government expenditure if deficit financing is to be brought within manageable limits and increase in liquidity resulting in too much money chasing too few goods has to be controlled. But this must not be done in a mindless manner by pruning investment in development projects and programmes and cuts in subsidies which would hurt the mass of consumers and withholding of DA which would hit low paid workers in the public and private sectors. The Union Finance Minister has threatened to take precisely such steps. The key issue to face is indeed the relentless rise of the non-development expenditure of the government, including expenditure on the armed services and the organs of law and order which are given the highest priority by the government. Such expenditure must not be accepted fatalistically and treated as sacrosanct. The situation has come to such a pass that resources committed to security and order have begun to not only eat into those available for development but also threaten economic and social stability. This problem must be publicly discussed and not regarded as the sole prerogative of the government to handle in total secrecy. Development is the best guarantee of security and improvement in the life of the mass of the people the best assurance of peace and order; they must enjoy top priority in the scheme of things.

The problem of the rise in non-development expenditure is aggravated by misdirected investment of scarce resources in areas of low priority when mass needs are ignored and the demands of the upper classes tend to become the main concern. It is indeed remarkable that not only investment for the expansion of production of the means of private transport, entertainment electronics, five-star hotels and much else of a similar nature receives a high priority in deployment of available resources, whereas there is so much hesitation in using the resources which are available, among them most notably the surplus food stocks, for generating new employment and incomes in the economy. There is obviously a pressing need for reordering investment priorities for optimal deployment of available resources to meet mass needs in contrast to the growing trend in favour of disregarding the principles of austerity and squandering scarce resources for satisfying flashy, elitist demands of the upper classes.

Combined with strict regulation of expenditure, both in the public and private sectors, there is the pressing need for a vigorous effort for additional resource mobilisation. The generous cuts in taxes on incomes and wealth and goods and services of elitist consumption have not only swelled disposable incomes and elitist demand in the economy, they have also impaired the will for additional resource mobilisation. The cumulative effect has been not merely a deceleration but an absolute decline in the rate of savings in the economy from the peak of 24 per cent in 1978-79 to below 23 per cent in 1984-85. The expectation of the planners that the Seventh Five-Year Plan could count on an average savings rate of 26 per cent and an incremental rate of 30 per cent has, therefore, been falsified. The planners have now found that only a vigorous policy of promoting savings, both in the public as well as the private sector, including by way of direct and indirect taxes can hopefully push up the saving rate to 24 per cent in the Seventh Plan. No wonder the resources crunch on investment in the public sector as well as the private sector has become severe.

### SUPPLEMENTARY DEMANDS

It would be worthwhile to mention in connection with the unchecked rise in deficit financing the supplementary demands for grants which have been presented by the Union Finance Minister within just four months of the presentation of his first Budget. The deficit of Rs 3,280 crore left uncovered in the Budget will swell enormously if the present drift of policy on resource mobilisation and deployment remains unchecked. The deficit will enlarge to Rs 6,150 crore as a result of just the supplementary demands for grants which add up to Rs 3,872 crore. Taking into account certain receipts and recoveries, the net additional expenditure proposed is of the order of Rs 2,876 crore. The additional expenditure for which demands have been made add up to Rs 2,516 crore on the non-Plan account and Rs 1,355 crore on the Plan account. Since no measures for additional resource mobilisation are in the offing and are ruled out by the policy preference of the government, the additional expenditure which has been mooted will have to be financed by created money. The inflationary impact of such financing cannot be ignored. The pressures on prices can only mount in these conditions and smug assurances about holding the price-line will be found to be hollow.

A sizeable part of the supplementary demand of the order of about Rs 2,000 crore is, of course, on account of loans which have been advanced to the state governments to clear their overdrafts on the Reserve Bank. The states have also been provided ways and means advances as they would not have been able to function without such financial accommodation. But the book entries involved in these transactions do not in any way mitigate the evil of larger pumping in of created money into the economy. The states, on their part, would be loaded with the additional liability of servicing out of their revenues Central loans advanced out of created money. This would only add to their financial woes. The rest of the items of expenditure for which supplementary demands have been presented may not appear in themselves to be objectionable. In fact, the additional allocations for the Vizag steel plant and the aluminium project in Orissa are welcome. The provisions for these projects in the Budget were so meagre that there was a danger of the implementation of the two projects coming to a grinding halt. The additional allocations for the employment guarantee scheme is also welcome. But the fact is that the allocations for these and many other projects and programmes of positive development and welfare significance should not have been mindlessly pruned in the Budget in the first instance. The need for corrective action within four months of presentation of the Budget also shows that the Budget-makers had done a shoddy job. The relentless increase in food and fertiliser subsidies too is a matter of concern. The supplementary demands under these heads add upto more than Rs 300 crore. What also stands out in this context is that the estimates of expenditure have been found to be very wide of the mark and the estimates of revenue receipts can also no more be relied upon. This may not, however, have been due to the failure of the professionals who made the estimates. Political pressure in favour of under-estimating expenditure and over-estimating revenue in order to clear the ground for cuts in direct and indirect taxes to win kudos from the middle and upper classes would appear to have been responsible for a Budget which simply does not hold together. What may well be characterised as a mini budget without additional resource mobilisation has been presented in the form of supplementary demands for grants and this can only further aggravate and distort the budgetary balance.

### LONG-TERM FISCAL POLICY

It is remarkable that in the face of such a budgetary position, the Union Finance Minister should have pompously declared at a seminar organised by the Forum of Financial Writers recently that a new fiscal policy was in the process of being formulated for the Seventh Plan. The policy, he said, would be guided by the consideration of economic growth and not the collection of revenue for the government. A start in this direction, he might have added, had already been made with the Budget for the current year and the grant of concessions in direct and indirect taxes which left a large budgetary deficit. It appears, therefore, that once the long-term fiscal policy is formally announced by September end or early October as has been promised by the Finance Minister and begins to be implemented, the budgetary deficit will be allowed to swell unchecked with all its adverse consequences for price stability as well as availability of resources for investment in the public sector.

The policy of liberalisation and widening opportunities for private enterprise, Indian and foreign, has a logic of its own and fiscal policy can hardly be expected to escape it. This logic will become all the more relentless when increases in non-development expenditure, especially on security and law and order, are fatalistically accepted as inescapable. The upshot can only be that the Seventh Plan in the public sector will stand scuttled even before it is drawn up, let alone launched. Growth *versus* revenue as the alternative or competing aims of fiscal policy as projected by the Finance Minister is indeed a misleading proposition and tends to obfuscate the marked shift in official investment priorities. This shift is, of course, proposed to be brought about in a phased manner. The development of basic infrastructure of the economy and mass welfare will inevitably be downgraded in such a dispensation. The government would cease in stages to give priority to the mobilisation of additional resources for productive investment in the public sector and, in the name of promoting growth, let the community's savings flow into private channels to be invested entirely according to profit maximisation calculations. The government will still be raising revenue in order to meet administrative and security requirements but the effort to mobilise resources for development will be diluted. The growth objective will still remain but it will be passed on as the responsibility of private enterprise. The new fiscal policy norms and aims propounded by the Finance Minister really mean that the Indian State will cease, in a phased manner, to mobilise revenue surpluses for investment in development and welfare and revert to being concerned mainly with security and law and order. This impression is only confirmed by the recent speech of the Prime Minister to the police academy when he declared that "as we develop and grow, the primary need of any government is not development of vast projects, but maintenance of law and order."

Coming to remunerative prices for

farmers which are supposed to be accorded the highest priority, next only to law and order, there is a clear reluctance to take into account the changing levels of production and productivity in the farm sector. The cry of remunerative prices in this context can only subserve the vested interest of a thin upper stratum of surplus farmers. If indeed there has been a green revolution as is so vociferously claimed and there has been a significant rise in the levels of production and productivity in the farm sector, the gains of the green revolution must be equitably shared between producers and consumers with a part of the gains being mopped up by the public authority for investment in the expansion of the economic infrastructure and social consumption facilities. In the absence of equitable sharing of the gains in production and productivity either in the farm or the industrial sector, the prices of essential wage goods in the economy can only remain high with adverse impact on the incomes of industrial as well as agricultural workers.

Prices of commodities and services in themselves may be of no great significance if there were growth and new employment and incomes were being generated. But when growth remains sluggish or is inequitable, inflationary pressures are generated which provide a bonanza for asset-holders and traders and hit the working people hard. If in these conditions, the structure of relative prices is also tilted in favour of asset-holders and traders not only by the play of market forces but also by conscious political policy decisions, the position is bound to become intolerable for the working people. This is what is actually happening.

The leaders of the government, when they try to be forthright and outspoken as, for instance, V P Singh and Rao Birendra Singh have done in respect of official management of taxes and prices, tend to bare their ideological preferences and political commitments and connections. Fiscal policy for growth rather than for collecting revenue for the government, remunerative prices for surplus farmers, liberalisation for private business and attractive returns for capital are shibboleths which come handy for giving the right gloss to the perspective for economic growth in which the elite find their place and the people are left out in the cold.

**PRICES**

# Where It Hurts

### (By a Special Correspondent)

THE rise of 3.4 per cent in wholesale prices on a point-to-point basis, during the first quarter of 1985-86 as compared to 5.1 per cent in the corresponding period last year was the second lowest rate of inflation recorded during this decade. The lowest increase of 1.8 per cent was in 1978-79. But it is significant that unlike last year, the rise was confined to four commodities, *viz*, rice, fruits and vegetable, sugar and gur, all important wage goods. These four commodities having a weight of 18 per cent in the wholesale price index accounted for about 75 per cent of the price rise.

Commodity groups consisting of raw cotton, raw jute, groundnut and copra which recorded large increases in 1984-85, sizeably declined in 1985-86. The increase in fruits and vegetables and in rice more than offset these decline, and resulted in a rise of 4.3 per cent in the major group primary articles (see Table). The escalation in fruits and vegetables prices can be attributed to seasonal factors, but the uptrend in foodgrains prices is perplexing in the context of the large buffer-stock and the improved output in the last two years, prompting the government to actually export foodgrains. The only reason for the rise in foodgrains price seems to be the lagged effect of the increase in freight charges effected in the Railway Budget.

During the quarter the major group manufactured products rose by 3.2 per cent as against 5.1 per cent last year. The sugar group went up substantially by 17.5 per cent contributing about 31 per cent for the rise. The production and consumption of sugar last year was estimated at 60 lakh tonnes and 75 lakh tonnes, respectively. However, with sufficient imports and carry-over stocks there does not seem to be enough justification for the flare up in prices. The increase in the levy prices of sugar by 40 paise per kilo effective from April 1985 as well as the decision of the government to sell imported sugar at Rs 6 per kilo could be among the factors that have pushed up prices.

Edible oil prices dropped substantially by 6.8 per cent, contrasting with an increase of 10.6 per cent last year mainly because of better production of oilseeds, especially groundnut and copra and better availability of edible oils, particularly imported palm oil, in the fair price shops.

Better availability of raw jute (about 86 lakh bales against a consumption demand of 79 lakh bales) depressed the price of jute goods by 13.1 per cent.

On an average basis, the wholesale price index went up by 7.1 per cent in the first quarter of 1985-86 as compared to 7.5 per cent in the corresponding period of 1984-85 or 9.1 per cent in 1983-84.

The rise in the essential consumer articles groups reflected itself in the retail prices in different markets. For example, in the Bombay market the price of basmati rice went up by 27 per cent or by Rs 3 per kg, ordinary rice 4 per cent or Re 0.20 per kg, sugar 25 per cent or by Rs 1.20 per kg, and gur 12 per cent or by Re 0.70 per kg.

During the current fiscal year upto May, the consumer price index was up by 2.4 per cent or against a marginal rise of 0.7 per cent in 1984-85 or 3.8 per cent in 1983-84. Substantial increase in the wholesale prices of sugar, gur, rice and vegetables pushed up the consumer price index from 586 in March to 600 in May.

The conventional busy season came to an end by April. During the busy season 1984-85, the rate of inflation as measured by the wholesale price index was 1.9 per cent, the same as in the 1983-84 season, but much

TABLE: TRENDS IN WHOLESALE PRICES

| | | First Quarter of Financial Year | | | Busy Season | | |
|---|---|---|---|---|---|---|---|
| | Weight | 1985-86 (1) | 1984-85 (2) | 1978-79 (3) | 1984-85 (4) | 1983-84 (5) | 1982-83 (6) |
| All commodities | 100 | 3.4 | 5.1 | 1.8 | 1.9 | 1.9 | 4.5 |
| Primary articles | 42 | 4.3 | 6.2 | 2.5 | −1.5 | 1.6 | 5.2 |
| Foodgrains | 13 | 3.0 | 2.7 | 0.3 | −1.9 | −4.2 | 4.3 |
| Cereals | 11 | 3.9 | 0.9 | 0.9 | 0.2 | −6.6 | 5.0 |
| Pulses | 2 | 0.6 | 8.8 | −1.5 | −7.3 | 5.0 | 1.8 |
| Fruits and vegetables | 6 | 21.2 | 16.7 | 4.2 | 8.0 | −8.3 | 29.0 |
| Fibres | 3 | −11.3 | 15.4 | −1.7 | −11.0 | 20.5 | 7.0 |
| Oilseeds | 4 | −3.3 | 9.7 | 5.8 | −10.7 | 6.2 | −0.7 |
| Fuel, power light and lubricants | 8 | 1.4 | 1.4 | 0.8 | 7.0 | 3.1 | 5.9 |
| Electricity | 2 | 2.6 | 5.1 | 4.1 | 2.7 | −1.3 | 14.5 |
| Mineral oils | 5 | 1.4 | 0.4 | −0.2 | 10.6 | −0.1 | 4.1 |
| Manufactured products | 50 | 3.2 | 5.1 | 1.4 | 3.4 | 1.9 | 3.3 |
| Sugar group | 7 | 17.5 | 14.2 | −1.9 | 0.8 | −5.4 | −1.5 |
| Edible oils | 4 | −6.8 | 10.6 | 3.3 | −9.0 | 4.2 | 4.3 |
| Cotton textiles | 8 | 1.5 | 0.6 | −1.4 | 0.8 | 2.3 | 4.1 |
| Jute textiles | 1 | −13.1 | −0.8 | −6.5 | −5.2 | 29.5 | −10.1 |
| Steel items | 3 | 0.4 | 11.5 | 12.3 | 11.2 | 0.1 | 4.7 |

lower than the 4.5 per cent recorded in the 1982-83 season. The price increase was kept down mainly due to the fall in prices of 'primary articles', which offset the Budget-induced increase in the major groups 'manufactured products' and 'fuel, power, light and lubricants'. Primary articles recorded a decline of 1.5 per cent as against a rise of 1.6 per cent in 1983-84 and 5.2 per cent rise of 1982-83.

Fruits and vegetables recorded an increase of 8 per cent as compared to a fall of 8.3 per cent last season. The rise can be attributed to seasonal factors. Though cereals recorded a small increase of 0.2 per cent in contrast to a fall of 6.6 per cent in the last season, the decline in prices of pulses by 7.3 per cent in contrast to a rise of 5 per cent in 1983-84 resulted in the fall in foodgrain prices. Foodgrain prices went down by 1.9 per cent as against a larger decrease of 4.2 per cent last season, mainly due to better availability. Prices of fibres recorded a fall of 11 per cent in contrast to a rise of 20.5 per cent last season. Prices of raw cotton and raw jute both fell substantially by 11 per cent and 13 per cent, respectively. Oilseeds prices declined by 10.7 per cent as against a rise of 6.2 per cent last season as the availability of groundnut and copra improved on account of larger production.

Fuel, power, light and lubricants rose by 7 per cent as against a smalle rise of 3.1 per cent last season on account of the adjustment in mineral oil prices effected in the Budget. Mineral oil rose by 10.6 per cent.

The major group manufactured products has gone up by 3.4 per cent as compared to 1.9 per cent last season mainly because of the rise in prices of sugar, iron and steel items and aluminium. These three commodity groups accounting for about 6 per cent of the weight contributed about 44 per cent to the general price rise. Sugar rose by 10.3 per cent mainly due to lower releases of sugar (about 10,000 tonnes less) for free sale in April. Gur recorded a decline of 2.9 per cent during the period. The iron and steel group and aluminium were up by 11.2 per cent and 6.3 per cent, respectively, largely reflecting the impact of Budget proposals. Prices of edible oils dropped by 9 per cent contrasting to a rise of 4.2 per cent last season, mainly because of large decreases in coconut oil (35 per cent) and groundnut oil (3.7 per cent) prices.

The consumer price index for industrial workers showed a marginal rise of 0.3 per cent during the busy season 1984-85 on a point-to-point basis as compared to 0.2 per cent in 1983-84 and 3.5 per cent in 1982-83. On an average basis, the rise of 5.2 per cent in the 1984-85 busy season is much less than that of 12.1 per cent recorded in the 1983-84 busy season and of 8.8 per cent in the 1982-83 busy season.

### ANDHRA PRADESH

# Plight of Prisoners in Vizag Jail

**M Shatrugna**

SOON after the 'restoration of democracy' in the state in September last year, NTR had announced an amnesty to a large number of prisoners of various categories. Many thought that the amnesty would cover all the life-termers who had put in long years in jails. But their hopes were belied when the actual orders—G O Ms No 580 dated 20.10.1984, Home (Prison-C) Department—giving details of the remissions were released. Political prisoners by and large were excluded from the government scheme. Those convicted for offences under Sections 120-B, 121 to 130, 359 to 377 and 395 to 402 IPC were totally left out of the amnesty.

What are these 'dangerous' sections? While Section 120-B deals with criminal conspiracy, Sections 121 to 130 come under 'Offences against the State'. Sections 359 to 377 deal with kidnapping, rape, abduction, etc. Sections 395 to 402 deal with robbery, dacoity, etc. Thus the Government Order lumped 'general crimes' with 'political offences'; while 'offences' falling under Section 120-B and 121 to 130 are generally political in nature, those falling under the other sections by and large fall in the category of 'general crimes'. Because of this grouping, political prisoners who have spent long periods in jails, sometimes over 14 years, were denied the benefit of the government amnesty. Though various judgments of the Supreme Court have specifically suggested that a life term should not cross ten years, the state government chose to ignore this guideline. Also, there was a certain amount of selectivity in the granting of amnesty even among political prisoners. While six political prisoners including Chowdhary Tejeswar Rao and P Hasnar were quite rightly released, a number of others including Martala Pulla Reddy, C V Krishna Reddy and Shaik Kalesha of the Tallapalem case in Nellore district who are in the Vizag jail were not granted amnesty. Worse still, the living conditions of all prisoners in general and political prisoners in particular have deteriorated coinciding with the announcement of the amnesty.

The Vizag jail is a case in point. Anyone who has been in jail knows the long drawn struggles that have to be undertaken to get even petty things like a newspaper of one's choice, a separate kitchen, regular interviews with the approved list of visitors, etc. For instance, political prisoners in the Visakhapatnam jail had to undertake a 70-day hunger-strike in 1970 to get a separate kitchen for themselves. Though this arrangement was continued for about 15 years, the separate kitchen was wound up last year. Added to this loss was the advancing of the 'lock-up time' from 7.30 pm to 5.30 pm and cancellation of direct interviews with visitors. Political prisoners now have to talk to visitors through a 'window'. The Visakhapatnam jail has also evolved new methods of exploiting the cheap labour of prisoners. Vegetables and mangoes tended and grown by them are transferred out denying a share to the producers. Diet rules have been amended affecting the health of the prisoners. Recently the daily quota of milk for the whole jail was reduced from 3,000 litres to a bare 300 litres and the mutton quota from 400 kgs to 10 kgs. Eggs have been totally withdrawn. Earlier butter milk mixed with lime juice was supplied during summer. Now that facility is gone. Prisoners have been denied even hand fans now. Coinciding with these changes, corruption in the jail has increased. Even inexpensive medicines like Incidal, vitamin C or Thorangam tablets are drawn for the 'hospital' but supplied to the jail authorities.

Subjecting prisoners, especially those belonging to the weaker sections, to intimidation, indignity, beating and at times prolonged torture are a routine feature in Indian jails. The Bhagalpur blindings in Bihar and the prolonged imprisonment of undertrial prisoners, sometimes for as long as 30 years, elsewhere have attracted wide attention. The Vizag jail has its own method of harassing the prisoners. Recently an ordinary criminal, Karaja Venkataramana (C No 1836) was found with 'civil' money on his person. He was thrashed mercilessly and had his arm broken by the deputy jailer. The incident took place on May 27. Though deputy jailer is not a 'big fellow' officially, he wields enormous power next only to the Superintendent of the jail. In another case, *ganjai* (charas) was alleged to have been found on the person of Battina Prasad and two others. All the three were thrashed and put in solitary confinement. Unable to bear the humiliation and torture, Prasad unsuccessfully tried to hang himself with a towel. He was caught and admitted into the city mental hospital for 'treatment'. In an interview given to the Telugu Daily *Andhra Bhoomi* (8.6.1985) Prasad related his heart-rending story vividly describing the abominable conditions in the jail.

Any health problem is treated casually with either APC tablets or terramycin injections. Recently a heart-patient Sudhakar complained of chest pain. Though the jail doctor asked the police for an escort to take the ailing patient to the K G Hospital. Sudhakar was not taken to the hospital for treatment. The doctor however wrote in the M D Journal No 159 dated 9.4.1985 that

Sudhakar was dispatched to the cardiology (ICCU) Unit, K G Hospital at 11.10 pm for treatment and brought back at 0.30 hours after treatment. Such instances are many.

The state government's budget for 1983-84 showed an impressive Rs 7.90 crore for jail administration. How much of this money reaches those for whom it is meant is anybody's guess. The Telugu Desam government which had promised a 'clean' administration should extend its cleaning operation to the jails in the state also.

## GUJARAT

# Anti-Reservation Movement
## A Political Assessment

**Ashim K Roy**

AN agreement has been reached between the Gujarat government, the Gujarat Vali Mandal and Navrachna Samiti, the bodies spearheading the five-month old anti-reservation agitation. Whether this four-point agreement will bring normalcy in the state is yet to be seen. For one, a section of the anti-reservationists, mainly the students, have opposed the agreement, and secondly, the communal strife has shown a fresh spurt. Nevertheless the accord itself and the process by which it was arrived at are politically revealing. They show the developing character of the Indian polity.

Amarsinh Choudhary has unequivocally scrapped the 18 per cent increase in reservation for the other backward castes (OBCs) until a national consensus on reservation for the OBCs is arrived at. As regards the 10 per cent reservation existing from 1978, the Chief Minister has agreed to set up a committee of a sitting High Court judge and two retired High Court judges to review the matter which will submit its report latest by 1987, so as to enable the state to take a decision by March 1988, when the 10-year term of the present reservation policy ends. No doubt by that time the national consensus will also have been reached.

If Gujarat has just witnessed the longest and the bloodiest anti-reservation movement, the accord now reached will also have a powerful influence in reshaping the reservation policy in the country as a whole. The basic premise of the Gujarat accord is a national consensus. The reservation policy for OBCs which till now was decided on a state basis, will henceforth be remoulded according to this national consensus.

The plurality of the backward castes and their diverse composition in different states and regions makes it difficult for them to be brought within the ambit of a homogeneous national codification. This fact has been well established in the reports of the numerous commissions constituted by the different states to study and identify the OBCs as also in the report of the Mandal Commission. Very few states have been successful in implementing a reservation policy for the OBCs. In the northern states the domination of upper caste Hindus is so strong that such policy has either died in its infancy or has had to be abandoned in face of strong opposition. In this context, a so-called national consensus is nothing but a ploy of the ruling higher caste elites, irrespective of their political affiliations, to arrive at a consensus among themselves on this question.

Reservation for OBCs, if it has to exist, has to have a principle on which it is founded. The backwardness of these castes has to be quantified for the arithmetic of reservation to be worked out. The measure most widely used is the coefficient of equality, which is the ratio of the percentage of OBCs availing of an opportunity (such as jobs, literacy, etc) to the percentage of OBCs in the total population. A ratio of one is to one (1:1) implies complete equalisation of opportunities. In a democratic set up caste-based reservation can be said to reflect the democratic ethos only when the percentage of reservation is equal to the percentage of OBCs in the total population and such reservation has to continue till the coefficient of equality becomes one.

Any national consensus on the percentage of reservation other than one arrived at by the above method will mean a retreat from the democratic principle. However, if political trends in the last few years are taken as a pointer, then the national consensus that is likely to emerge can mean at its worst complete abandonment of the policy itself and at its best a percentage of reservation far below that required to ensure equality of opportunity. It will mean that reservation will have no scientific basis, but will be totally ad hoc and arbitrary, based solely on the agreement among the 'dwijas' on the extent of concession to be given to the backward castes.

The Gujarat agitation and the accord manifest the process of realignment of forces in the country. There are many factors that led to the downfall of the Solanki ministry. The major one being Solanki's incapability to handle and control the anti-reservationists. But to find the cause of this incapability in some flaw in the personality of Madhavsinh Solanki would be to miss the very essence of the problem. His inadequacies, his vacillations, his incapacity can only be understood in context of the realignment of forces on a national scale.

The enhancement of the reservation quota for backward castes by Solanki on the eve of the last election might have brought the Congress(I) immediate benefit in the election. But the reservation policy was in contradiction to the direction of realignment taking place at the Centre's behest. This contradiction could have remained subdued, at least for the time being, and not erupted if the students and the Vali Mandals had not begun their agitation. But once the higher castes persisted in their attack, the contradiction was exposed and the Congress buckled under.

The party that had received a massive mandate from the backward castes and depressed people failed to mobilise these very people into an effective opposition to the anti-reservation movement. It could not because, in the first place, the Congress(I) had increased the reservation quota only with the election in mind and not to mobilise and uplift the depressed and backward people. And, second, the contradiction had polarised the party itself.

Throughout the agitation, there was one constant fear that sapped the strength of the Solanki ministry. It was the fear of where and when Rajiv Gandhi's Damoclean sword would fall. This made Solanki vacillate and indecisive in every action. He was caught in the pincer of the higher caste Hindus. The frontal attack came from Vali Mandals and the Navrachna Samiti. They were subsequently joined by the political parties like BJP and Janata, protesting against police atrocities (though they never highlighted the real atrocity of police in areas where the police indiscriminately fired and burnt down Muslim houses). On the other side, the Centre, though remaining silent, was a reserve force of the caste Hindus.

Solanki was aware that though he had rejected the economic criteria for reservation, the Approach Paper of the Seventh Plan expounded reservation based on economic criteria. And further, that Rajiv Gandhi was of the opinion that the existing reservation policy needed review. But then Solanki was no fighter for or benefactor of the backwards. In the end, when the sheer instinct for political survival made him hesitantly make an attempt to fight back against the anti-reservationists, he sought support not of the party but of his own caste people. The Laxmipura Kshatriya Sammelan and the 'sword puja' episode, instead of helping him, intensified the conflict both outside and inside the Congress(I). The upper castes retaliated with complete unanimity. The business community with all its mahajans called for closure of business for five days—an unprecedented event in free India. The Congress dissidents, with their underlying upper caste bias, accused Solanki of inciting caste war. The students and parents announced another Gujarat bundh, which subsequently acquired the distinction of unleashing the worst communal riots. The Centre could no more remain silent, and when it broke its silence, the sword fell on Solanki's ministry.

Though the new ministry is being headed by a chief minister who comes from a tribal background, the realignment of forces has begun in Gujarat. The Centre has asserted itself. The new ministry inducted higher caste legislators and the balance has moved in their favour. Further, the four-member cabinet sub-committee to negotiate with the anti-reservationists was headed by an upper caste minister, Vallabhbhai Patel, and included only one member belonging to lower castes. Even this sole member was there for name's sake as he is a scheduled caste and the matter under dispute was reservation for OBCs and not for SCs and STs.

*July 27.*

# Self-Defence and Police Racism in Britain

**Kalpana Wilson**

ON July 10, a major British trial in which seven young Asians were charged with affray ended with four of the Asian defendants being found guilty. During the eight-week trial at the Old Bailey in London and in the months preceding it, a further 90 people had been arrested while taking part in the massive defence campaign launched on their behalf. As the four people convicted await the judge's sentence, due in the first week of August, black communities all over Britain are having to come to terms with a drastic shift in the attitude and tactics of the British state, and are assessing the reasons for the failure of the defence campaign and developing new strategies for survival in the future.

The case itself developed from events on April 7, 1984 in Newham in East London. That day there were a series of random attacks on Asians by a group of racists who drove around the area, dragging Asians off the street into their car and assaulting them with a claw-hammer. In one of these incidents, a 16-year old boy was left lying unconscious in a ditch. Although they were given the registration number of the racists' car, the police refused to take any action. That evening there was a confrontation between young Asians and whites outside the Duke of Edinburgh pub which was well known locally as a base for fascists where racial attacks were planned.

Even before the fight began, the police, who were nowhere to be seen all day, moved in and arrested one Asian youth. Over the next few weeks, six more Asians were arrested. The Newham Seven, as they became known, were all charged with affray, a charge which carries a sentence of upto ten years imprisonment. Three whites who had attacked some Asians who were driving past the pub were charged with common assault, a far less serious charge. The main perpetrators of violence last April were not in the dock on July 10. It had taken the police a whole year to arrest the occupants of the car and their trial has not yet come up.

The evidence which emerged during the trial showed the extent to which racist attacks have become an everyday occurrence. In areas like Newham, black people face attacks on the street, in school playgrounds, in community centres and places of worship. Even in their homes they are not safe from attack, with windows and doors being smashed and kerosene poured through letter boxes. Even more strikingly it showed the extent to which Asians have been forced to defend themselves and their communities from these attacks. In 1984 out of 75 cases of racial attack reported to the police in Newham, the police took no action in 85 per cent. Many more attacks are not reported because, black people say, experience has shown that not only are the police unwilling to track down the perpetrators of the crimes, but they are more than likely to harass the victims of the attack. When a point is reached where young Asians feel they have no choice but to take action themselves, the police immediately arrest and charge them. It was this struggle between Asians and a police force which has been seen to be racist which, even more than the attacks themselves, formed the focus of the Newham Seven trial.

This is nothing new. In 1981, twelve young Asians from the northern town of Bradford were accused of making petrol bombs to use against racist attackers and faced conspiracy charges carrying possible life sentence. For the first time the reality of what it means to be black in Britain was openly stated in a British court as the defendants testified to the constant threat and the lack of protection which had prompted their actions. Not only the youth but all sections of the Asian community in Bradford mobilised in their defence. All twelve were acquitted. In 1983, eight Asians were arrested in Newham itself. A group of racist youths had been entering the playground of a local primary school and beating up children. The 'Newham Eight' were part of a group of older boys who decided to patrol the area when the school finished in order to protect the children coming out. While they were doing this, a carload of white men drew up and a fight ensued. It was only then that the men identified themselves as plainclothes policemen and arrested the boys.

Both these cases developed the concept of 'self-defence' for black communities. Neither the defence counsel nor the people who consistently picketed the courtrooms denied that the defendants had committed the 'crime' of which they were accused. Instead they argued that actions in self-defence, or in defence of one's community, against racism must not be considered crimes.

But if these were the precedents of the Newham Seven trial, the trial also had several new and important features. While in the earlier two cases the defendants had originally been charged with conspiracy the Newham Seven were charged with affray. Unlike conspiracy, this is not an openly political charge, having in the past been associated with gang fights. At the same time it can be used when there is practically no evidence, since all that needs to be proved is the presence of the defendant at the scene of a 'disturbance'. However since their case hinged on a 'disturbance' having occurred, the police were forced to also arrest some white people. Yet paradoxically while the presence of three whites along with the Asians in the dock meant that the prosecution had to mention racism, it actually decreased the Asians' hope of acquittal by trivialising racism as a mere pretext for gang fights. Racist attacks were equated with defending oneself against them.

All this is in line with the current state policy of presenting Britain as a 'pluralist'

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nation where different ethnic groups coexist on a completely equal basis and the only contradictions are caused by 'cultural' differences. It masks the reality of a class society in which black people are at the bottom, are given the lowest paid jobs and the worst housing, and form the most oppressed sections of the British working class. And in fact it is this reality and black people's increasing militancy which have made the state so determined to crush organisation on their part. The systematic way it is now going about this emerged starkly during the trial when one of the main prosecution witnesses, a waitress in a cafe frequented by young Asians, revealed that even before the Newham Seven case, she had been used by the police to inform on conversations she overheard there.

At the same time, the case demonstrated that these subtler methods have been accompanied by a massive increase in state violence. For black people the brutality of the state has never been in question. There has been a continuous escalation, culminating in the rape of Jackie Berkely, a young Afro-Caribbean woman in a police station. It is simply that the boundary has shifted: 'democratic' Britain is now, particulary since the miners' strike, more open in its violence towards people exercising their civil liberties.

When in May this year, a 3,000 strong demonstration in support of the Newham Seven marched past Forest Gate police station in Newham, snatch squads of police jumped over crash barriers and dragged people out of the crowd at random. Witnesses saw several demonstrators being kicked and punched on the ground. Many of those arrested were young boys of thirteen or fourteen who were already beginning to face police harassment on the streets—stop-and-search operations are now common practice in black areas—and who, along with the parents of the defendants and other older members of the Asian community, provided some of the strongest support for the campaign.

State brutality continued right into the court: in the first week of the trial, one of the defendants, 17-year old Pervais Khan was beaten up by prison officers during the lunch recess in the cells of the Old Bailey because as a Muslim he refused to eat the pork pie he was given for lunch. He was so badly hurt that he was unable to appear in court for several days and for the first time the case hit the headlines of the daily newspapers. In spite of this, the judge refused to take any action. (Pervais Khan is now suing the Home Office for assault.)

Meanwhile outside the court, arrests of supporters continued. People who had been present during the Newham Eight trial eighteen months earlier noted a marked difference; the police appeared in far greater numbers now, often almost outnumbering the pickets. Standing shoulder to shoulder inches away from the demonstrators, they taunted them with racial abuse and tried to provoke them to step into the road where they would be arrested for obstruction. Then after an hour or so, they would charge, disperse the pickets and make random arrests.

On the last day of the trial, the police kept a relatively low profile. Tension mounted as the people outside waited for the verdict. Then, as soon as it was announced, large numbers of police appeared as if from nowhere, forming a cordon along the barriers behind which the pickets had been forced to stand, and hovering menacingly around the elderly Muslim men, fathers of the defendants, who were emerging devastated from the court room. As one of the demonstrators commented, "It was as if now they had the verdict behind them, they had won, and they felt they could now do anything they liked to us, to black people."

Less than a week after the Newham Seven trial ended, a pregnant woman and her two small children were killed in an arson attack on an Asian home in an East London suburb. No one has yet been arrested. October will see the start of the trial of Gerald Pryce, a 19 year old Afro-Caribbean. Gerald's 16-year old brother Eustace was stabbed to death by racists in Newham last year. The murder was witnessed by several plainclothes policemen, who were passing the spot on a bus. They immediately arrested Gerald Pryce, who has now been charged with affray. The Newham Seven Defence Campaign showed that Asians and Afro-Caribbeans, especially the youth, are now not only facing the same form of repression, but are organising together to fight it. But it also showed that it is no longer possible to rely on British juries for justice: in spite of the glaring inconsistencies, contradictions and pure racism in the police evidence, in spite of one incident where two police officers were actually caught rifling through defence barristers' briefs during the lunch recess, the jury in the Newham Seven case, consisting of nine whites and three blacks (none of them young or from Newham), seemed to have swallowed the 'pluralist' myth. Caught in the apathy and indifference which has evolved alongside the increasing repression, they duly provided a verdict which must have entirely satisfied the police. Not only did they find four of the Asians guilty of affray—significantly these four were considered the most politically conscious, and had faced police harassment before this case—but they also confirmed the implication of gang warfare by finding the three whites guilty of common assault, for which they were fined a mere £ 100 each.

Thus it now seems that the black community in Britain can no longer depend on legal battles, or even campaigns around specific cases to defend themselves against the onslaught of the British state. Only a sustained and coherent political movement can effectively direct the anger and resistance which this repression has generated.

## Essar Shipping

ESSAR SHIPPING, growth-oriented shipping company with diversified activities in shipping and offshore services and with a dividend paying record, is entering the capital market on August 20 with a linked issue of 50 lakh equity shares of Rs 10 each and 3 lakh 13.5 per cent non-convertible debentures of Rs 100 each. The applicants will have to simultaneously apply for a minimum of 100 equity shares and 6 debentures and thereafter in the proportion of 50 equity shares and 3 debentures. The company has planned a capital expenditure of Rs 100 crore over the next two years to acquire modern chemical tankers and product tankers in keeping with its policy of owning specialised vessels for specific long-term trades. The company has just acquired a multipurpose support vessel at a cost of about Rs 20 crore. This is a sophisticated vessel which can be used for fire-fighting, pollution control and rescue operations, in addition to diving support operations for the ONGC.

According to Ravikant Ruia, over 95 per cent of the company's turnover is from fixed time charters. The tankers are on long-term charter basis with clients in the oil and petroleum industry. The offshore supply vessels and the diving support vessel are on fixed time charter with the offshore industry. The fixed and long-term charters ensure regular and assured return over a long period of time and protects the company from the vagaries associated with the shipping industry. The company achieved an income of Rs 29 crore and earned thereon a gross profit of Rs 14.71 crore and a net profit of Rs 4.71 crore and paid a dividend of 20 per cent on an equity share capital of Rs 19.67 crore for 1984. It expects to lift its income to Rs 36 crore in the current year and to take it to Rs 44 crore in the next. On this basis, gross profit is expected to be around Rs 16-17 crore and Rs 19 crore and net profit Rs 6 crore and Rs 7-7.5 crore in 1985 and 1986, respectively. The company expects to pay a minimum of 12 per cent dividend for the current year to which the new shareholders will be entitled on a pro rata basis. As at the end of 1984, the company's net worth stood at Rs 46.69 crore. With the present issue, the Ruias' shareholding will come down from 100 per cent to 80 per cent. This is intended to be reduced further to 60 per cent in the next 3 years. The public issue is jointly managed by the Merchant Banking Divisions of SBI and J M Financial and Investment Consultancy Services. Standard Chartered Bank and Citibank are advisors to the issue.

**FROM THE CHAIR**

# Haryana Financial Corporation

## Speech of the Chairman, Shri B S Ojha, IAS, at the 18th Annual General Meeting held on 22nd June, 1985

Gentlemen,

IT is a matter of great pleasure for me to welcome you to the 18th Annual General Meeting of the Haryana Financial Corporation.

The Director's Report and Audited Statement of Accounts for the year ended 31st March, 1985 are already with you and with your permission, I take them as read.

### Economic Review:

Indian economy has shown considerable progress during the year. An average growth rate of 5% in the current year 1984-85 has earned well deserved praise from the World Bank. With a good monsoon and improved performance in certain key sectors, there is reason to look forward to further improvement in the economy during 1985-86. The pragmatic approach to regulatory provisions and reduction in taxation recently announced would take the country beyond the take-off stage.

The Government decisions to do away with the obligatory requirement of registration with the Directorate General of Technical Development in respect of 25 selected industries which have been brought out of the purview of industrial licensing, enhancing the limit of investment on plant and machinery in small scale sector from Rs. 20 lacs to Rs. 35 lacs and from Rs. 25 lacs to Rs. 45 lacs for ancillary units and steps taken for substantially widening the scope and lending limits of State Financial Corporations proposed to be revised from Rs. 30 lacs to Rs. 60 lacs are some of the measures which would go a long way to further increase the growth rate. The inadequacy of entrepreneurship is one of the major constraints in the growth of industrial and business activities. The Government of India has thus adopted a conscious and deliberate policy not only to provide various incentives for the growth of small industries but also to develop entrepreneurship on a large scale. In this context, the Government has established the National Institute of Entrepreneurship and Small Business Development to act as an apex body for co-ordinating entrepreneurship development programmes for specific target groups and areas and material organising and conducting programme's for motivators, trainers and entrepreneurs etc. Though a number of organisations and institutions in the country are engaged in the field of entrepreneurship development, the National Institute of Entrepreneurship and Small Business Development has been set up to play the role of an apex body.

A stable economic growth of five per cent envisaged in the Seventh Plan (1985-90) requires the industrial production to rise by about eight per cent a year. The industrial sector has to absorb the growing labour force.

Though the over-all economy in the country showed a favourable trend, industrialisation, particularly, in the Northern region was hampered mainly due to acute power shortage and non-availability of basic raw materials.

The upward trend of industrial growth in the State has touched new heights with the availability of liberal incentives, infrastructural facilities and financial assistance. Your Corporation continues to have a definite role to play in the achievement of industrial growth of the State.

### Performance:

Haryana Financial Corporation has completed 18 years of service for the cause of industrialisation of the State. The emphasis has been on the development of small scale sector and on the rural and cottage industries which provide more opportunities to the lower strata of society and economically weaker sections. The small scale sector is the most important sector in the industrial growth from the point of view of employment and production as it makes sizeable contribution to the economy of the country.

I am happy to inform you that the Corporation has exceeded the targets fixed by the IDBI in all the areas of operation namely, sanctions, disbursements and recovery. This has been possible on account of decentralisation of activities, proper delegation, streamlining and simplification of procedure and system together with a regular follow up of cases at every stage. The income by way of interest on loans and advances of the Corporation rose to Rs. 552.33 lacs during the year 1984-85 as against Rs. 327.88 lacs during the previous year 1983-84. Your Corporation earned a net profit of Rs. 130.14 lacs as against Rs. 59 lacs in 1983-84 on cash system of accounting; recording an increase of 117% over the previous year. Similarly, the income registered an increase of 68.26% as against 33.67% in the previous year. The net profit after providing for taxation of Rs. 43.09 lacs comes to Rs. 87.05 lacs. This increase has been achieved as a result of effective management of funds and excellent recovery made during the year. During the year, we have sanctioned loans amounting to Rs. 2,187.79 lacs to 562 units, registering an increase of 4.18% over the budgeted figure of IDBI. The notable feature about these sanctions is that most of our assistance went to small and tiny units. Out of the total amount of Rs. 2,187.79 lacs, sanctioned during the year, 89.83% of the amount has gone in favour of small scale sector and village and cottage industries and tiny sector. Further, a sum of Rs. 935.56 lacs sanctioned to 244 units, i.e. 42.76% of the total assistance sanctioned during the year, has gone to the units located in the identified backward areas of the State.

The level of disbursement is the real measure of progress in implementation of projects. I am glad to inform you that disbursement rose to Rs. 1,579.06 lacs during the year 1984-85 recording an increase of 16.4% as compared to the amount disbursed during the previous year. Your Corporation's contribution to the development of backward areas continued to be substantial and an amount of Rs. 679.35 lacs out of the total amount of loan disbursed has gone to 245 units located in the such areas. Effective monitoring and regular review at all levels has speeded up the implementation of projects thus reducing the gap between sanctions and disbursement considerably. This success in the field of disbursement has, no doubt, been made possible by generous assistance from the IDBI. Despite financial constraint, the State Government has made contribution of Rs. 10 lacs towards equity loan during the year, with the IDBI making matching contribution. The refinance from IDBI continued to be the main source of finance and the Corporation received an amount of Rs. 757.26 lacs during the year. It is heartening to note that the Corporation did not float any regular bonds during the year. Availment of refinance has been 47.79% of the total loan disbursed and 52.05% of the disbursement were made mainly from the recycling of our own funds and recoveries. This reveals that the Corporation is reducing its dependence gradually on long term costly borrowings. This is a healthy feature and is also in line with the recommendations of the Dave Committee of the Industrial Development Bank of India. The proper monitoring and follow up of the assisted units enabled the Corporation to effect recovery of the order of Rs. 1,450.38 lacs. Recoveries registered an impressive rise from the level of Rs. 1,148.64 lacs during the previous year to Rs. 1,450.38 lacs this year. This is mainly due to efforts put in by the officers of the Corporation.

### 20-Point Programmes:

The 20-point programme aims at providing greater thrust in order to solve complex problems of socio-economic development, ameliorating economic conditions of the rural poor and other weaker sections of the society, creating infrastructural and other facilities vital for bringing about a fundamental change in the social outlook and achieving the objective of reducing economic inequality in our society. The programme is the bedrock of progress and prosperity and seeks to bring improvement in living standards of the people.

The Government has adopted the programme as its main plank for rural development and the principal guiding force behind all developmental efforts in the State.

Under the 20-Point Programme, the Corporation sanctioned an amount of Rs. 935.56 lacs out of Rs. 2,187.79 lacs in the industrially backward sector and disbursed an amount of Rs. 679.35 lacs in the identified industrial backward areas. The Corporation has sanctioned Rs. 6.33 lacs to 31 units under rural and industrial scheme. In addition to this, the Corporation sanctioned a total financial assistance of Rs. 13.86 lacs to 26 units under the tiny sector. This has gone a long way to create employment opportunities and infrastructure facilities in order to improve the standard of living of the people of that area.

### Looking Ahead:

Starting with a modest business of Rs. 115.40 lacs in 1967-68, the business operations have grown up to Rs. 2,187.79 lacs in gross sactions in the year 1984-85. This is no mean achievement. Our entrepreneurs have exhibited enough faith in your Corporation which is indeed gratifying. On our side, the thrust has been to extend maximum facilities by streamlining the procedures and by promoting an organisational culture of service. The role of the Corporation in developing and strengthening the industrial base in the State is impressive. It has acted as a catalyst for the rapid industrialisation of Haryana.

The increased scale of operations demands still better services to the entrepreneurs at their door steps. 12 Branch Offices and 3 Regional Offices at Faridabad, Panipat and Hissar provide improved services to the entrepreneurs. In the year under review, we have opened two field offices at Karnal and Ambala in order to meet our commitment of better and improved services to the entrepreneurs in their areas of operation. We have gone ahead with the Corporation's declared aim of decentralisation and delegation of more powers to Branch Managers and Regional Managers. However, certain additional steps are required to be taken for effecting further improvements in the areas of appraisal of projects, documentation, monitoring and management information system to keep pace with the rapid expansion of the business activities of your Corporation, I sincerely hope that we will be able to achieve our goal and will show better results in the years to come. Recoveries of loans particularly from the suit file and over dues should attract our utmost attention in future. Besides, project monitoring, follow up and better branch co-ordination will also form part of our activities.

I am also very happy to note that relations between the management and the employees at all levels have been very cordial throughout the year. The endeavour of the management should be to create an atmosphere where everyone considers himself a member of the family. In order to meet fresh challenges to sustain the growth and to improve upon its past performances, the Corporation nominated various officials for training programmes organised by IDBI and other national institutions during the period under report.

The Corporation is grateful for the financial assistance and co-operation extended by IDBI and also the valuable co-operation and assistance received from the State Government and other Centre and State level institutions, including Reserve Bank of India and commercial banks.

I would also like to express my appreciation for the dedication with which the officers and the staff of the Corporation at all levels have worked during the year. I would like to place on record my appreciation for the very good performance of Shri J. K. Duggal, IAS, Managing Director of the Corporation, who, with his initiative and dynamic outlook contributed substantially towards this achievement.

I thank you all for attending the Annual General Meeting and hope that the Corporation will continue to have your co-operation and goodwill in full measures in the year ahead.

**B.S. OJHA**

*June 22, 1985*

**BANGLADESH**

# General Crisis of the Bourgeoisie in Bangladesh

### Badruddin Umar

THE basic development of the bourgeoisie in Bangladesh took place, after December 1971, not through exploitation of the working people but through a ruthless plunder of existing wealth and property. It will be easy to understand the process if we consider the fact that the ruling party at that time, the Awami League, did not really represent any of the basic and important producing classes and was primarily composed of such non-productive sections of the people as lawyers, jute brokers, petty traders, insurance agents, primary and secondary school teachers, unemployed youth, students, etc. It is true that some small land-owners and owners of industries, and here and there a few comparatively big ones, happened to be in the Awami League but its main composition was as has been stated above.

On December 16, 1971, political power fell into the hands of the Awami League and thereafter most of their leaders and workers of any consequence began to enrich themselves with the help of their newly-seized political power. Previously they owned little property either in land or in the sphere of industry and trade, and in the new situation they could rapidly enrich themselves only in one way—through plunder of the existing wealth. And they began to do so with great abandon.

At the initial stage the wealth and property of Pakistanis and of those who were branded as collaborators covered the area of this reckless plunder. Their houses and shops were occupied and plundered, all kinds of transports were seized, an enormous amount of cash was extracted from them and they were squeezed in every possible manner. In the situation, as it obtained at that time, even the properties of others who were neither Pakistanis nor collaborators by any description were attacked and seized. Thus a kind of primitive accumulation began and a new class of property-owners replaced the old ones.

The next phase of this plunder started with the nationalisation of industries. There was nothing wrong in taking over the industries of Pakistanis which constituted about 70 per cent of total industrial property in the then East Pakistan. But, in the name of socialism, the industries owned by Bengalis were also taken over and they were removed from the sphere of industry and replaced by completely new and inexperienced people. These managers and administrators of industries were either Awami Leaguers or closely connected with them. Being politically strong and secure, they began to plunder the industries at will and enrich themselves at the cost of the industries they were supposed to organise and look after. This plunder of industries went hand-in-hand with plunder in the sphere of trade.

The vast accumulation which followed this plunder originated in an anarchic situation and owing to certain other factors it created further anarchy in the economy as a whole. In the name of socialism investments over three lakh taka were prohibited but on the other hand the newly acquired money and wealth were seeking investment opportunities. Since it could not be invested legally, it had to take the other path. Thus arose in Bangladesh an unprecedented and elaborate network of illegal trade, both domestic and foreign. Hoarding, black-marketing and smuggling led to further accumulation in the hands of the plunderers and these were the people who constituted the most powerful section of the bourgeois property-owners in this country. As such they came to exercise enormous influence on the political developments in Bangladesh.

With the decline of private industries the former industrialists turned to indenting and they were joined by numerous newcomers in the field. This again gave rise to an area of plunder through the mechanism of under and over invoicing, and it threw up a new crop of rich people.

It is quite clear from what has been stated above that the new bourgeoisie in Bangladesh grew and developed not primarily through production and exploitation of the working people but through all conceivable forms of plunder. Thus it had no legitimacy even according to the usual bourgeois standards of morality and it began to adopt illegal means on such a scale and with such impunity that soon it appeared quite normal and even respectable in the eyes of some. This was the state of affairs at the time when the Awami League was overthrown in 1975.

The period following the overthrow of the Awami League saw further consolidation of the economic power of the new bourgeoisie. The rate of profit in trade continued to be much higher than in agriculture and industry and, the motive force of capital being the maximisation of profit, capital flow into the channels of trade. And during the course of its development and expansion it continued to illegally expropriate the assets and resources of the nationalised industries.

But this is not the end of the story. The arms of the new bourgeoisie also reached the nationalised banks. Tens of millions of takas were advanced to this class of people in the name of promoting industry, agriculture and legal trade but the major portion of this credit was diverted to the channels of illegal trade or simply taken out of the country. Thus hundreds of crores of takas remained unpaid and even to the present day neither any government nor the banks themselves have been able to touch them and force them to return the money advanced to them.

The nationalisation policy of the Awami League did not promote socialism in this country and it was never really meant to do so. It became effective as a means to the transfer of wealth and property from some hands to some other hands. And with the development of this process a demand was raised for the return of nationalised industries to private hands and for providing sanction and facilities for new private industries. This noise for a return to the good old days of private enterprise became more and more vociferous in the last days of Awami League rule and subsequently led to a reversal of the industrial policy and opened new opportunities for so-called industrialists. Thus more and more nationalised industries began to be returned to either their previous owners or to whoever was favoured. And in addition to these, licences and other facilities for new private industries began to be granted on a rather liberal scale. The nationalised banks generously made advances to these 'industrialists' who in various ways robbed their own industries and at their cost enriched themselves through illegal purchases of raw materials, over-invoicing and under-invoicing, and also by simple transfer of loan money to other channels.

In all such activities these 'industrialists' now continue to get the same kind of political and administrative patronage which they used to get during the Awami League regime as well as during the regime of Ziaur Rahman. Being experienced in the 'technical know-how' of the art of plunder the new bourgeoisie is doing well.

But there is the other side of the story. The process of plunder which has been described above has created a very grave and serious crisis within the bourgeois economic system by undermining productive activities and by making industrial capital subservient to the interests of trade. Anti-production forces have taken such a grip on the system itself that in the course of its movement it is creating new and numerous impediments in the sphere of productive activities. This crisis has now engulfed the entire bourgeois economic system and is being reflected in a thousand ways at the level of the superstructure—in politics, in social relations and in culture. This crisis can neither be overcome nor resolved within the existing framework. It is bound to develop further and liquidate the system.

# Factory, Family and Women

**Padmini Swaminathan**

**All Day Every Day: Factory and Family in the Making of Women's Lives** by Sallie Westwood; Pluto Press, 1984; £ 5.54, pp 259 + ix.

SALLIE WESTWOOD spent a year on the shopfloor with women working for the 'Stitch Co' hosiery company in 'Needletown', the centre of the hosiery industry in Britain. The factory employs nearly 2,000 workers, two-thirds of whom are women, one-half of the latter being women of colour (mainly Asian) and so complexities of race, class and gender are delicately intertwined. The book, in the author's own words, is about "sisterhood and strength, weakness and division, the inherent contradictions of women's lives under conditions set by patriarchal capitalism" (p 1).

The book also suggests that gender identities are not produced and reproduced simply in the home or through schooling and the mass media (although they all play a part) but centrally through the workplace. "The move from the home into the factory simultaneously opens and closes doors. The liberating potential moves women together to take on a collective struggle, but it is also in the workplace that young women are encouraged to embrace domesticity, become brides and have children" (p 6).

The gender division of labour in the factory is typical of that in the industry as a whole: the men are knitters, mechanics, dyers and top managers; the women work in the finishing process as they have traditionally done, and in personnel and white-collar jobs. The penetration by the gender division of labour into the heart of the labour process is also shown by the fact that technical control over the production process is in the hands of men. The machinery in the department is serviced, repaired and moved by male mechanics under the authority of a senior male mechanic—all of them white. If a machine breaks down, a woman has to wait for a male mechanic to arrive, a situation which subordinates women to male skills and expertise.

Job evaluation in the factory is done through what is commonly called 'the minutes', the latter being common parlance for the measured day work (MDW) system. Quite simply, the MDW system is one in which pay is fixed against a specified level of performance. The specification of the targets that women have to meet is set by the work-study analyst in relation to an overall grid of values given to each movement of an operation. These are then translated into dozens, the basic unit in which the clothes are ultimately produced and sold. The MDW scheme offers management both control over the labour process and the workforce and a means of calculating labour costs as a fraction of production costs (p 47). The grading of workers based on the MDW scheme was an important manner in which the management controlled the workers. It divided the workforce: women doing the same job but in different grades would be earning different wages on the basis of different targets of production. All women were clearly aware of this and up against the minutes despite the complexities of the MDW scheme which superficially mystified the contact between worker and employer. None of them believed there was a fair bargain to be struck between management and workers in a system that fragmented their effort and their time in the pursuit of profits. The women saw the MDW system as a scheme for deskilling them, taking away from them their craft and dexterity. They discussed the issue of skill often. They were aware that designs were increasingly simplified to allow for cheapness in make-up and that speed, not skill, was at issue (p 46).

Though numerically women outnumbered men in the union, they were locked out by the men not only from positions but from discussions as well. It was assumed that women worked for pin money or that factory work was not the real work in which women were involved and to which women were committed. In this way women's work and contribution are minimised, trivialised and viewed as peripheral in relation to the work and contribution of male members of the union. The emphasis upon the male bread-winner and the assumption made by male trade unionists that the world of labour is a male world shows a union organisation that reproduces the patriarchal forms of the factory.

According to the author, to the women at Stitch Co the ideological and material parameters of their lives presented marriage and children not as burdensome and oppressive, but as liberating events—part of the great adventure of life. In taking hold of these moments, young women locked themselves into domesticity and subordination. The contradictions deepened because the young women felt that in choosing a boy friend and getting married, they were exercising some control over their lives and joining the adult world (p 104).

The author has gone into considerable details trying to illuminate the overwhelming desire for marriage among the women at Stitch Co, and the exuberant celebration of romance and womanhood that goes with it. The common pattern among engaged couples was to pool their income and to save one wage packet and live on the other. Saving together did not necessarily mean suffering together. It seemed that the men had fewer restrictions on them. "They still bought motorbikes and went to the pub for a night out with the blokes while the women stayed home to do the ironing" (p 110).

Most of the Indian women at Stitch Co were Gujarati Hindus who had arrived in Britain following the exodus from East Africa. Despite having moved once to East Africa and again to Britain, Gujaratis (and especially certain groups among them) held fast to the life of the village, including its caste distinctions and the importance of reproducing these through marriage.

For Indian women, marriage was the issue that brought into sharp focus their subordination and the way in which they were subject to the power of parents and older brothers. There was a growing resentment of the manner in which women were denied the opportunity to have a part in what was the most important decision of their lives. It is important, therefore, to view the desire for romantic love and compassionate marriage as only part of the issue. The fundamental claim that was being staked was that women should be given greater freedom and control over their lives as individuals in their own right (p 45).

The description of how young women cope with the new roles that are thrust upon them by marriage is a story of disillusionment, of 'arms in the sink' and of time spent labouring for men and children. The women, however, had internalised the notion that womanhood was bound to the care of others, especially of husbands and children. Any criticism seemed cruelly out of place and was interpreted as a criticism of them, not of the men and children in their households and the way that domestic labour was organised. "It was all perfectly understandable but it meant that women colluded in their own oppression by insisting upon their rights to manage the home and their duty in working for the family" (p 169).

Both women and men are encouraged to believe in the family as 'natural' and desirable. The concomitants of this view are that heterosexuality, the gender division of labour within the family and the power of men in the home are all part of a natural world which cannot, therefore, be challenged.

The analysis of the shopfloor culture and the deep-rooted spirit of opposition within it, the richly textured study of the drama of everyday life and the complicated interplay of the influences of home and life, the exposition of the poverty of conceptual frameworks that separate home and work and treat them as two distinct spheres—these are the major contributions made by the book to our understanding of the relationship between oppression in the two spheres of family and workplace and of the processes which maintain and reinforce it. While laying bare the contradictions that mark women's lives, the author admits that "there are no prescriptions for action here and no single, clear route through the complexities" (p 230).

While the particular instances of Stitch Co where women work under one roof is not the characteristic feature of employment of women in general, the issues raised in the book concerning the ideology of feminity and a social construction of women that is tied to domesticity and dependence in the home, issues surrounding women's fertility and sexuality, the sexist ideologies in the trade union movement, the struggle against racism in general and women's struggle against racism in particular are all pertinent and relevant to women's struggles all over the world. Westwood's study leads inevitably to the following questions:

(1) What is the relation between the household and the economy and what is the relation between women in production and women in the household?

(2) What would be the effects of the elimination of the family and what would be the specific impact on women?

(3) Would a change in the social system (say from capitalism to socialism) *ipso facto* imply the end of women's oppression? If not, what further structural changes must be made to free women from oppression?

These are questions that are currently being debated and researched and yet in each of these areas considerable ground needs to be covered. Studies such as "All Day Every Day" are imperative to lay bare the contours of the forms and complexities of women's oppression and to delineate the outlines of a policy aimed at removing oppression of women.

# Indo-Soviet Trade: Dynamics and Constraints

### Arvind Vyas

**Indo-Soviet Trade** by R G Gidadhubli; Somaiya Publications, Bombay; pp 246, Rs 120.

THE object of Gidadhubli's study is to analyse the nature of the Soviet import market for 12 major commodities exported from India. These 12 commodities are (i) tea, (ii) coffee, (iii) tobacco (raw), (iv) black pepper, (v) cashew, (vi) shellac, (vii) raw leather (small), (viii) raw wool, (ix) jute, (x) jute bags, (xi) jute packing materials, and (xii) cotton textile fabrics. For each commodity the author examines the following issues: (a) trends in Indian exports (i e, Soviet imports), (b) unit value realisation, (c) reasons for the very wide fluctuations in Soviet imports, (d) problem or re-export or switch trade, and (e) future prospects for Indian exports. Let us consider each of the issues in turn.

The 12 commodities selected for study are important items of export from India. They are also important in the list of Soviet imports from India. Their significance has declined relatively between 1965 and 1980, both in overall Soviet imports and with respect to imports from India (p 152). However, India has maintained its position as one of the leading suppliers of these commodities to the USSR, and India's aggregate share of Soviet imports of these commodities has been quite steady in the range of 40-50 per cent in value terms during the period 1965-80 which clearly suggests that imports from India play an important role in the Soviet import market.

Within this overall picture, there are variations with respect to specific commodities so far as total imports are concerned. In the case of tea, coffee, black pepper, jute bags, jute packing material and cotton textile fabrics there was a general increase in the quantity of imports, year-to-year fluctuations notwithstanding. In other words, the Soviet import market has been expanding in respect of these commodities.

On the other hand, raw wool, raw leather (small), jute, shellac and to some extent tobacco (raw) and cashew show a general declining trend, particularly after the mid-1970s. Hence Soviet demand in respect of this group of commodities appears to be lessening.

*Unit value realisation*: Between 1965 and 1980 unit value of Soviet imports of tea, raw wool, jute, jute bags and jute packing material increased by about 20-30 per cent. In contrast to these commodities, in the case of coffee, raw tobacco, black pepper, shellac and cashew, unit values increased by over three to five times. In the case of cotton textile fabrics the unit value of Soviet imports increased by about 90 per cent between 1965 and 1980.

During the years 1976-80 the unit value of Soviet imports are seen to be lower than world market prices by about 25 to 30 per cent in the case of tea and black pepper and 40 to 50 per cent in the case of coffee. Even in the case of raw tobacco import unit values were lower than international prices, though by 1979 Soviet import unit values were coming close to the world market prices.

The author's overall conclusion is the following: "On the whole, India was not put to any disadvantage in the Soviet market so far as unit values are concerned. However, in the case of jute bags, and jute packing materials India has consistently received lower than average unit values from the Soviet Union in the last few years. This trend may be observed with much less consistency in the case of jute and tea" (p 157). The author goes on to argue that unit values have generally influenced the choice of Soviet planners regarding the quantity of imports and sources of supply, with some exceptions—"when political relations are strained, the trade relations are strained between any two countries but more so in the case of socialist countries where foreign trade is a monopoly of the state" (p 159).

*Fluctuations in Soviet imports*: There have been wide yearly fluctuations in the quantity and value of imports into the USSR in respect of the selected commodities. The author advances the following reasons for the fluctuations: (i) The foreign trade sector, unlike the domestic economy, does not come under the effective control of Soviet planners. Soviet planners have the choice of determining the quantity of import specified in the trade agreement from any given country in any given year (p 154). (ii) The commodities under study are primarily consumer goods. From the point of view of the Soviet economy, they are not considered as essential as machinery and equipment. Hence the Soviet planners may decide to cut down imports in a year if import prices rise significantly. This has happened in the case of imports of shellac, raw wool, raw leather (small) and cashew. (iii) Lack of communication between planning and executive organs and an overall lack of co-ordination amongst various organisations engaged in foreign trade. In other words, the imperfections of a planned economy might cause, among other things, fluctuations in imports (p 155). Finally, the author concludes that "judging from the fact that fluctuations in yearly imports occurred frequently and on a large scale, it is unlikely that supply could have been a major constraint . . . there has been no supply constraint from the Indian side . . .".

*Re-exports or switch trade:* Gidadhubli finds little evidence of re-export on the part of the USSR. For example, in the case of tea, tobacco and cotton textiles (of which the USSR is a major producer), the share of exports to domestic production varies between one and two per cent—a factor which weighs against any argument about the possibility of switch trade by the USSR (p 160). Secondly, the average unit values of exports have invariably been lower than the average unit values of imports, and the difference between them has been quite large. This further complicates the switch trade argument against the Soviet Union since obviously no country would import a product at a higher price and export the same at a lower price. Hence on the basis of the aggregate data alone it may be difficult to argue that the Soviet Union might be indulging in switch trade. Finally, only a small portion of tea, textiles, or tobacco was exported to hard currency areas and the unit values of exports to hard currency areas were far lower than the import values. Therefore the argument that the USSR made substantial hard currency earnings by re-exporting to the capitalist countries does not hold good.

*Future prospects for Indian exports*: Forecasts of imports of select commodities based on past trends suggest likely modest increases in tea, coffee, cotton textiles, jute bags and jute packing materials in respect of both total Soviet imports and imports from India. In a few items like raw wool, raw leather and jute there is likely to be a decline in imports into the Soviet Union. India might hope to maintain its level of imports to the Soviet Union in the case of black pepper. In respect of raw tobacco although an increase in Soviet import is not likely, India might improve its share in the Soviet market by 1985 (p 164).

On the whole, Gidadhubli's study is a very useful addition to the growing literature on Indo-Soviet economic relations. A feature of the study is that the data are based almost exclusively on Soviet sources. There are, however, three important issues which are left unanswered and, in fact, constitute important weaknesses of the study. Among these issues is the existence of the so-called trade surplus. In the words of the author: "the time series data of imports, exports, and balance of trade between India and the Soviet Union, in rouble values, [make it] clear that between 1965 and 1980 the Soviet Union had a surplus balance of trade only for four years and the extent of surplus was only about 41.5 mn roubles. But India has been enjoying a favourable balance of trade since 1969 (except in 1979) and during the period 1965-1980 India has accumulated a substantial surplus of over 1,145.4 mn roubles on trade account with the Soviet Union. This may help India repay loans received from the Soviet Union for various projects built with Soviet assistance during the last two decades, and also enable India to import oil and industrial raw materials from the USSR. However, Soviet foreign trade specialists who believe in the bilateral balancing of trade with every country will no doubt be concerned about the persisting balance of trade in favour of India. They expect India to import a larger quantity of machinery and equipment from the Soviet Union in order to bring the volume of trade on par in both directions. Such a viewpoint may be justified in the long-term interest of sustaining and increasing the volume of Indo-Soviet trade when the loan repayment burden is reduced. Otherwise, India may be faced with the problem of extending short-term credits to the Soviet Union for importing from India, something which a developing country like India cannot really afford. Alternatively, the volume of Indo-Soviet trade may go down, which may affect India more than the Soviet Union" (pp 65-66).

In fairness to the author, it must be pointed out that at the time of writing his book he did not have access to information which the reviewer was able to obtain from official sources. On the basis of this information it can be conclusively argued that the 'surplus' issue is no more than a red herring. The purchase of defence equipment by India from the Soviet Union is not shown in the trade account. We pay for these items through our exports. The special payments arrangements in a bilateral system of trade and payments has in effect meant that trade is balanced in terms of payments.[*]

The above feature, along with the fact that India can extend 'technical credit' to the USSR as part of the trade agreement between the two countries, takes the wind out of all arguments which say that Indo-Soviet trade has 'reached a plateau', thereby implying that India should switch to a system of convertible trade with the USSR.

Demolishing the myth of the trade surplus does not imply that there is no need on the part of India for importing more machinery and equipment. This is a complex question relating to the nature of Indian industrialisation, the suitability of Soviet technology for particular branches, etc. To the best of my knowledge adequate work has not been done in this area and I will therefore confine myself to the barest essentials of the problem.

Since the end of the 1960s Indian industry is witnessing the phenomenon of stagnation reflecting, in Marxian terms, both a crisis of disproportionality and a crisis of underconsumption. It follows that there is no merit whatsoever in the view which argues that India has reached a stage of economic development where there is no longer any need for the development of heavy industry. A corollary of this view is that India needs the introduction of so-called modern technology which the Soviet Union is unable to supply since it itself is technologically dependent on the West. Hence, the so-called 'need' for inviting the multinationals for generating further growth and productivity.

The above views reiterate the contradictions of the Indian industrialisation experience. As far as the Indian economy is concerned, the infrastructural constraints—shortage of coal, steel, power, fertilisers, etc—are still dominant. Thus the constraints of the 1950s and 1960s are still dominant and there is great scope here for Indo-Soviet economic co-operation, if only the internal contradictions of economic development in India can be overcome. In fact, the plea for the introduction of multinationals, etc, is tacitly expressing the view that the future growth of the Indian economy is dependent on the growth of external markets (i e, the internal market cannot expand since the distribution of income is very skewed) and the inflow of foreign investment. These tendencies and such thinking have been dominant in India since the mid-1970s and it seems that this is one of the main barriers to increasing Indo-Soviet economic co-operation.

The second important issue which is inadequately dealt with in Gidadhubli's work relates to the problem of the realisation of unit values for our imports. How significant is the problem? The author is ambiguous on this question since every time unit values are higher or lower in relation to international prices, he points out that comparisons are difficult because of the possible differences in the quality of the product in question (p 157 and elsewhere).

Finally, a minor point which the author could have clarified at the outset when looking at the export (import) trends of each of the 12 commodities in question. For each commodity, the author examines the trends in domestic production and argues that at times the "increasing trend in domestic production seemed to have contributed to a general decline in imports" (p 121). It would help the reader if he had outlined the basic system of material balances in a centrally planned economy, taking into account foreign trade. This involves solving balance equations of the following type for different commodities: Sum of gross output + imports = intermediate use + final consumption + exports.

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[*] I am grateful to Suresh Kumar, project director on Indo-Comecon Economic Relations (sponsored by ICRIER) for explaining this point at a workshop in New Delhi on September 8, 1984. In other words, a part of the so-called trade surplus helps to balance the balance of payments.

# Infant Mortality in India

## Level, Trends and Determinants

**Leela Visaria**

*This paper aims at a critical review of the available data on the level of and trends in infant mortality and of the associated differentials during the last quarter of a century. An attempt is made to identify the gaps in our existing studies where future research efforts may be oriented.*

*The paper begins by setting out an approach to the analysis of data on infant mortality. Following that the national and the state level estimates of neonatal, postneonatal and overall infant mortality by sex and rural-urban residence are reviewed. Attention is then focused on the available evidence on the contribution of various prenatal, natal and postnatal factors to infant mortality during different time period. This approach is adopted to help identify and assess the possible role of different intervention programmes.*

[The paper is being published in three parts for reasons of space. The first part appears below and the second and third parts will follow in the next two weeks.]

### AN APPROACH TO ANALYSIS

ALMOST 20 years ago, J Bourgeois-Pichat had highlighted the differences in the relative importance of "endogenous" and "exogenous" causes of infant mortality in different countries (Bourgeois-Pichat, 1964). While the exogenous causes were mainly infections and parasitic and relatively easier to control, the endogenous causes formed a "hard core" (mainly congenital malformations) which are most difficult to prevent or correct. It is often postulated that as IMR declines, deaths due to exogenous causes are prevented or eliminated and the endogenous causes assume relatively greater importance. Also, deaths due to endogenous causes are supposed to be predominant among neonatal deaths occurring during the first month or four weeks after birth and even more among the early neonatal deaths occurring during the first week after birth. As exogenous causes of death are controlled, the post-neonatal mortality is expected to decline more sharply; and the share of neonatal mortality among infant deaths would increase.

The experience of Kerala state, which has experienced a significant decline in infant mortality in the last two decades, however, does not fit into this pattern. The SRS based data suggest a virtually constant share of neonatal deaths among the total infant deaths while the IMR declined from 74 in 1965-67 to 60 during 1970-72 to 48 during 1976-78. The neonatal deaths in Kerala formed about 61 per cent of all infant deaths during the latter two periods. This percentage was not much different from that in Uttar Pradesh (56) with an IMR of 174 for 1976-78. A recent three district study of Kerala based on children ever born between 1950 and 1980 indicate that neonatal mortality which formed 68 per cent of all infant deaths (IMR of 107) among those born before 1960 steadily increased to 89 per cent for the 1975-80 birth cohort (IMR of 46). This pattern fits well with the Bourgeois-Pichat model and implies that the environmental factors responsible for postneonatal mortality are the first to be controlled (Zachariah and Patel, 1983). However, the respondents were required to recall not only the infant deaths but also their timings which occurred anywhere from 2 to 22 years prior to the survey. The problems of recall lapse can vary for respondents of different age groups and affect the data such that one cannot be sure of the emerging pattern.

Elsewhere in the developed world, the infant mortality rates have declined to 12 or less in countries of Scandinavia, North America, Japan and Western Europe. Obviously, even the endogenous causes of infant deaths in these countries have been controlled to a much greater extent than was considered feasible in the past. One can argue that we need data on the causes of infant deaths to assess the continuing relevance of the Bourgeois-Pichat framework. But *prima facie*, there is a case for reviewing the approach.

Mosley and Chen (1984) have recently proposed an analytical framework specifically for the study of child survival in developing countries. Integrating the approaches and methodologies of both social and biological studies, they seek to identify a set of proximate determinants or intermediate variables that directly influence the risk of morbidity and mortality and through which all social and economic determinants must operate. They group the proximate determinants into five categories of (a) maternal factors: (age, parity and birth interval); (b) environmental contamination: (air, food/water/fingers, skin/soil/inanimate objects, insect sectors); (c) nutrient deficiency: (calories, protein, micro-nutrients); (d) injury: (accidental, intentional); and (e) personal illness control: (personal preventive measures, medical treatment).

Jain (1984) proposes to distinguish between factors operating at the village, household and the individual level.

The individual level factors are further divided into six categories according to the timing (prenatal, natal and postnatal) and type of care (medical and non-medical, with the medical care further subdivided into preventive and curative). The six categories of individual factors are: (a) prenatal medical care; (b) prenatal non-medical care; (c) medical care at the birth of the child; (d) postnatal non-medical child care; (e) postnatal preventive medical child care; and (f) postnatal curative medical child care.

TABLE 1: INFANT MORTALITY IN INDIA BY RURAL-URBAN RESIDENCE AND SEX, 1968-80

| Year | Rural Areas | | | Urban Areas | | | All Areas | | |
|---|---|---|---|---|---|---|---|---|---|
| | Males | Females | Persons | Males | Females | Persons | Males | Females | Persons |
| 1968 | 136 | 138 | 137 | NA | NA | NA | NA | NA | NA |
| 1969 | 132 | 148 | 140 | NA | NA | NA | NA | NA | NA |
| 1970 | 138 | 134 | 136 | 94 | 85 | 90 | 131 | 126 | 129 |
| 1971 | 137 | 138 | 138 | 83 | 81 | 82 | 129 | 129 | 129 |
| 1972 | 141 | 161 | 150 | 85 | 85 | 85 | 132 | 148 | 139 |
| 1973 | 141 | 144 | 143 | 88 | 90 | 89 | 132 | 135 | 134 |
| 1974 | 137 | 136 | 136 | 74 | 74 | 74 | 128 | 119 | 126 |
| 1975 | 152 | 150 | 151 | 80 | 88 | 84 | 140 | 140 | 140 |
| 1976 | 133 | 146 | 139 | 78 | 82 | 80 | 124 | 134 | 129 |
| 1977 | 136 | 146 | 140 | 80 | 82 | 81 | 126 | 135 | 130 |
| 1978 | 132 | 143 | 137 | 74 | 75 | 74 | 123 | 131 | 127 |
| 1979 | 129 | 131 | 130 | 73 | 71 | 72 | 120 | 121 | 120 |
| 1980 | 123 | 125 | 124 | 65 | 65 | 65 | 113 | 115 | 114 |
| 1981 | NA | NA | 119 | NA | NA | 62 | NA | NA | 110 |

*Source*: Office of the Registrar General, *Sample Registration Bulletin*, Various Issues.

The household and the community level factors include the physical, social and economic environments of the household and of the village or community, which both interact with and operate through individual level factors. A multivariate analysis is expected to shed some light on the factors that operate simultaneously or through other independent variables. The unfortunate non-availability of data at the household level has prevented a full-scale empirical demonstration of this approach.

With the revival of interest in mortality research, one can expect more work on the analytical approaches. However, any framework intended for serious consideration must be more than an exhaustive list of variables that may have some remote link with mortality. Parsimony and selection with an explicit statement of the mode of interaction and the nature and/or direction of relationship would facilitate both our understanding and further empirical work.

Jain's distinction among the proximate individual factors is useful for policy formulation and for any action programme, because it can separate forces or influences operating through the biological mother, which determine both the outcome of pregnancy and the chances of survival of infants, the immediate birth practices or the intranatal factors, and the postnatal factors including breast-feeding, immunisations, etc.

## THE DATA BASE

Despite the obvious importance of and widespread interest in infant mortality in India, the data base on the subject has been quite weak. The pre-Independence estimates of infant mortality in India were based essentially on the births registered by the civil registration system. The system had a relatively better coverage in the cities in British India but was never considered dependable for the estimates of infant mortality. The IMRs estimated from these sources showed a decline from over 200 during 1911-20 to about 134 during 1941-50. These values are often cited without any comment in the Health Statistics of India published by the Directorate General of Health Services and even in some of the Indian "Country Statements" at International Conferences. It is overlooked that the census actuaries preparing the life tables for India had estimated infant mortality of much higher values of about 240 during 1921-31 (249 and 232 for boys and girls, respectively), and 183 during 1941-51 (190 and 175 for boys and girls). An IMR of 146 (153 and 138 for boys and girls) was assumed for the period 1951-61 on the basis of the estimates available from the NSS 14th Round for rural India. No allowance was made for the effect of the well known recall lapse, which is generally greater for deaths and particularly for infant deaths so that the IMR estimates are more affected than the overall death rates. The subsequent NSS Rounds up to 1964-65 continued to give some estimates of IMR, which declined to about 114 in rural areas and 80 in urban areas in 1964-65 (National Sample Survey, Report Nos 48, 121, 132, 144 and 156).

The Data base began to improve after the Sample Registration System (SRS) was launched and its results for rural India for 1968 and 1969 were the first to confirm that the

TABLE 2: INFANT MORTALITY RATES BY STATE AND RURAL-URBAN RESIDENCE FOR 1970-72, 1973-75, 1976-78 AND 1979-80

| States | 1970-72 | | | 1973-75 | | | 1976-78 | | | 1979-80 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Rural | Urban | All | Rural | Urban | All | Rural | Urban | All | Rural | Urban | All |
| India | 141 | 86 | 132 | 143 | 82 | 133 | 139 | 78 | 129 | 125 | 69 | 117 |
| Andhra Pradesh | 122 | 70 | 112 | 122 | 71 | 113 | 130 | 75 | 121 | 109 | 53 | 99 |
| Assam | 141 | 82 | 134 | 142 | 97 | 139 | 121 | 94 | 119 | 106 | 62 | 104 |
| Gujarat | 151 | 112 | 142 | 152 | 105 | 141 | 146 | 99 | 135 | 124 | 99 | 118 |
| Haryana | 85 | 64 | 81 | 113 | 64 | 107 | 121 | 56 | 111 | 108 | 63 | 102 |
| Himachal Pradesh | 129 | 61 | 122 | 101 | 65 | 100 | 112 | 57 | 110 | 88 | 57 | 87 |
| Jammu and Kashmir | 82 | 47 | 76 | 73 | 46 | 70 | 74 | 34 | 68 | 78 | 49 | 74 |
| Karnataka | 103 | 65 | 95 | 93 | 60 | 85 | 93 | 61 | 85 | 87 | 48 | 77 |
| Kerala | 61 | 44 | 58 | 57 | 42 | 54 | 51 | 38 | 48 | 43 | 32 | 42 |
| Madhya Pradesh | 154 | 98 | 145 | 152 | 93 | 144 | 151 | 88 | 143 | 148 | 80 | 143 |
| Maharashtra | 109 | 81 | 101 | 109 | 78 | 99 | 101 | 62 | 91 | 92 | 56 | 81 |
| Orissa | 136 | 87 | 130 | 153 | 84 | 148 | 139 | 82 | 136 | 152 | 74 | 146 |
| Punjab | 114 | 80 | 107 | 111 | 71 | 103 | 117 | 76 | 110 | 93 | 71 | 91 |
| Rajasthan | 136 | 87 | 128 | 152 | 81 | 142 | 152 | 77 | 141 | 113 | 53 | 107 |
| Tamil Nadu | 131 | 84 | 120 | 123 | 68 | 109 | 118 | 74 | 106 | 112 | 64 | 97 |
| Uttar Pradesh | 184 | 116 | 174 | 189 | 123 | 182 | 181 | 118 | 174 | 165 | 102 | 161 |

*Sources*: 1 Office of the Registrar General, "Sample Registration System, 1970-75", New Delhi, 1983.
2 Office of the Registrar General, "Sample Registration System, 1976-78", New Delhi, 1983.
3 Office of the Registrar General, *Sample Registration Bulletin*, Vol 17, No 2, December 1983.

TABLE 3: INDIA—NEONATAL AND POSTNEONATAL MORTALITY RATES BY RURAL-URBAN RESIDENCE, 1970-78

| Year | Rural Areas | | | | Urban Areas | | | | All Areas | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Neonatal Mortality Rate | Postneonatal Mortality Rate | Infant Mortality Rate (IMR) | Neonatal as Per Cent of IMR | Neonatal Mortality Rate | Postneonatal Mortality Rate | Infant Mortality Rate (IMR) | Neonatal as Per Cent of IMR | Neonatal Mortality Rate | Postneonatal Mortality Rate | Infant Mortality Rate (IMR) | Neonatal as Per Cent of IMR |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| 1970 | 72 | 64 | 136 | 52.9 | 46 | 44 | 90 | 51.1 | 68 | 61 | 129 | 53.1 |
| 1971 | 81 | 57 | 138 | 58.7 | 45 | 37 | 82 | 54.9 | 75 | 54 | 129 | 58.3 |
| 1972 | 77 | 73 | 150 | 51.3 | 45 | 40 | 85 | 52.9 | 72 | 68 | 139 | 51.5 |
| 1973 | 72 | 71 | 143 | 50.4 | 47 | 41 | 89 | 53.4 | 68 | 66 | 134 | 50.9 |
| 1974 | 76 | 60 | 136 | 55.7 | 41 | 33 | 74 | 55.4 | 70 | 56 | 126 | 55.6 |
| 1975 | 84 | 67 | 151 | 55.8 | 46 | 38 | 84 | 55.0 | 78 | 62 | 140 | 55.9 |
| 1976 | 83 | 56 | 139 | 59.7 | 49 | 31 | 80 | 61.2 | 77 | 52 | 129 | 59.7 |
| 1977 | 88 | 52 | 140 | 62.9 | 42 | 39 | 81 | 51.9 | 80 | 50 | 130 | 61.7 |
| 1978 | 80 | 56 | 136 | 58.8 | 41 | 30 | 71 | 57.8 | 77 | 50 | 127 | 60.9 |

*Sources:* 1 Office of the Registrar General, "Sample Registration System, 1970-75", New Delhi, 1983.
2 Office of the Registrar General, "Sample Registration System, 1976-78", New Delhi, 1983.

actual level of infant mortality (around 140) was higher than that indicated by the NSS. As the coverage of the SRS expanded to include urban areas, it became the only dependable source of information on the IMR and on other vital rates in the country. The consolidated reports on the results of the SRS for 1970-75 and 1976-78, published during 1983, have released for each year the basic data on perinatal mortality, stillbirth rates, neonatal mortality and postneonatal mortality for the 15 major states (Office of the Registrar General, 1983). Although the SRS estimates IMR and the neonatal and postneonatal mortality rates by rural-urban residence and sex for India as a whole and for its states, the rich potential of this unique longitudinal survey has, however, remained grossly underutilised, partly because of the inadequacy of resources and the limited scope of the standard tabulation scheme.

In 1979, the International Year of the Child, the Department of Social Welfare and the UNICEF funded a survey on Infant and Child Mortality, that covered about 7,28,000 households in 2,345 rural units and 1,328 urban units of the SRS. Carried out along with the half-yearly survey during January-March 1979 (approximately), it collected data on deaths among children born alive during 1973-78 (five years preceding the survey), and on various characteristics of the ever-married women and of the households or the villages and blocks with a reference data of December 31, 1978 (Office of the Registrar General, 1981).

The voluminous report of the survey provides several univariate and bivariate tabulations that show differentials in IMRs in rural and urban areas of major states; but a multivariate analysis is yet to be attempted. The relative importance of several simultaneously operating and/or mutually correlated factors cannot be estimated or identified with the published data.

A new survey has been launched during 1984; but as frequently happens with the Indian statistical data (for example, those collected by the National Sample Survey), without full exploitation of the potential of the data gathered in the 1979 survey. Some surprising reservations about the sample size of the 1979 survey and about the lapse of time since the survey was conducted are compounded by the limited facilities for the processing of data on the computer.

Yet, the SRS and the 1979 Survey of Infant Mortality by the Office of the Registrar General are the best available sources of data on the subject. Availability of these data has been the major factor that has led the national health policy to aim at a goal of halving the IMR to 60 or less by 2000 AD, relative to the estimated 1976 level of 127 (and the 1978 level of 125).

According to the SRS data for recent years, the IMR has declined to about 114 in 1980 to 110 in 1981. Compared to Sri Lanka and China with an IMR of 32 and 67, respectively, in 1982, the Indian IMR is considerably higher. These differences reflect both the challenge and the scope for progress on this vital front which is an excellent summary index of the level and development of health and related social infrastructure.

To facilitate discussion of the SRS based IMR data, the available data have been summarised in Tables 1-4. Some of their key features are noted here.

TABLE 5: NEONATAL MORTALITY RATES AS PER CENT TO INFANT MORTALITY RATES, BY RURAL-URBAN AND STATE, 1970-72 AND 1976-78

| State | 1970-72 | | | 1976-78 | | |
|---|---|---|---|---|---|---|
| | Rural Areas | Urban Areas | All Areas | Rural Areas | Urban Areas | All Areas |
| All India | 54.3 | 52.8 | 54.4 | 61.4 | 55.1 | 60.6 |
| Andhra Pradesh | 58.3 | 55.3 | 58.8 | 69.5 | 62.1 | 68.8 |
| Assam | 61.1 | 62.1 | 62.8 | 61.2 | 64.7 | 61.4 |
| Gujarat | 58.1 | 35.4 | 56.5 | 59.9 | 56.2 | 59.5 |
| Haryana | 53.2 | 40.3 | 52.6 | 57.4 | 53.4 | 57.7 |
| Himachal Pradesh | 47.8 | 53.1 | 49.8 | 44.0 | 53.2 | 44.3 |
| Jammu and Kashmir | 45.1 | 63.4 | 47.5 | 60.7 | 63.2 | 61.8 |
| Karnataka | 64.1 | 54.0 | 62.1 | 63.1 | 67.0 | 63.8 |
| Kerala | 63.8 | 59.3 | 64.0 | 62.4 | 47.4 | 61.7 |
| Madhya Pradesh | 52.1 | 52.7 | 53.0 | 54.2 | 53.6 | 54.1 |
| Maharashtra | 63.9 | 55.4 | 61.8 | 66.2 | 56.8 | 63.4 |
| Orissa | 53.4 | 53.7 | 54.6 | 56.3 | 47.6 | 55.7 |
| Punjab | 20.1 | 16.1 | 19.6 | 60.3 | 53.0 | 58.9 |
| Rajasthan | 55.7 | 45.4 | 55.0 | 56.1 | 57.3 | 56.3 |
| Tamil Nadu | 42.0 | 61.0 | 45.0 | 61.9 | 56.5 | 60.3 |
| Uttar Pradesh | 53.5 | 50.5 | 53.9 | 56.4 | 51.4 | 56.2 |

*Source:* Calculated from the rates given in Table 4.

TABLE 4: NEONATAL AND POSTNEONATAL MORTALITY RATES BY RURAL-URBAN AND STATE, 1970-72 AND 1976-78

| State | Neonatal Mortality Rate | | | | | | Postneonatal Mortality Rate | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1970-72 | | | 1976-78 | | | 1970-72 | | | 1976-78 | | |
| | Rural Areas | Urban Areas | All Areas | Rural Areas | Urban Areas | All Areas | Rural Areas | Urban Areas | All Areas | Rural Areas | Urban Areas | All Areas |
| All India | 76.5 | 45.4 | 71.8 | 85.4 | 43.0 | 78.2 | 64.8 | 40.4 | 61.1 | 53.3 | 35.3 | 50.5 |
| Andhra Pradesh | 71.1 | 38.7 | 65.9 | 90.4 | 46.6 | 83.3 | 50.6 | 31.0 | 45.7 | 39.6 | 28.4 | 38.0 |
| Assam | 86.2 | 50.9 | 84.1 | 74.0 | 60.8 | 73.1 | 54.5 | 31.1 | 49.6 | 46.7 | 32.9 | 45.9 |
| Gujarat | 87.7 | 53.5 | 80.3 | 87.5 | 55.1 | 80.3 | 63.3 | 58.1 | 61.4 | 58.1 | 43.2 | 55.0 |
| Haryana | 45.2 | 25.8 | 42.6 | 69.5 | 29.9 | 64.0 | 39.4 | 34.2 | 38.7 | 51.2 | 25.7 | 47.3 |
| Himachal Pradesh | 61.7 | 32.4 | 60.7 | 49.3 | 30.3 | 48.7 | 66.9 | 28.6 | 61.0 | 62.3 | 26.7 | 61.0 |
| Jammu and Kashmir | 37.0 | 29.8 | 36.1 | 44.9 | 21.5 | 42.0 | 39.0 | 13.2 | 34.9 | 29.1 | 12.1 | 25.7 |
| Karnataka | 66.0 | 35.1 | 59.0 | 58.7 | 40.9 | 54.2 | 37.5 | 26.0 | 36.0 | 34.0 | 19.8 | 30.5 |
| Kerala | 38.9 | 26.1 | 37.1 | 31.8 | 18.0 | 29.6 | 24.1 | 19.5 | 23.4 | 18.8 | 19.6 | 18.7 |
| Madhya Pradesh | 80.3 | 51.6 | 76.8 | 8.18 | 47.2 | 77.4 | 73.4 | 46.4 | 68.2 | 69.2 | 40.5 | 65.6 |
| Maharashtra | 69.6 | 44.9 | 62.4 | 66.9 | 35.2 | 57.7 | 39.4 | 35.8 | 39.0 | 34.8 | 27.1 | 33.0 |
| Orissa | 72.6 | 46.7 | 7.1 | 78.2 | 39.0 | 75.8 | 63.0 | 40.0 | 59.3 | 61.1 | 43.0 | 59.9 |
| Punjab | 22.9 | 12.9 | 21.0 | 70.6 | 40.3 | 64.8 | 96.2 | 64.1 | 89.6 | 46.7 | 36.0 | 45.2 |
| Rajasthan | 75.8 | 39.5 | 70.4 | 85.2 | 44.1 | 79.4 | 59.2 | 36.5 | 52.6 | 66.5 | 32.9 | 61.9 |
| Tamil Nadu | 55.0 | 51.2 | 54.0 | 73.0 | 41.8 | 63.9 | 76.4 | 32.8 | 65.6 | 45.3 | 32.5 | 42.1 |
| Uttar Pradesh | 98.4 | 58.6 | 93.7 | 102.1 | 60.7 | 97.8 | 85.3 | 57.8 | 80.6 | 78.5 | 57.3 | 76.5 |

*Sources:* 1 "Sample Registration System, 1970-75", New Delhi, 1983.
2 "Sample Registration System, 1976-78", New Delhi, 1983.

TABLE 6: REPORTED TEN MOST IMPORTANT CAUSES FOR INFANT DEATHS BY SEX, IN *RURAL* AREAS, 1978

| Sr No | Cause of Death | India |  |  | Cause of Death | Kerala |  |  | Cause of Death | Uttar Pradesh |  |  | Cause of Death | Gujarat |  |  |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
|  |  | M | F | P |  | M | F | P |  | M | F | P |  | M | F | P |
| 1 | Tetanus | 15.53 | 12.76 | 14.20 | Prematurity | 8.86 | 17.55 | 13.08 | Tetanus | 39.5 | 28.1 | 30.6 | Other disorders of respiratory system | 17.49 | 13.21 | 15.32 |
| 2 | Prematurity | 9.60 | 8.23 | 8.94 | Other disorders of respiratory system | 6.87 | 6.78 | 6.83 | Pneumonia | 11.0 | 12.6 | 11.8 | Prematurity | 15.03 | 8.73 | 11.84 |
| 3 | Pneumonia | 5.55 | 7.37 | 6.42 | Bronchitis | 6.11 | 4.48 | 5.32 | Prematurity | 8.5 | 9.2 | 8.8 | Diarrhoea | 9.97 | 7.04 | 8.47 |
| 4 | Other disorders of respiratory system | 6.25 | 5.70 | 5.99 | Dysentery | 6.51 | 1.58 | 4.11 | Dysentery | 5.2 | 8.8 | 7.1 | Influenza | 6.01 | 6.57 | 6.29 |
| 5 | Influenza | 5.12 | 5.05 | 5.09 | Gastroenteritis | 2.17 | 2.41 | 2.29 | Influenza | 5.1 | 6.9 | 6.0 | Accidents and injuries | 3.68 | 8.44 | 6.09 |
| 6 | Dysentery | 4.12 | 5.84 | 4.95 | Tetanus | 2.27 | 1.58 | 1.93 | Typhoid | 6.1 | 3.2 | 4.6 | Malaria | 2.55 | 6.83 | 4.72 |
| 7 | Typhoid | 3.98 | 3.57 | 2.29 | Infantile liver | 2.94 | 0.81 | 1.90 | Diarrhoea | 2.6 | 2.3 | 2.4 | Dysentery | 1.64 | 2.38 | 2.01 |
| 8 | Malaria | 3.19 | 4.02 | 3.59 | Influenza | 2.24 | 1.49 | 1.88 | Janundice | 1.5 | 3.1 | 2.3 | Diptheria | 0.83 | 1.44 | 1.14 |
| 9 | Diarrhoea | 2.93 | 2.86 | 2.90 | Jaundice | 1.46 | 1.54 | 1.50 | Bronchitis | 1.0 | 3.5 | 2.3 | Measles | 0.92 | 1.32 | 1.12 |
| 10 | Bronchitis | 1.69 | 2.14 | 1.91 | Typhoid | — | 2.26 | 1.10 | Diptheria | 2.3 | 1.9 | 2.1 | Pneumonia | 0.49 | 1.22 | 0.86 |
|  | Total | 57.96 | 57.54 | 56.28 | Total | 39.43 | 40.48 | 39.94 | Total | 82.8 | 79.6 | 78.0 | Total | 58.57 | 57.18 | 57.86 |
|  | Not reported | 42.04 | 42.46 | 43.72 | Not reported | 60.57 | 59.52 | 60.06 | Not reported | 17.2 | 20.4 | 22.0 | Not reported | 41.43 | 42.82 | 42.14 |

REPORTED TEN MOST IMPORTANT CAUSES FOR INFANT DEATHS BY SEX, IN *URBAN* AREAS, 1978

| Sr No | Cause of Death | India |  |  | Cause of Death | Kerala |  |  | Cause of Death | Uttar Pradesh |  |  | Cause of Death | Gujarat |  |  |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
|  |  | M | F | P |  | M | F | P |  | M | F | P |  | M | F | P |
| 1 | Prematurity | 9.75 | 7.98 | 8.92 | Other disorders of respiratory system | 9.22 | 16.74 | 13.15 | Tetanus | 26.7 | 19.2 | 23.2 | Congenital malformation | 15.64 | 21.58 | 18.42 |
| 2 | Tetanus | 9.02 | 5.35 | 6.77 | Influenza | 10.89 | 3.96 | 7.28 | Pneumonia | 13.3 | 13.6 | 13.4 | Prematurity | 1.45 | 8.00 | 9.83 |
| 3 | Pneumonia | 4.79 | 5.72 | 5.23 | Gastroenteritis | 4.42 | 5.04 | 4.74 | Prematurity | 14.0 | 9.7 | 12.0 | Dysentery | 5.83 | 6.90 | 6.33 |
| 4 | Dysentery | 5.28 | 4.90 | 5.10 | Prematurity | 4.91 | 4.32 | 4.60 | Dysentery | 6.6 | 9.7 | 7.7 | Gastroenteritis | 2.64 | 6.60 | 4.49 |
| 5 | Diarrhoea | 4.07 | 5.06 | 4.54 | Malaria | 8.24 | — | 3.94 | Influenza | 4.1 | 8.4 | 6.1 | Malaria | 5.59 | 1.75 | 3.74 |
| 6 | Infantile liver | 3.69 | 3.44 | 3.57 | Dysentery | 7.65 | — | 3.66 | Diarrhoea | 1.8 | 6.8 | 4.2 | Jaundice | 4.44 | 1.20 | 2.93 |
| 7 | Influenza | 3.87 | 3.87 | 3.54 | Bronchitis | 6.67 | — | 3.19 | Typhoid | 3.5 | 2.5 | 3.0 | Diptheria | 2.17 | 3.14 | 2.63 |
| 8 | Congenital malformation | 2.93 | 3.10 | 3.01 |  |  |  |  | Diptheria | 2.6 | 2.9 | 2.8 | Tetanus | 3.07 | 1.24 | 2.21 |
| 9 | Malaria | 3.41 | 2.49 | 2.98 |  |  |  |  | Bronchitis | 3.5 | 1.4 | 2.5 | Influenza | 1.91 | 1.75 | 1.83 |
| 10 | Gastroenteritis | 2.18 | 2.58 | 2.36 |  |  |  |  | Malaria | 0.6 | 3.6 | 1.6 | Measles | 3.50 | — | 1.78 |
|  | Total | 47.99 | 44.49 | 46.02 | Total | 52.00 | 30.06 | 40.56 | Total | 76.7 | 77.8 | 76.5 | Total | 45.99 | 52.16 | 54.19 |
|  | Not reported | 52.01 | 55.51 | 53.98 | Not reported | 48.00 | 69.94 | 59.44 | Not reported | 23.3 | 22.2 | 23.5 | Not reported | 54.01 | 47.84 | 45.81 |

*Source:* Office of the Registrar General, "Survey on Infant and Child Mortality, 1979", New Delhi, 1981, pp 54, 210, 401 and 722.

Table 1 shows the IMRs by sex and rural-urban residence for India as a whole. The data show the urban IMR to be significantly lower than the rural. In several years, the IMR for girls in rural areas exceeds that for boys, a reflection of the well known and widespread discrimination against girls that prevails in many parts of India.

Table 2 seeks to highlight the inter-state rural-urban differences in IMRs with the help of three-year averages for the period 1970-78 and two year averages for 1979-80. The Table excludes Bihar and West Bengal, where the SRS had some serious difficulties until very recently. Rather surprisingly, several states such as Rajasthan, Orissa, Haryana, and Assam showed higher IMRs during 1973-75 than during 1970-72. Between 1970-72 and 1973-75, the IMR showed an increase of 10 per cent or more in Haryana, Orissa and Rajasthan and of around five per cent in Assam and Uttar Pradesh; it remained almost unchanged in Andhra Pradesh, Gujarat, Madhya Pradesh, and Maharashtra; and showed a decline of varying order in Himachal Pradesh, Kerala, Karnataka, Punjab and Tamil Nadu. While some of the differences were suggestive of random variations around a true value, and declines seemed plausible as indicating a welcome downward trend, the apparent increases are often considered spurious, reflecting underestimation of the true level in the initial rates for 1970-72 in the particular states. Even the declines could be discounted because the SRS was somewhat out of gear during 1974 and had hardly stabilised during 1975. Taking into account the subsequent data for 1976-78 and 1979-80, one observes a downward tendency in the IMR, sometimes after some upward fluctuation, in almost all the states with the exception of Jammu and Kashmir, Madhya Pradesh and Orissa. Among these three states, Jammu and Kashmir has been reporting the second lowest IMR among the states for which estimates are available; but Madhya Pradesh and Orissa (with a large tribal component in their populations) had the second and the third highest IMRs in the country.

In several states where the IMRs suggest a decline, the urban rates, (which have a higher standard error because of the relatively smaller sample), show a larger decline than the rural IMRs. This is true of Andhra Pradesh, Assam, Rajasthan, Tamil Nadu and Uttar Pradesh. Rather, surprisingly, urban areas of Gujarat show almost the same IMR during 1979-80 as urban areas of Uttar Pradesh. This seems odd and merits further investigation.

The Indian Council of Medical Research has already sponsored some prospective studies during 1980-82 in Kerala, Tamil Nadu and Uttar Pradesh which have the lowest, intermediate and the highest IMRs in the country. Similar studies of intra-state variations in IMRs would be useful if the relevant data can be made available to researchers interested in the subject.

## NEONATAL AND POSTNEONATAL MORTALITY

Table 3 seeks to present the neonatal and the postneonatal mortality rates for rural and urban India for 1970-78. Except in 1977,

TABLE 7: EARLY NEONATAL MORTALITY BY AGE OF MOTHER ACCORDING TO VARIOUS STUDIES

| Author:<br>Year of Study:<br>Areas:<br>Age of Mother | Agarwal<br>1976-77<br>Bokaro, Bihar | Kasturilal<br>1972-73<br>Gulbarga, Andhra Pradesh | Puri<br>1967-78<br>Pondicherry | Rao<br>Not Known<br>Tamil Nadu<br>Rural | <br><br><br>Urban |
|---|---|---|---|---|---|
| 15-19 | 39 | 58 | 60 | 49 | 38 |
| 20-24 | | | 37 | 42 | 31 |
| 25-29 | 28 | 40 | 30 | 35 | 25 |
| 30-34 | | | 24 | 43 | 27 |
| 35-39 | 76 | 107 | 54 | 45 | 54 |
| 40+ | | | | 38 | NIL |
| Total | 42 | 54 | 41 | 41 | 30 |
| No of livebirths | 5,188 | 1,455 | 12,190 | 4,666 | 3,358 |

*Sources:* 1 Agarwal Sharda, Bhorchi Geeta R, Kaur Amarjit and Jain Sudhir, 1978, 'Perinatal Mortality in an Industrial Hospital', *Indian Pediatrics*, Vol 15, No 12 (December), 1001-1006.
2 Kasturilal and Jammihal J H, 1974, 'Factors Associated with Perinatal Mortality', *Indian Pediatrics*, Vol II, No 11 (July), 743-747.
3 Puri Ramesh K, Verma Ishwar C, Choudhury Panna, Nalini P and Srinivasan S, 1981, 'Perinatal Mortality—Incidence and Effect of Various Maternal Factors', *The Indian Journal of Pediatrics*, Vol 49, No 392 (May-June), 297-304.
4 Rao P S S and Inbaraj S G, 1975, 'Extent of Perinatal Loss in Indian Urban and Rural Population', *Indian Pediatrics*, Vol 12, No 3 (March), 211-227.

TABLE 8: EARLY NEONATAL MORTALITY BY PARITY ACCORDING TO VARIOUS STUDIES

| Author:<br>Year of Study:<br>Area:<br>Parity | Agarwal<br>1976-77<br>Bokaro, Bihar | Kasturilal<br>1972-73<br>Gulbarga, Andhra Pradesh | Puri<br>1967-78<br>Pondicherry | Rao<br>Not Known<br>Tamil Nadu<br>Rural | <br><br><br>Urban | Reddaih<br>1975<br>Ballabgarh, Haryana | Shah<br>1960-65<br>Palghar, Maharashtra |
|---|---|---|---|---|---|---|---|
| 1 | 47 | 72 | 45 | 71 | 49 | 70 | 48 |
| 2 | 34 | 53 | 35 | 28 | 29 | 26 | 39 |
| 3 | | 48 | | 37 | 32 | | 42 |
| 4 | | 24 | | 40 | 13 | | |
| 5 | 66 | 57 | 44 | 37 | 24 | 9 | 34* |
| 6 | | | | | | | |
| 7 | | | 60 | | | | |
| 8 and above | | | | | | | |
| Total | 42 | 54 | | 41 | 30 | 28 | NA |
| Number of livebirths | 5,188 | 1,455 | 12,190 | 4,666 | 3,358 | 1,529 | NA |

*Note:* * The rate is for parity 5 to 9 and for parity 10 and above, the early neonatal mortality was 140 per 1000 livebirths.

*Sources:* 1 Agarwal Sharda, *et al*, op cit.
2 Kasturilal and Jammihal J H, op cit.
3 Puri Ramesh K, *et al*, op cit.
4 Rao P S S and Inbaraj, op cit.
5 Reddaih V P and Nath L M, 1978, 'Infant Mortality in Rural Health Services Project, Ballabgarh', *Indian Pediatrics*, Vol 15, No 7 (July), 547-551.
6 Shah P M, Udani P M and Shah K P, 1969, 'Analysis of the Vital Statistics from the Rural Community, Palghar I: Foetal Wastage and Maternal Mortality', *Indian Pediatrics*, Vol 6, Nos 9-10 (September-October).

the percentage or neonatal deaths to all infant deaths does not show any noteworthy rural-urban difference. Both neonatal and postneonatal mortality rates are lower in urban areas than in rural areas.

Table 4 presents similar data by state and rural-urban residence for 1970-72 and 1976-78. Table 5 shows the neonatal mortality as percentage of infant mortality. Comparing the 1976-78 data with those for 1970-72, it is observed that the percentage of neonatal deaths shows an increase both in rural and urban areas. A rural-urban difference arises because of the odd low value of neonatal mortality observed in urban India in 1977. The data for 1970-72 show a surprising low proportion of neonatal deaths in Punjab (20 per cent), with rural areas of Tamil Nadu, Jammu and Kashmir and Himachal Pradesh reporting neonatal deaths of the order of 42 to 48 per cent. By 1976-78, the neonatal mortality rates had risen sharply in Punjab and in rural areas of Tamil Nadu and Jammu and Kashmir, but not in rural Himachal Pradesh, where the percentage had actually declined. (It is possible that in 1970-72 in Punjab some neonatal deaths are classified as postneonatal deaths.)

TABLE 9: EARLY NEONATAL MORTALITY (PER 1000 LIVEBIRTHS) BY BIRTH WEIGHT OF THE NEWBORN ACCORDING TO VARIOUS STUDIES

| Author: | Bhandari | Ghosh | Gupta | Karan | Kasturilal | Singh |
|---|---|---|---|---|---|---|
| Year of Study: | 1982 | 1969-70 | 1970 | 1969-70 | 1972-73 | 1974-77 |
| Area: | Rajasthan | New Delhi | New Delhi | Hyderabad | Gulbarga | New Delhi |
| Birth Weight (in gms) | | | | | | |
| **(a) Early Neonatal Mortality Rates** | | | | | | |
| <1000 | 1000 | 971 | 286 | 619 | 100 | 1000 |
| 1001-1500 | 328 | 474 | | 500 | 862 | 637 |
| 1501-2000 | | 160 | | 188 | 251 | 153 |
| 2001-2500 | 45 | 14 | 15 | 14 | 9 | 41 |
| 2501-3000 | 9 | 5 | | 4 | 6 | 19 |
| 3000+ | 6 | 7 | | Nil | | 7 |
| All | 45 | 28 | 37 | 36 | 54 | 41 |
| **(b) Percentage Distribution of Livebirths** | | | | | | |
| <1000 | 0.84 | 0.47 | 8.24 | 0.57 | 0.61 | 0.40 |
| 1001-1500 | 7.40 | 1.77 | | 2.96 | 1.88 | 1.64 |
| 1501-2000 | | 4.67 | | 7.45 | 9.37 | 5.34 |
| 2001-2500 | 15.38 | 27.84 | 91.76 | 25.96 | 22.52 | 20.20 |
| 2501-3000 | 52.92 | 40.96 | | 41.99 | 65.54 | 41.77 |
| 3000+ | 23.46 | 24.29 | | 21.25 | | 30.65 |
| All | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| Number of livebirths | 4161 | 7521 | 1955 | 3651 | 1483 | 6222 |

*Sources:* 1 Bhandari B and Mandowara S L, 1983, 'Perinatal Mortality in South East Rajasthan', *Indian Pediatrics*, Vol 20, No 8 (August), 599-602.

2 Ghosh Shanti, Bhargava S K, Sharma D B, Bhargava Vijay and Saxena H M K, 1971, '*Indian Pediatrics*, Vol 8, No 9 (September), 421-426.

3 Gupta Satya, Chopra Kamlesh and Pramanik A, 1972, 'Perinatal and Neonatal Mortality and Morbidity in the Hospital Born Babies', *Indian Pediatrics*, Vol 9, No 10 (October), 586-592.

4 Karan Sheila, Mathur Bhagwan, Prasad Surainder Y A, and Seetha T, 1972, 'Incidence and Causes of Perinatal Mortality at the Institute of Child Health Niloufer Hospital, Hyderabad-AP', *Indian Pediatrics*, Vol 9, No 2 (February), 99-106.

5 Kasturilal and Jammihal J H, 1974, 'Factors Associated with Perinatal Mortality', *Indian Pediatrics*, Vol 11, No 11 (November), 743-747.

6 Singh Meharban, Tripathi K and Arya L S, 1982, 'Birth Weight, Gestational Age Correlates of Neonatal Mortality', *The Indian Journal of Pediatrics*, Vol 49, No 399 (July-August), 511-517.

TABLE 10: PERCENTAGE DISTRIBUTION OF NEWBORN BY BIRTH WEIGHT AND PER CAPITA INCOME

| Author: | Ghosh | | | Das | | |
|---|---|---|---|---|---|---|
| Year: | 1969-70 | | | 1976-77 | | |
| Area: | New Delhi | | | Calcutta | | |
| Birth Weight (gms) | Per Capita Income (Rs) | | | Per Capita Income (Rs) | | |
| | <50 | 51-200 | 200+ | <70 | 70-300 | 300+ |
| <2000 | 3.7 | 2.5 | 1.7 | 11.5 | 8.9 | 7.3 |
| 2001-2500 | 21.5 | 23.3 | 14.9 | 88.5 | 91.1 | 92.7 |
| 2501-3000 | 45.1 | 46.4 | 45.0 | | | |
| 3001-3500 | 24.9 | 24.9 | 33.0 | | | |
| 3500+ | 4.9 | 5.3 | 7.1 | | | |
| Mean birth weight | 2793 | 2845 | 2940 | — | — | — |
| Number of livebirths | —— | 6026 | —— | 157 | 314 | 41 |

*Sources:* 1 Ghosh S, Hooja V, Mittal S K and Verma R K, 1977, 'Bio-Social Determinants of Birth Weight', *Indian Pediatrics*, Vol 14, No 2 (February), 107-114.

2 Das K, Ganguli S S, Shah R, Ghosh B N, 1981, 'Interrelationship of Birth Weight with Certain Biological and Socio-Economic Factors', *Indian Journal of Public Health*, Vol 25, No 1 (January-March), 11-19.

For 1976-78, in rural areas, the highest percentage of neonatal deaths (about 70) is reported in Andhra Pradesh; while in Kerala and Uttar Pradesh, the corresponding percentages are 62 and 56. In urban areas, the lowest percentages of neonatal deaths (47-48 per cent) are reported by Kerala and Orissa (although the urban IMR in Orissa was 82, more than twice that in Kerala, 38). The highest proportion of neonatal deaths in urban areas is reported for Karnataka—67 per cent and urban Assam comes next. *Prima facie*, one is led to the conclusion that the control of pathogens responsible for lowering postneonatal mortality also extends to neonatal mortality so that the proportions of the two are not altered significantly. To confirm this hypothesis, we must find data on the causes of neonatal and postneonatal deaths; however, such data are not available. As shown in Table 6, the 1979 Infant Mortality Survey has tabulated the deaths attributed by the respondents to the 10 "most important" causes in India and in various states. Table 6 reports the data for three states—Gujarat, Kerala, and Uttar Pradesh.The 10 causes account for varying proportions of deaths in different states, (40 per cent in Kerala and 78 per cent in Uttar Pradesh) so that no clear or firm conclusions are possible. Yet, over 30 per cent of the infant deaths in rural Uttar Pradesh were attributed to tetanus, which accounted for less than two per cent of the infant deaths in rural Kerala and did not figure among the 10 most important causes of death in rural Gujarat. Tetanus was important also in urban Uttar Pradesh accounting for 23 per cent of infant deaths, but not in urban Gujarat (only two per cent) or in urban Kerala. Tetanus is apparently identified without much difficulty and the estimates for Uttar Pradesh are similar to those reported by Simmon *et al* cited below. However the absence of tetanus among the 10 most important causes of infant deaths in Gujarat does not mean that the problem is unimportant in the state.

Dysentery and diarrhoea seem somewhat more frequent causes of death in urban areas than in rural areas (accounting for 10 per cent and eight per cent of infant deaths, respectively). Among other causes of infant deaths, prematurity and various respiratory diseases including pneumonia, bronchitis and influenza are mentioned more frequently. Prematurity is related to the mother's health and nutritional status. The respiratory diseases, on the other hand are related partly to the BCG and other immunisations (such as for measles) and call for an active programme of postnatal care. The feasibility for using the village health workers or guides to control some of these disease, suggested by an innovative programme of the Postgraduate Institute for Medicine and Research, Chandigarh, opens up an interesting area of community-based research (Kumar and Datta, 1984).

## MOTHER'S AGE AND PARITY AS VARIABLES INFLUENCING INFANT MORTALITY

It is an accepted part of received wisdom that the IMR shows a U-shaped or a J-shaped relationship with the age of mothers as well as with parity. The two variables are of course usually highly correlated. The underlying factors might be both biological and social or cultural.

A very young mother is biologically not fully mature, so that the probability of pregnancy related complications is high. Also, young mothers, being inexperienced, may not be able to take proper care of the young infants, even though in the Indian setting they receive considerable support from their kin group. The latter can be both an asset and a constraint to the extent that the traditional outlook and superstitions of the older family members with regard to infant care may not always be conducive to an infant's health and survival. Beyond age 30, the risk of pregnancy complications apparently increases because of the increasing inflexibility of the female reproductive organs. Among the Indian studies seeking to identify the high-risk women, the height and weight of the pregnant woman are considered important criteria in addition to age and parity.

The 1979 Survey on Infant and Child Mortality shows parity specific IMRs by literacy status of the mother only in the form of index numbers, with the rates for the first parity taken as the base. The implicit pattern conforms to the expected relationship with parity and the range of variation appears smaller among the children of illiterate mothers than among children born to literate women or to women having primary education (Office of the Registrar General, 1981, p 32).

TABLE 11: PERCENTAGE DISTRIBUTION OF NEWBORN BY BIRTH WEIGHT AND LITERACY LEVEL OF MOTHERS

| Birth Weight (gms) | Literacy Level of Mothers | | | All |
|---|---|---|---|---|
| | Illiterate | Under Matric | Matriculate and Above | |
| <2000 | 4.1 | 2.7 | 1.5 | 2.7 |
| 2001-2500 | 23.3 | 21.2 | 16.5 | 20.2 |
| 2501-3000 | 47.6 | 44.5 | 45.6 | 45.8 |
| 3001-3500 | 31.2 | 26.7 | 28.9 | 25.7 |
| 3501+ | 3.8 | 4.9 | 7.5 | 5.6 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |
| Mean birth weight | 2738 | 2824 | 2901 | 2829 |
| Number of live births | 1936 | 1963 | 2127 | 6026 |

*Source:* Ghosh Shanti, Hooja Vijay, Mittal S K, and Verma R K, 1977, 'Bio-Social Determinants of Birth Weight', *Indian Pediatrics*, Vol 14, No 2 (February), 107-114.

TABLE 12: INFLUENCE OF ANTENATAL CARE ON NEONATAL MORTALITY AND BIRTH WEIGHT OF THE NEWBORN ACCORDING TO VARIOUS STUDIES

| Author: | Kapoor | Kasturilal | NIN | Puri | Qureshi | Srikantia |
|---|---|---|---|---|---|---|
| Year: | 1982 | 1972-73 | NA | 1967-72 | 1970 | NA |
| Area: | Ballabgarh, Haryana | Gulbarga, Andhra Pradesh | Hyderabad, Andhra Pradesh | Pondicherry | Hyderabad, Andhra Pradesh | Hyderabad, Andhra Pradesh |
| Number of respondents | 1092 | 1600 | 2570 | 12716 | 1707 | NA |
| Neonatal mortality in | | | | | | |
| Control Group | 45 | 69 | — | 46 | — | — |
| Study Group I | 12 | 40 | — | 36 | — | — |
| Study Group II | — | — | — | 20 | — | — |
| Birth weight per cent births with weight <2500 gms | | | | | | |
| Control Group | 28.7 | — | — | — | — | — |
| Study Group | 19.9 | — | — | — | — | — |
| Mean birth weight | | | | | | |
| Control Group | — | — | — | 2570 | 2510 | 2704 |
| Study Group I | — | — | 2650 | — | 2780 | 3028 |
| Study Group II | — | — | 2900 | — | 3320 | 3028 |
| Type of antenatal cares available to study groups | 3 clinic visits<br>2 doses tetanus toxoid<br>100 iron and folic acid tablets | * | Group I iron only<br>Group II iron and folic acid | Group I upto 6 visits to antenatal clinic; Group II more than 6 visits | Group I iron and folic acid<br>Group II iron and folic acid + dietary supplements | Group I 2400 calories and 40 gms protein; Group II 2400 calories and 60 gms protein |

*Note:* *The study group consists of mother who visited the antenatal unit of the hospital and the control group of these who visited the hospital for delivery only.

*Sources:* 1 Kapoor S K, Reddaiah V P and Lobo J, 'Antenatal Care and Perinatal Mortality', (mimeo, no date).
2 Kasturilal and Jammihal, J H, 1974, 'Factors Associated With Perinatal Mortality', *Indian Pediatrics*, Vol II, No 11 (November), 743-747.
3 National Institute of Nutrition, 1982, 'Annual Report', Hyderabad.
4 Puri R K, Verma I C, Choudhary P, Nalini P and Srinivasan S, 1981, 'Perinatal Mortality—Incidence and Effect of Various Maternal Factors: Part I', *Indian Journal of Pediatrics*, Vol 49, No 392 (May-June), 297-304.
5 Qureshi S, Rao Prahlad N, Madhavi V, Mathur Y C and Reddy Y R, 1973, 'Effect of Maternal Nutrition Supplementation on the Birth Weight of the Newborn', *Indian Pediatrics*, Vol 10, No 7 (September), 541-544.
6 Srikantia S G and Iyengar L, 1972, 'Effects of Nutrient Supplements in Pregnancy on Birth Weight of the Newborn', Proceedings of Nutrition Society of India, Vol II.

Given the limited feasibility of additional tabulation and analysis of the SRS data on IMR, noted above, it is important to explore the micro-studies of births and infant deaths. Several such studies have been undertaken and the medical literature is full of them. Many studies are currently in progress. Several of them are based on hospital births, which tend to be selected; because except in the major metropolitan centres, only a relatively small percentage of babies are delivered in hospitals. The hospital data are selected in terms of social status of the mothers also, with an over representation of the higher as well as the lower socio-economic strata (depending on whether the facilities are priced or offered free) and of cases with complications.

The hospital data have the advantage, however, of being relatively more reliable than those collected in retrospective surveys. They also include, as a routine, information on the weight and length of the baby at birth; and, in the event of death, the cause of death is likely to be diagnosed better than in the case of domiciliary deliveries. Also, the hospital data are likely to be more dependable for the early neonatal mortality than for the late neonatal or postneonatal mortality, which occur after the mothers and the new-born babies are allowed to return home.

Tables 7 and 8 summarise the results of a few hospital-based studies reporting on the relation between early neonatal mortality and (a) the age of the mother and (b) the parity of live birth. All studies show a U- or a J-shaped relationship between age of the mother and early neonatal mortality and parity and early neonatal mortality.

The weight of a baby at birth, which often reflects the duration of pregnancy, is an important determinant of neonatal mortality. The relevant data shown in Table 9 report both the distribution of babies covered by six studies by birth weight and their early neonatal mortality rates. The WHO standards specify babies with a birth weight of less than 2,500 grams as high risk and needing special care. However, according to our six studies between 24 and 37 per cent of the babies had a birth weight of less than 2,500 grams. The Indian pediaetricians regard the WHO standard as too high and unacceptable because the short stature or height of the Indians contributes to a low birth weight (Bhargava *et al*, 1980). It is felt that full-term babies weighing between 2,000 and 2,500 grams can certainly survive with minimum inputs.

The risk of mortality is very great for Infants weighing less than 2,000 grams, as is evident in Table 9. An infant weighing less than 1,000 grams succumbs to death soon after birth and even if it survives during the first week in hospital conditions, the probability of its survival even upto a few months may be slim. In fact, Bhargava, on the basis of a 10 year longitudinal study, reported a survival of only 33 per cent for infants with birth weight of less than 2,000 grams (Bhargava, 1975). Maximum mortality occurs in the first month itself.

It has been widely accepted that birth weight is responsive to better nutrition associated with higher incomes. Shanti Ghosh's study of 6,000 births in Delhi during 1969-70 shows the proportion of low birth weight babies to be inversely related to per capita income as well as literacy and education (Ghosh, *et al*, 1977). Das's data also confirm this. These data are shown in Tables 10 and 11. Of course, the literacy and educational attainment of women are positively associated with the economic status or the income level of the household and the disentangling of the income and education effects on the nutritional status of the mother and on birth weight is probably a difficult exercise. However, it is presumably easier to inform and educate literate mothers about the means and importance of avoiding anaemia and adopting a diet during the last trimester that would facilitate a viable birth weight and survival of the new born.

Studies summarised in Table 12 suggest that a modicum of antenatal care can lead to a significant decline in neonatal mortality rate. In Ballabgarh, three or more visits to the antenatal clinic, two doses of anti-tetanus vaccine and 100 tablets of iron and folic acid lowered the neonatal mortality rate to almost 25 per cent of that in the control group. The studies in Gulbarga and Pondicherry do not provide adequate information on the specifics of the antenatal care offered; but presumably the visits to antenatal clinics led to the administration of tetanus toxoid as well as iron and folic acid tablets. Relative to the control groups, neonatal mortality rate was 40 per cent lower in the study group in Gulbarga and between 23 and 55 per cent lower in Pondicherry.

Studies also indicate considerable effect of antenatal care on the percentage of children with a birth weight of less than 2,500 gms or on their mean birth weight. The NIN studies showed considerable increase in the mean birth weight with a dietary supplement given to pregnant women during the last trimester of pregnancy. A small difference (of 20 grams) in the protein content of the supplement do not have any effect on the mean birth weight.

Table 12 is by no means exhaustive and several more studies have presumably been completed. Also, for analytical purposes, one needs to know also the distribution of babies by birth weight rather than only the mean. Likewise, it is necessary to study the problems, if any, involved in ensuring regular checkups or visits to the antenatal clinic which are said to be quite formidable until a community health centre builds up its rapport with its clientele. However, the evidence points to considerable scope for lowering even neonatal mortality through relatively simple antenatal care. Further, it may be possible to lower the recurrent cost of dietary supplements through an appropriate educational programme.

**(To be Continued)**

## China's Industry in First Half of 1985

THE first half of 1985 witnessed a sustained, stable and co-ordinated development of China's industry and transportation, with a simultaneous growth in output, profits and state revenue, according to Zhao Weichen, China's Vice-Minister of the State Economic Commission, speaking at a meeting on industry which was held in Beijing on July 13. In the first six months, state quotas for energy production and transportation was overfulfilled, Zhao Weichen noted. During this period, China produced 410 million tons of raw coal, 61.46 million tons of crude oil and 199.1 million kwh of electricity—representing increases of 11.8 per cent, 10.9 per cent and 9.1 per cent, respectively, as compared with the same period of last year.

From January to June the gross volume of railway freight was 630 million tons, a rise of 4.9 per cent, and that of railway passenger transport nearly 600 million, up 10.3 per cent. The volume of cargo handled at seaports went up by 15 per cent, the turnover of air transport by 54.5 per cent and posts and telecommunications transactions by 22 per cent.

Of China's 30 major light industrial products, 25 showed increases in output. In the first six months of the year, the proportion of light and heavy industries maintained a balanced growth at 51:49.

The total value of social retail sales reached 192.9 billion yuan, an increase of 29.1 per cent over the first half of last year. The January-June state revenue rose by 25.9 per cent.

Zhao Weichen attributed the increase to the overall economic restructuring with the reform of the urban economy as the focus, the development in inter-departmental and inter-regional relationships, and the efforts to improve enterprise management and promote technological advances. However, he said, the rapid growth of industrial production caused strains on transportation, and the supply of raw materials, power and funds. He urged that extra efforts be made to improve economic efficiency and quality of products, increase exports and strictly keep to the state contracts so as to fulfil all state quotas.

# Intoxication as a Social Evil

## Anti-Alcohol Movement in Uttarakhand

**Shekhar Pathak**

*The present anti-alcohol movement in Uttarakhand radically differs from earlier attempts to combat alcoholism. Although liquor remains the primary focus, the movement recognises the social system in which intoxication operates. While alcoholism is the means by which state commercialisation has sapped the vitality of the hill society, it is only a symptom of the deeper malaise of predatory capitalist 'development'. There has been a consistent attempt to understand alcohol as a social phenomenon.*

*On different occasions, activists of the movement have made it clear that their opposition is not intended as an encroachment on the individual rights of citizens and they are not dreaming of a society with total and successful prohibition. However, in a region where the basic necessities of food, clothing and shelter are a growing problem for the bulk of the population, alcohol consumption cannot be viewed with equanimity.*

*The major demand of the movement has been employment in place of alcohol. It is a bitter irony that while army recruitment marked the advent of liquor in Uttarakhand, youths are now rejected by the military on grounds of ill-health. Prohibition by itself is not adequate to eradicate alcoholism as a social evil; on the contrary, it may have certain adverse consequences. As such, the anti-alcohol movement views prohibition as the first step in a more fundamental restructuring of society.*

> '... more people have died for their drink and dope than for their religion and country ...'
>
> —Aldous Huxley

SINCE early 1984 the Uttarakhand area of UP has been in the grip of a widespread social movement.[1] The '*nashe nahin rozgar do*' (give us employment, not intoxication) movement is directed at the disease of alcoholism caused by the sale of illicit and licit liquor and spirits sold in the form of medicines and the economic and political interests that buttress this trade. Originating in Almora district under the leadership of the Uttarakhand Sangharsh Vahini (USV) and supported by several other mass organisations, the movement rapidly spread to Nainital and other districts of Uttarakhand.

As with forestry, big dams and mining, the alcohol trade is not an isolated issue but is intimately bound up with the social and cultural disintegration of hill society. The social issues which were behind the genesis of the decade-old Chipko Andolan have now metamorphosed into opposition to liquor. Apart from its tangible material impact, such as a drop in army recruitment and ill-health, alcoholism has had profound cultural consequences such as break-up of families, increase in crime, etc. Given the economic, political and social consequences of intoxication, opposition to this evil and the social system that provides its underpinnings was the only available alternative.

### HISTORICAL BACKGROUND

The story of alcohol in the hill by and large dates from the British period. Prior to that, liquor consumption was restricted to the Tarai and the Bhotiya traders who inhabited the upper valleys. While the latter distilled their own liquor for self-consumption, the virtual absence of alcohol in the settled communities of Uttarakhand was repeatedly commented upon by British officials.[2] In the early years of colonial rule, too, the advent of alcoholism was restricted. Thus in 1839-40, the revenue that accrued to the government from liquor was only Rs 1,717 for the whole of Kumaon and it was Rs 6,794 for Deharadun district.[3] Indeed, most shop-keepers were unwilling to stock liquor. One traveller commented on the fact that Kashi Sah, a prominent businessmen of Almora, stocked all kind of goods, but liquor was unavailable.[4]

Under colonial auspices, liquor spread slowly, with the advent of the army and other government departments and the establishment of cantonments and hill stations. From the inception of colonial rule (1815), the British recruited soldiers from the hill peasantry. As early as 1858 a recruiting office had been opened in the border area of Pithoragarh. Soldiers were recruited in large numbers into the Gorkha Rifles.[5] Contemporaneous with these developments revenue from liquor in Kumaon increased from Rs 534 in 1822-23 to Rs 1,054 in 1836-37 to Rs 29,013 in 1882-83 (Table 1). While these figures may indicate the spread of liquor, consumption remained restricted to towns and army encampments. Commenting upon the continued absence of liquor from village life, Henry Ramsay, Commissioner during 1856-84, was emphatic that no liquor shops would be allowed to open outside of hill stations and cantonments.[6] In 1891, the Senior Assistant Commissioner had remarked that in Garhwal the villages were virtually free from alcohol.[7] However,

TABLE 2: INDIA—POPULATION AND LIQUOR EXCISE

| Year | Population (in crore) | | Liquor Excise (Rs in crore) |
|---|---|---|---|
| 1861 | — | | 2.00 |
| 1900 | 23.83 | (1901) | 6.00 |
| 1910 | 25.02 | (1911) | 10.00 |
| 1920 | 25.13 | (1921) | 20.00 |
| 1930 | 27.89 | (1931) | 16.07 |
| 1939-40 | 31.86 | (1941) | 11.52 |
| 1946-47 | 35.00 | | 50.02 |
| 1962-63 | 43.92 | (1961) | 64.00 |
| 1969-70 | — | | 183.00 |
| 1970-71 | 54.81 | (1971) | 190.00 |
| 1971-72 | — | | 208.00 |
| 1982 | 68.38 | (1981) | 1,200.00 |

*Source:* Reserve Bank documents and Census Reports.

TABLE 1: KUMAON—POPULATION AND LIQUOR EXCISE

| Year | Population | | Liquor Excise (Rs) | |
|---|---|---|---|---|
| 1822-23 | 2 lakh | (approx) | 534 | |
| 1836-37 | — | | 1,054 | |
| 1852 | 3,60,001 | | — | |
| 1865 | 6,34,532 | | — | |
| 1872 | 9,28,823 | | 18,663 | |
| 1881 | 10,46,263 | | 29,013 | (1882-83) |
| 1891 | 11,81,567 | | 52,141 | (1891-92) |
| 1907 | 12,87,830 | | 1,31,446 | (1899-1900) |
| 1911 | 13,28,790 | | 2,07,013 | (1908-1909) |
| 1971 | 26,99,464 | | — | |
| 1975-76 | — | | 196,20,303 | |
| 1981 | 33,74,257 | | 301,30,000 | |
| 1982-83 | — | | 323,34,000 | |

*Note:* In this Table, Kumaon refers to the British Civil Division, comprising the present day districts of Almora, Pithoragarh, Nainital, Chamoli and Pauri.

*Source:* District Gazetteers and Census Reports.

in the same year another officer had found the staff of the Badrinath temple consuming liquor obtained from the nearby Bhotiya villages. Presumably to stop this trade, liquor shops were opened at Phegu below Kedarnath and Joshimath below Badrinath, marking the formal advent of liquor in the Mandakini and Alakananda valleys.[8]

The slow penetration of colonially-sponsored commercialisation and the recruitment and subsequent return of hill soldiers thus induced the spread of liquor consumption in Uttarakhand. This process had an impact, if barely discernible in the early period, on village life. The induction of the liquor trade by the state in the late nineteenth century was motivated by prospects of added revenue, a motivation that has remained unchanged till the present day. In this context it is worthwhile recalling the prescient comment of an Almora newspaper:

> Those who consume liquor and opium are subject to a rapid deterioration in health and indeed immiserisation. They even resort to robbery, murder and sundry other crimes. It is a matter of shame for the government to encourage such activities merely to augment its revenue earnings. We urge that trade in alcoholic liquor and medicines be stopped immediately. . .[9]

Yet village society continued to abjure alcohol. Around 1907-8 opening of liquor shops in Bageshwar and Chaukhutia was successfully opposed. Opposition to alcohol also formed an important part of the freedom struggle. The emulation of European habits of drinking on the part of members of the lower castes and youths was subject to criticism[10] by organs of the different caste-groups—Sarola Sabha (Brahmin), Khastriya Sabha and Shilpkar Sabha (Harijans). Thus the civil servant Walton reported that hillfolk by and large did not crave for alcohol, although revenue did accrue on account of alcoholic pilgrims.[11]

### ALCOHOL AND NATIONAL MOVEMENT

From the early twentieth century, the Congress had made prohibition an important plank of its platform. Under Gokhale's leadership, it had in 1912 asked the government to enforce prohibition instead of using liquor sales as a source of revenue. The issue was taken up on a nation-wide scale during the non-cooperation and civil disobedience movements—with some success, as the drop in excise revenue during 1920-40 indicates (Table 2). In January 1925 a letter pleading for prohibition and signed by 30,000 women was sent to the Viceroy. The matter was also taken up in the Council and other legislative bodies.[12]

The best opponent of alcoholism was of course Gandhi. Holding it responsible for the destitution of many labourers, he went so far as to call alcoholism a greater evil than theft and adultery.[13] In the Gandhi-Irwin pact of 1932, he had managed to insert a clause declaring the peaceful picketing of liquor shops as legal. Gandhi continued to propagate prohibition till the end of his life, focusing not merely on its adverse medical and social impact, but on the revenue-orientation of the state.[14] However, this steadfast attitude was opposed by several other leaders in the Congress.

While the dissenting stream in the Congress came into its own only after Gandhi's death, the contradictory pulls within the organisation were manifested when the Congress assumed power in 10 states after the 1937 elections. Only Madras and Bombay enforced prohibition. The United Provinces Government which enjoyed a revenue of Rs 1.75 crore from liquor in 1936-37 was loth to give it up. However, on April 1, 1938 the Congress ministry did declare six districts to be dry, but when the Congress ministry resigned in 1939 prohibition was promptly lifted.

TABLE 3: CONSUMPTION OF LIQUOR IN KUMAON, 1976-84

*(In litres)*

| Year | District | | |
|---|---|---|---|
| | Nainital | Almora | Pithoragarh |
| 1976-77 | | | |
| (a) English | NA | NA | NA |
| (b) Country | 6,29,991 | 1,07,100 | NA |
| 1977-78 | | | |
| (a) English | 3,03,502 | 85,509 | NA |
| (b) Country | 5,62,257 | 1,17,500 | NA |
| 1980* | | | |
| (a) English | 1,59,966 | 1,11,159 | NA |
| (b) Country | 1,62,255 | 29,295 | NA |
| 1981-82 | | | |
| (a) English | 3,19,946 | 1,61,417 | 33,284 |
| (b) Country | 9,17,800 | 1,53,690 | NA |
| 1982-83 | | | |
| (a) English | 3,32,327 | 2,55,900 | 28,029 |
| (b) Country | 13,38,380 | 3,69,920 | NA |
| 1983-84 | | | |
| (a) English | 3,95,619 | 1,82,323 | 57,893 |
| (b) Country | 14,99,850 | 4,40,370 | NA |

*Note:* * June to October only.

TABLE 4: SURAS AND LIQUIDS—A FEW EXAMPLES

| Sr No | Name of Sura/Liquid | Manufacturer | Per Cent of Alcohol | Pack and Dose | Price (Rs) | Licence No |
|---|---|---|---|---|---|---|
| 1 | Mrit Sanjiwini Sura | Dabur | 35 | 7 to 14 ml; 3 t/day | — | |
| 2 | Mrit Sanjiwini Sura | CDF, Ranikhet | 35 | 180 ml; 25 ml with water | 7.00 | |
| 3 | Mrit Sanjiwini Sura | SAP, Amritsar | 40 | 375 ml; 1 to 2 spoons with water | 14.00 | |
| 4 | Multani Mrit Sanjiwini Sura | MAP, New Delhi | 30 UV | 180 ml; 2 to 4 spoons with water | 8.10 | DI 29 A and W |
| 5 | Reghukul Ark Chandrahas | RAP, Roorkee | | 250 ml; 7 to 14 ml 3 t/day | 12.00 | |
| 6 | Ashoka Liquid Extract IP | DL Lab, Ghaziabad | 48-52 | 225 ml; 4 to 8 ml | 5.10 | |
| 7 | Ashoka Liquid Extract IP | C Pharma, Karnal | 48-52 | 225 ml; 4 to 8 ml | 12.15 | |
| 8 | Ashoka Liquid Extract IP 66 | H C Works, Nagina (UP) | 48-52 | 225 ml; 4 to 8 ml | 12.00 | 132 |
| 9 | Ashoka Liquid Extract IP | Pithy Pharma, Karnal | 48-52 | 225 ml; 2 to 8 ml | 5.50 | 309 OSP (H) |
| 10 | Compound Picrorhiza Tr P | UP Drugs House, Lucknow | 44 | 225 ml; 2 to 4 ml | 12.90 | 3/63 |
| 11 | Podin Hara | Dabur | 78.8 | 30 ml; 0.6 to 1.8 ml with water | 4.97 | 43 |
| 12 | Alpharuplex | | | | | |
| 13 | Biotonic | | | | | |

*Source:* Collection of information and preparation of Table by PAHAR.

During the Second World War, recruitment of hill soldiers was carried on with intensified vigour. Recruiting agents, including senior officers, would enter villages with crates of liquor as an inducement to join the army. Liquor stalls were also opened at fairs, such as the one in Gauchar, where recruitment took place. Liquor consumption in the cantonments reached a new high declining only when British soliders left after the war.[15]

## Post-Independence Situation

Prohibition was an old subject in a newly independent country. Article 47 of Indian Constitution was devoted to this problem. Even the prohibition enquiry committee repeated the exhortation in favour of prohibition,[16] but prohibition never developed as a national policy.[17] While paying ritual homage to Gandhi, the Congress government which assumed power in 1947 was clearly dominated by those who regarded liquor as a valuable source of revenue. This led to an anomalous situation where a liquor excise department and a prohibition department both existed side by side. As no political party made it a major issue the task of propagating prohibition was left to isolated individuals within the Congress and Sarvodaya activities. The latter viewed alcoholism in isolation from the larger economic and political context—an omission that was to have serious implications in later years.

Between 1948 and 1960, several districts were declared dry in UP. But before the hill districts could be declared dry, the policy was abruptly reversed. Simultaneously, the process of commercialisation and capitalist penetration initiated by the five-year plans led to a slow growth in liquor consumption.[18] The war with China led to three new border districts being created in UP—Pithoragarh, Chamoli and Uttarkashi—and large-scale construction of roads to facilitate troop movement. These developments gave a further fillip to commercialisation and consequently to the sale of alcohol.

Opposition to liquor was initiated by Sarvodaya workers in 1962. Sohanlal Bhubhiksuk, a follower of Vinoba Bhave, started a 'postcard' movement opposing the government's policy on liquor. When this method failed, a three-month long dharna outside liquor shops at Pauri and Kotdwar was commenced. Bhubhiksuk also went on a hunger fast on the steps of the Legislative Assembly in Lucknow. Although the government did agree to shut four shops on the pilgrim route, the movement never enjoyed popular support and fizzled out in due course.[19]

In 1965, the movement resurfaced in Silyara, led by the Sarvodaya couple Sunderlal and Vimla Bahuguna. After a proposal to open a liquor shop at Ghansali near Silyara was successfully opposed, the movement engulfed large areas of Tehri district. It also spread to Thal in Pithoragarh and Chaukhutia and Garur in Almora respectively.[20] After a deputation of women led by the veteran Gandhian Sarala Devi met Chief Minister Sucheta Kripalani, distilleries were closed in several places. In this movement many Sarvodaya workers including C P Bhatt and Ghanshyam Sailani played a crucial role.

Pressurised by the movement the government on the occasion of Gandhi's centenary declared the three border districts to be dry in 1969. In the same year vigorous opposition to the sale of liquor and tincture in Pauri led to tincture shops being burnt and traders fleeing. Apart from students, women played a major role in the agitation, one old lady being bestowed the title of 'Tincturi Ma'.

In 1970, Tehri and Pauri were declared dry. The substantial gains of the movement (five districts being declared dry) were offset on April 14, 1971 by a decision of the Allahabad High Court, following a petition by wine merchants, declaring the ban illegal. The subsequent reopening of liquor shops was however firmly resisted, especially in Tehri where a massive gathering on November 20, 1971 led to many arrests. In April 1972 the state relented and the five districts again went dry.[21]

The major weakness of the movement stemmed from the fragmented perceptions of its Sarvodaya leaders. Treating alcoholism essentially as a moral issue, they were unable to locate alcoholism within the broader social processes of which it was a constituent element. No analysis was forthcoming of the links of the liquor trade with the state or more generally of the distorted nature of capitalist development. Inevitably, the sale of intoxicants recommenced and in a matter of a few years the distillation of country liquor became Uttarakhand's major 'cottage' industry.

## Janata Party

The next phase of the history of liquor and the opposition to it was inaugurated by the victory of the Janata Party in the 1977 elections. Although local students were aware of the social context of alcoholism, neither the Congress nor Janata candidates had raised the issue during the elections.[22] However, largely on the initiative of Prime Minister Morarji Desai, and despite opposition from within the cabinet, the implementation of prohibition was taken up. Thus all eight districts of Uttarakhand were declared dry in consonance with this policy. Additionally 18 medicines with alcoholic content came under the purview of the Abkari department.

Notwithstanding its unprecedented coverage the new policy remained ineffective partly due to opposition within the Janata Party and public apathy, but chiefly due to the development of an illegal trade. Apart from country liquor, this comprised a wide range of liquids being sold as 'tonics' and whose sale had been allowed by the High Court. Several pharmaceutical companies began selling liquor under government permit for medicines, contributing to a flourishing trade.

## Return of Congress

The Congress victory in 1980 saw Almora, Nainital and Dehradun returning to their 'wet' status while in another three districts—Pithoragarh, Tehri and Pauri—liquor was sold under permit. The close links which the liquor contractors, like their counterparts in the timber and mining trades, had formed with the state were evident when one prominent businessman was awarded the Padma Shri in 1970. Congress leaders at both local and national levels actively supported the trade.[23]

The steady development of the liquor trade since 1947, notwithstanding the short periods of prohibition, was given a tremendous fillip by the return of the Congress. Table 3 gives details of the rapid increase in consumption in recent years. However, these figures relate to alcohol sold under government auspices only, i e, they do not include the myriad forms of liquor distilled illegally or sold as 'medicines'. These are manufactured at several centres in the plains—Amritsar, Moradabad, Sonepat, Najibabad, Bareilly, Pilibhit, Kanpur, Ghaziabad, Patna, etc—and brought in trucks to the hills (Table 4).

With their 'real' alcohol content often exceeding 80 per cent, these liquids are to be found in the remotest areas of Uttarakhand. In fact the rapid turnover has given rise to a flourishing trade in empty bottles with collection centres being set up in several distant hill towns.[24] According to one survey, a single shop in Dwarahat sells Rs 3,000 worth of 'Ashoka' liquid daily; similarly in the cantonment town of Ranikhet (population 18,000) consumption of Ashoka exceeds 2,500 litres a month.

Such examples could easily be multiplied. The point to be emphasised is that despite token attempts to regulate the trade, the state has been instrumental in the spread of liquor. As a result, the money spent by the population on different grades of alcohol is considerable—probably exceeding the amount allotted by the UP government yearly for the 'development' of the hill areas, i e, Rs 125 crore for 1983-84.

## Background of Present Movement

The decade-old Chipko movement that had achieved some notable successes was followed by other movements against the siting of big dams, mining, and for the settlement of displaced villagers in the Terai. While the background of these recent movements is important in understanding the nature of participation in the anti-alcohol movement, the specific causes of the present upsurge are as follows:

(i) Spread of diseases among men and especially youth consequent on alcoholism. Chest disorders (including tuberculosis) and cirrhosis have been widespread. According to one report 60 per cent of all TB cases in Delhi originate in the hills. Within Uttarakhand it has been estimated that at least 25 per cent of all cases of ill-health can be traced to alcohol.[25] Many deaths have also been reported, largely on account of the consumption of liquids, suras and illicit liquor. In 1984 there were more than 10 deaths in Nainital city alone where consumption of liquids, suras and illicit liquor is the lowest.

- (ii) The sharp fall in recruitment to the army attributed by Lt General G S Rawat, Vice Chief of Army Staff, to the deterioration in the health of hill youth. In a recent recruitment drive for the Garhwal regiment only 35 out of 500 men interviewed were found fit.[26] A foot march organised by PAHAR also found that the number of retired soldiers exceeded serving personnel in most villagers.[27]
- (iii) A more general economic deterioration following the transformation of a subsistence economy into one dependent on remittances (the so-called money order economy). Even in those areas where farming or horticulture still remains viable, a large portion of the earnings is spent on liquor. This phenomenon is especially acute near tourist spots and cantonments and has brought great hardship to housewives and children.
- (iv) The growth of murder and crime in an area where till well into the twentieth century the absence of police had testified to the virtual non-existence of crime. Various incidents of physical assault and murder have been reported, whose perpetrators were invariably under the influence of liquor. In Chaukhutia block alone since 1980 there have been 12 murders connected to the liquor trade. There were incidents of police firing at Nainital in October 1983 and Nandprayag in February 1984. Even the burning and death of Debki Devi in Pithoragarh in August 1984 had relation with liquor.[28]
- (v) The many incident of serious road accidents in which drunkenness is believed to have been the cause.[29] Often involving bus-loads of pilgrims, such accidents with heavy loss of life have been a feature in recent years.
- (vi) The close connection, at all levels, of the political system with the liquor trade. From village headman and block pramukhs to members of parliament, politicians have lent tacit and occasionally open support to the trade.[30]
- (vii) The influence of liquor on the cultural life of Uttarakhand. Alcoholism has become an integral part of all life-cycle ceremonies, from naming to marriage and even cremation. The priests in many of the celebrated temples are no exception. Liquor shops have opened near schools and colleges and at transport depots.[31]
- (viii) The creation of a class of new-rich businessmen connected with the liquor trade who have come to exercise a disproportionate influence on the social life of Uttarakhand. Actively helped by the police and excise and other wings of the state machiney, liquor contractors have been able to develop a thriving trade in spurious and illicit spirits in addition to the trade in alcohol distilled under licence. The free granting of 'permits' even in districts nominally declared dry—Pithoragarh, Chamoli, Tehri, Uttarkashi and Pauri—and the open smuggling of spirits across the Himachal and Nepal borders is responsible for the sale of alcohol in virtually every village of Uttarakhand.[32]

While the above factors helped clarify the social context of alcoholism for the population, the present movement had been preceded by sporadic incidents of protest. In August 1981 the students of Sumitranandan Pant Inter College in Kausani (Almora) stopped a vehicle carrying liquor and broke the bottles. In March 1982 liquor stalls were destroyed in Ufrekhal (Pauri). In April 1982 illegal stills were raided by officials at Pauri and Kotdwar. In the same year several incidents were reported—Pauri (August), Dehradun (November), Uttarkashi (December)—of stoppage of trucks carrying tincture from the plains to the interior villages of Garhwal. The next two years saw similar cases in Kumaon when vehicles carrying Ashoka liquid were successfully stopped—Almora-Bharadi road (April 1983), Rankhet (May and June 1983) Manila and Ramnagar (January 1984). Occasionally the contractors were also caught, while in at least one case (Manila) a bonfire was made of the liquor.

Such intermittent opposition could not however crystallise into a more widespread movement. The chief lacunae was the lack of a viable organisation to co-ordinate and channelise the growing protest. Neither Sarvodaya or Chipko activists, nor the women who had played an important part in the earlier movements were able to proceed beyond localised protest. Concerned individuals and organisations preferred to utilise legal channels by petitioning district authorities or instituting court cases.

In the circumstances, the lead was taken by the USV, a youth organisation founded in 1977. At the function it held to commemorate the late Chandra Singh Garhwali, hero of Peshawar, at Almora on April 23-24, 1983, the USV resolved to start a people's movement around the alcohol, forest and mining questions. A large procession organised for the occasion raised slogans against the liquor trade, the rape of the region's natural resources and the impending forest act.[33] The succeeding months saw the propagation of these ideas in various cultural forums and environmental camps. When other organisations like the Uttarakhand Kranti Dal responded to the call, the local MP Harish Rawat also gave a call for prohibition. On September 21 the murder of an Almora youth by persons connected with the liquor trade focused popular attention on the trade and its some political links.[34] From January 1984 the cultural troupe 'Jagar' embarked on a foot-march from Bhawali (Nainital) to Srinagar (Pauri) to spread the movement in the villages through the medium of folk songs and theatre.[35]

### THE MOVEMENT

The movement was now imminent. On February 1, 1984, it broke out at Chaukhutia, which by virtue of its location—the western extremity of Almora district, bordering Pauri, Chamoli and Ramnagar (Nainital)—was a thriving centre of the illegal liquor trade. On that day, villagers surrounded a liquor inspector, sitting ironically in a contractor's jeep containing crates of alcohol, and demanded that he act to stop the trade. The next day, USV organised a meeting at village Basbhira, five kilometres from Chaukhutia. On February 14, a march was undertaken between the two villages. Large public meetings (attended by over 10,000 people) were organised at Chaukhutia on the 20th and 26th. Liquor shops were surrounded and local officials gheraoed.

Now the movement spread rapidly. Activists fanned out into the villages and in the following weeks meetings and demonstrations were held in different villages and towns of Almora, including Someshwar, Syaldeh, Mashi, Bhikiasen, Garur, Tarikhet, Ranikhet, Bageshwar, etc. The movement also made its presence felt at Nainital, Bhowali, Garampani and Ramgarh in Nainital and Berinag, Dharamghar and Pithoragarh town in Pithoragarh district.

A camp was organised at Tarikhet on March 10 and 11. Utilising the fairs and celebrations held during Holi, activists spread word of the movement and of the need to oppose the forthcoming liquor auctions. On the 20th bus-loads of villagers carrying food and with traditional flags and musical instruments came to Almora from all directions. When the auctions were postponed to March 26 and 27, the movement called for an Almora bandh on the 26th which was effective throughout Kumaon. Despite the promulgation of Section 144, a procession was held to oppose the country liquor auction on the 26th. 51 arrests (36 men and 15 women) were made by the police although the women were released the same night.[36]

With the leaders out of the way, the authorities hoped to proceed with the auction of the English liquor tenders on the 27th. In this, they were foiled by the frenetic attempts by activists to send word to nearby villages to send reinforcements. On the 26th itself, four well known contractors were caught on the main road at Garampani on the Nainital-Almora road, their faces painted black and pledges never to sell liquor again extracted from them.[37] Led by women, a large demonstration was held outside the district office at Almora on the 27th, amidst scenes reminiscent of the opposition to the timber auctions during the hey-day of the Chipko movement.[38]

The movement took a new direction from the inception of the new financial year (April 1, 1984) when the picketing of liquor stills was commenced. The police with the help of lumpen elements resorted in several places to lathi-charges and even, as in Almora on April 5, to throwing acid on the demonstrators. Activists responded by organising an Almora Bandh on the April 6 and burning effigies of the district administration.[39]

In the face of such sustained opposition, the authorities decided to adopt repressive measures. On April 12 a meeting held at Someshwar demanding the release of those arrested on March 26 was the provocation for an unprecedented assault by SDM U D Chaube and PAC Jawans. The SDM's men indiscriminately attacked people in Someshwar bazar, school children, and even women working in the fields. In the nearby villages of Totashiling and Binta, similar scenes were witnessed with several arrests being made. The same evening, lumpens attacked a group of women holding a reading of the Ramayan outside a liquor still at Bhowali in Nainital district. In response to these events, processions were organised the next day at Ramgarh, Bhimtal and Bhowali, eight USV activists were in the meantime arrested at Ranikhet where the Mahila Sangthan Morcha had commenced a dharna outside a liquor still.

Large demonstrations were held at Almora and Nainital on the 14th and 15th, while shops in Ranikhet remained closed on the latter day. From the 16th, the Mahila Sangathan commenced a series of hunger strikes in Almora. Finally, on the 20th, Almora was declared a dry district with effect from June 1, 1984. Now the focus of the movement shifted to Nainital, *via* a procession in Bhowali on April 23 and commencement of hunger fasts the next day outside the district office in Nainital town. Assisted by several fraternal organisations[40] and by a large number of students, USV intensified its campaign through meetings, street plays, and demonstrations.[41]

Meanwhile, the picketing of a country liquor still had been commenced at Tallital, a programme that continued for several weeks until the still was finally closed in June. On May 2, the Nainital hunger-strikers were arrested. Although the 39 activists arrested in March were released in Almora on the 3rd a fresh group commenced a fast in Nainital.

This latter fast was broken on May 14 after a meeting in Nainital with Hill Development Minister C M S Negi. Following this meeting a ten-member team left for Lucknow to have talks with the state cabinet. The chief minister proclaimed that Nainital would be declared dry by the end of June and appropriate steps taken to ban trade in illegal medicines.

Keeping in view the history of broken promises, the agitation continued with a fresh programme involving the non-payment of government taxes in Almora from May 1. May Day also saw solidarity being expressed by workers in both Nainital and Almora. The pre-planned Askote-Arakote foot-march organised by PAHAR commenced on May 25 took the message of the movement, while the next day saw a large meeting in Chaukhutia culminating in several arrests. On the 27th the local MLA alongwith Central Minister Vasant Sathe were gheraoed in Ramgarh (Nainital). On June 4, Union Industry Minister N D Tewari's car was stopped by women in Nainital. On the 17th, a demonstration involving people from all over Kumaon was held in the same city. Despite heavy rain, between ten and twelve thousand demonstrators had collected.[42]

Meanwhile, the 45-day Askote-Arakote march concluded on July 9, traversing 850 kms in six districts doing detailed study and survey of remote Uttarakhand and coming into contact with almost 500 villlages. Subsidiary marches had also been organised from Srinagar to Almora and Kotdwar to Duddhatoli. The marchers acquainted themselves with the situation in the villages where support for the anti-alcohol movement was uniformly expressed.[43]

Although, liquor shops were shut throughout Almora from June 1, the movement continued through periodic checks on the illicit liquor trade. Over a thousand bottles of spirit were seized in Ramnagar on July 21 while in other areas commercial vehicles were stopped and searched and a 15-day dharna organised in front of the biggest Sura Store in Almora. With a view to extending the movement to Garhwal, a meeting was organised in Pauri on August 4 and 5, 1984. With the state failing to declare Nanital dry, demonstrations were held throughout September. Although the monsoon had slowed down the tempo of the movement, a signature campaign was initiated in support of the public litigation opposing the sale of illegal spirits and is currently before the Supreme Court. The movement continued in many places. The fruit belt centre of Ramgarh in Nainital district is worth remembering, where the people, led by local women-folk, Mahila Sangathan and USV activists, continued the struggle and finally won in March 1985 when the state government closed the Ramgarh liquor shop with 14 rural liquor stills in Nainital district also.[44] In Almora district the movement slowed down and this year the impact of the movement was felt when the contractor system came to an end and a co-operative society took the work of distributing liquor to permit holders. In different parts of Uttarakhand the protests against *nasha* are again emerging.[45] But the state government headed by a leader from this hills is less sensitive and the Central government has no time to think about this issue. Only the people's movement will make the Central government change the Drug Act. The movement is going on and some people are waiting for the Prime Minister's reactions.

## A Provisional Analysis

As the anti-alcohol movement is yet to run its course fully, it is not possible to sit in final judgment over it. Any analysis that can be made is strictly provisional and preliminary.

Notwithstanding the tentative nature of this section, then, it will be apparent from the foregoing that the present movement radically differs from earlier attempts to combat alcoholism. Although liquor remains the primary focus, the movement is cognisant of the social system in which intoxication operates. While alcoholism is the means by which state commercialisation has sapped the vitality of the hill society it is only a symptom of a deeper malaise of predatory capitalist 'development'. There has been a consistent attempt to understand alcohol as a social phenomenon as evidenced both by the movement's slogans[46] and its declared aims which are given below:

1. The entire hill area be declared dry; where liquor sale cannot be avoided, it should be done through a government agency only. The contractor system should be totally abolished.
2. Sura, 'liquid', biotonics and all other beverages with an alcoholic content exceeding 10 per cent and being sold as 'medicines' be banned. Genuine medicines with high alcohol content be sold/given at government hospitals only.
3. Necessary changes be made in the legislative (Drug Act and excise rules) and administrative machinery (excise and police departments) to properly implement and monitor these proposals.
4. Local people be given employment in all existing and new industries in Uttarakhand. In addition, traditional crafts like wool, wood, metal, stone, etc, be given encouragement so that a viable cottage industry comes to replace the alcohol trade.
5. A critical analysis be made of the political, economic and cultural consequences of alcoholism in Uttarakhand and its relation to the present political-economic system.

On different occasions, movement activists have made it clear that their opposition is not intended as an encroachment on the individual rights of citizens and they are not dreaming of a society with total and successful prohibition. However, in a region where the basic necessities of food, clothing and shelter are a growing problem for the bulk of the population, alcohol consumption cannot be viewed with equanimity. In fact, the argument that alcohol provides 'entertainment' or that is a basic human necessity only deflects attention from the larger social context of the liquor trade.

The major demand of the movement has been employment in place of alcohol. It is a bitter irony that while army recruitment marked the advent of liquor in Uttarakhand, youths are now rejected by the military on grounds of ill-health. However, prohibition in itself is not adequate to eradicate alcoholism as a social evil on the contrary, as the experience of USA in the 1920s and 1930s testifies, it may have certain adverse consequences. As such the present movement views prohibition as only the first step in a more fundamental restructuring of society.

The movement has posed major problems for political parties in Uttarakhand. While individuals have on occasion expressed their support, most parties are threatened by the movement's rejection of what it terms the 'vote and note (money) form of politics'. Many politicians have close links with the liquor traders who are a prime source of funds. This ambivalence is also reflected in the attitude of the ruling Congress Party. While successive chief ministers have on occasion expressed support for the aims of the movement, local Congress workers initially participated and even claimed that the decision to declare Almora dry was as a result of their efforts.[47] However, the intensity of the movement and its incorporation of broader social goals has led more recently to the Congress dubbing the activists as 'extremists'.

Despite the lukewarm attitude of political parties, the movement has been supported by all sections of Uttarakhand society. Apart from women who have played a historic part, peasants, workers, students, teachers and journalists have participated in large numbers. Interestingly, several young men, earlier addicted to liquor, underwent a transformation and are now among the movement's leading activists.

Of course, the contours of the present struggle cannot be understood without reference to the recent history of social movements in Uttarakhand. Protest around the questions of open-cast mining, theft of antiques, big dams, deforestation, floods and landslides have been a feature of the past decade. Many of the activists spawned by these struggles have played an important part in the anti-alcohol movement. This path of continuity is perhaps best exempted by the role played by erstwhile activists of the Chipko Andolan. In fact, the USV and the activists close to it can be said to represent the third stream within Chipko. While the leaders of the other two wings (though it must be mentioned that there is a considerable difference between these two wings) have been awarded the Padma Shri and the Magsaysay Award respectively, the third wing has been the target of state repression. This is perhaps because it has consistently refused to divorce environmental degradation from the inequitous society on which it is premised. In the circumstances, it is unfortunate that most of the Sarvodaya workers have adopted an equivocal attitude towards the anti-alcohol movement. While one Sarvodaya organisation initially participated in the movement and later withdrew, others have preferred to stay aloof rather than express solidarity with their past Chipko comrades.

The state's prevarication on the issues of prohibition in Nainital and the illicit spirit trade are perhaps designed to wear out the present movement. As such it may not be possible to predict the future course of the movement with certainty. It however continues to treat alcoholism as a social-political phenomenon and not exclusively as an ethical or moral issue. In this respect it bears a similarity to similar struggles against alcoholism presently being waged in Manipur and Chattisgarh.[48] Intoxication is however only one manifestation of a diseased social order whose supersession is the common endeavour of other contemporaneous struggles of the oppressed and marginalised sections.

## Notes

[I express gratitude to Ramachandra Guha with whose involvement the presentation of this article became possible.]

1 Uttarakhand incorporates the districts of Almora, Nainital and Pithoragarh in Kumaon and Dehradun, Tehri, Uttarkashi, Pauri and Chamoli in Garhwal. For some reports on the current movement, see *EPW*, July 28, 1984, *Manushi*, September-October, 1984, *Frontier*, December 1, 1984, and *Jansatta*, September 9, 1984.

2 "It is not the custom for hill people in Kumaon to drink and unless they are taught, by having grog shops planted over the district, I do not think they will take to this demoralising practice ... Bhotias make their own liquor wherever they halt, but they do not sell it or encourage other castes to drink ..." J O B Beckett, Report on the Revision of Settlement in Kumaon District 1863-1873, Allahabad (1874), page 29.

3 Pre-Mutiny Records, MLR, Volume 70 (1842), Part II, 69; Uttar Pradesh State Archives, Lucknow.

4 Pilgrim, "Wanderings in the Himalaya" (1844), p 135.

5 L Peter, "The First King George's Own Gorkha Refles", Part I (1925), pp 8, 69, 74, 75, 88, etc. Also Phillip Mason, "A Matter of Honour" (1975).

6 E Atkinson, "The Himalayan Gazetteer", Vol III, Part II, 1973 (first published in 1882), pp 523-24.

7 Yamunadatt Vaishnav, 'Ashok', *Madhya Nished* (1950), p 70.

8 Ibid, 71.

9 *Almora Akhbar* (Almora), January 2, 1893.

10 See, for example, *Zila Samachar Almora*, June 1, 1925.

11 H G Walton, "British Garhwal and Gazetteer" (1911), p 105.

12 C Rajagopalachari, "Prohibition" (n d), pp 45-46.

13 See *Young India*, April 22, 1926, January 7, 1926, October 31, 1929, etc.

14 See *Harijan Sewak*, November 6, 1946.

15 See report on Excise Administration for 1948, UP, p 8.

16 Report of the Indian Prohibition Enquiry Committee, New Delhi (1955), p 45.

17 G Thimmaiah, "Socio-Economic Impact of Drinking" (1979), Preface.

18 For details, see the yearly excise reports of UP.

19 Sarala Devi, *Vyavaharik Vedant: Ek Atmokatha*" (1976), pp 186-88.

20 See *Yugvani* (Dehradun), April 2, 1967, and July 9, 1967.

21 Sarala Devi, op cit, pp 189-90; Yogesh Chandra Bahuguna, *Uttar Ke Sikhromein Chetna Ke Ankur* (1975), pp 78-80; *Dinman*, April 15, 1973.

22 See the pamphlet of the Parvatiya Yuva Morcha, *Pahad Aur Chunav*, dated May 22, 1977.

23 For some evidence, see *Dinman*, April 15, 1973. *Shan-E-Sahara* (Lucknow), August 21-27, 1983.

24 See *Simant Prahri* (Mussuri), August 27, 1983; *Nainital Samachar* (Nainital), December 15-31, 1982.

25 *India Today*, September 1-15, 1984, interview with Hill Development Minister C M S Negi, Nainital.

26 *Amar Ujala*, November 19, 1984; *Semant Prahari*, August 1, 1983.

27 *Jansatta*, February 17, 1985.

28-29 For some details see, People's Union for Democratic Rights, *Kumaun Ki Pahadia, Jan Andolan Aur Sarkar Ki Niti*, May 1984; *Yojana*, January 7-21, 1978; *Jansatta*, September 9, 1984; Shekhar Pathak, *Nasha Ek Shadyantra Hai*, Pahar booklet, 1985, etc.

30 See, for example, *Jangel Ke Dawedhar* (Almora), February 1-5, 1984.

31-32 *Nasha Ek Shadyantra Hai*, op cit.

33 *Nainital Samachar* and *Jangel Ke Dawedhar*, May 1-15, 1983.

34 *Shan-E-Sahara*, September 18-24, 1983.

35 *Nainital Samachar*, February 1, 1984.

36 *Amar Ujala*, dated March 28, 1984.

37 *Surya India*, July 1984.

38 See *Dinman*, October 23-29, December 18-24, 1977; *Nainital Samachar*, December 15, 1977.

39 *Swadhin Praja* (Almora), April 10, 1984.

40 Among these may be mentioned Mahila Morcha, Uttarakhand Kranti Dal, Chavni Yuva Sangh, Jagar, *Nainital Samachar*, and Uttarakhand Chatra Sanghatan. Apart from these, associations especially of women and youth had sprang up in many localities to co-ordinate the movement there.

41 *Nainital Samachar*, March 15, April 1, 1984; *Uttarakhand Navniti*, May-July, 1984.

42 NBT (Lucknow), June 21 and 27, 1984.

43 See the forthcoming PAHAR-2 (in press).

44 *Uttarakhand Navniti* (Nainital), March 29, 1985; NBT (March 12, 1985).

45 *Amar Ujala*, April 3, 1985.

46 Some illustrative ones:
—'Sarab nahin rozgar do, kam ka adhikar do'
—'Jo sharab peeta hai, wo parwar ka dushman hai'
—'Jo sharab bechta hai, wo samaj ka dushman hai'
—'Jo sharab bekwata hai, wo desh ka dushman hai'
—'Das crore hai berozgar, kaun hai iska zimmedar?'
—'Ye sarkar woh sarkar, Tata-Birla ke sarkar'
—'Ye sarkar woh sarkar, daru walone ke sarkar'
—'Parvat ka uddhar na hoga,
Nashe ka pratikar no hoga'
—'Pehli jarurat roti hai, janta jisko roti hai'
—'Pahar banaya aisgah, nasha pilake kiya tabah'

47 See, for example, *Shakti* (Almora), April 27, 1984.

48 On the Chattisgarh movement, see PUCL (MP Unit), "*Janvadi andolan banam hinsa ki rajniti*", May 1982; *Jansatta*, May 29, 1984.

(For more details, see Shekhar Pathak's *Nasha Ek Sadyantra Hai* (Hindi), 1985 in PAHAR booklet series. From PAHAR, Yama, Rohilla Lodge, Nainital - 263 002.)

# Rational Approach towards Fuelwood Crisis in Rural India

V J Patel

*A majority of India's rural population still uses firewood for cooking purposes. With vanishing forests, there is a shortage of firewood. An integrated programme for fuelwood production to meet the total requirement of the country is an imperative need. But the implementation of such a programme would pose serious problems. It would be more useful to begin with projects covering specific locations like a village or a block, aiming at making them self-sufficient in fuelwood. The experience gained thereby could help in formulating an overall long-term strategy. This paper discusses the experience of some specific projects in Gujarat state.*

## Introduction

THE vast majority of the rural population in India still use firewood for cooking. With vanishing forests, there is a shortage of firewood. The worst sufferers in this fuelwood crisis are women and children. An integrated programme for fuelwood production to meet the total requirement of the country, is obviously an imperative need. But its immediate implementation would pose serious problems. It would therefore seem advisable to begin with projects covering specific locations. The experience gained in carrying out such projects could then be carefully scrutinised to serve as an important input in constructing an overall approach within the framework of a long-term strategy. Such projects could cover a village or a block of villages, aiming at making them self-sufficient in firewood.

### THE MAIN CONSIDERATIONS

Let me summarise some of the main considerations underlying the approach proposed in this paper:

The vast majority of the rural households still use fuelwood for cooking.

In the absence of such fuelwood, they use animal waste (which is a good source of organic manure) or agriculture waste.

Agricultural labourers who constitute a predominant group among the rural poor, do not have access to agricultural waste. Hence 20 per cent of their labour time is spent roaming in search of fuelwood.

The income of the other rural households is so low that they cannot buy firewood. Hence they too have to waste time collecting fuelwood or animal waste. With vanishing tree cover in the countryside, however it is not only becoming more and more difficult to find fuel, but the use of animal waste for such purposes is at some time very inefficient depriving agriculture of natural fertilisers.

The family members responsible for collecting firewood are mostly women and children. Children forced to search and collect fuelwood are thus not able to go to the school.

The real solution for the shortage of firewood in the countryside does not consist therefore of merely producing and selling a sufficient quantity of firewood. It should aim at using unsaleable firewood, which should be made available free to the landless labourers. If projects aim at producing big size firewood logs, these will find their way to the urban areas and the firewood crisis in the rural areas will continue. In short, the main thrust of the projects should be towards producing thin firewood which is difficult to transport to the urban areas and which could be supplied to the rural areas at minimum cost.

### ESSENTIAL ELEMENTS OF THE SCHEME

The unsellable firewood should consist of the thin top parts of trees. It is uneconomical to transport it to the urban areas and is equally difficult to sell it and hence will remain in the rural areas as unsaleable commodity.

Part of the fuelwood requirements of the rural areas is met from the agricultural waste, such as cotton sticks, arhar sticks, etc, and part from the firewood of trees grown on public and panchayat lands. The project should aim at meeting around 70 per cent of the total firewood requirement from unsellable firewood produced on private lands.

About 10 per cent of the farmers are comparatively better off and hence have other modes of cooking using bio-gas, kerosene, thick logs.

The thin tops of the trees grown on farmers' fields need to be removed for imparting agricultural practice. This costs some money. Instead of spending money, most of the farmers will be prepared to allow their agricultural labourers and neighbours to carry headload of this unsellable firewood while returning home after completing their daily work.

The scheme envisages irrigated High Density Agroforestry on the pattern developed by Jivrajbhai Patel Agroforestry Centre at Surendrabag[1] and now followed by many farmers. The trees are planted at a close distance of about 60 cm × 60 cm and cultivated by using inputs of the green revolution, such as fertilisers and irrigations. A scheme for rainfed condition is also presented.

A sufficient number of farmers should be motivated to participate in such energy plantations starting with Border Plantation on their farms. In most cases, the land around the border, not used for agricultural crops, could be productively employed for the purpose.

Arrangements should be made to make necessary finance available through bank loans till the plantations reach the cutting state.[2]

The present firewood stoves have a very low efficiency. Production of firewood should therefore be linked with the provision of more efficient firewood stoves. Thus, both these tasks should be carried out together. Each household participating in this programme should be supplied with improved firewood stoves. Perhaps a gas stove (similar to one used with bio-gas) and a small gasifier using 5 to 8 kg of firewood daily will be ideal for this purpose. Moreover, such an efficient stove will reduce the hazard of smoke in the kitchen. Thus, by providing an improved firewood stove, fuelwood requirements could be halved, the area under energy plantation can also be halved. Till such stoves are supplied, the area recommended in this paper for energy plantation should be followed.

### THE SCHEME FOR SELF-SUFFICIENCY IN UNSELLABLE FIREWOOD

As explained earlier, we must aim at making a village or block of villages self-sufficient in unsellable firewood. On the basis of available statistics, the distribution of households in rural areas is as follows:[3]

| | Per 100 Households |
|---|---|
| Landowners | 42 |
| Small and marginal farmers | 28 |
| Farmers other than small and marginal | 14 |
| Families of landless labourers and others | 58 |

Since farmers other than small and marginal ones use firewood of reasonably big size, kerosene stoves and bio-gas, it is the group of landless labourers and small farmers accounting for some 86 per cent of the rural households, who need unsellable firewood.

### LAND REQUIREMENT

The work carried out at the Jivrajbhai Patel Agroforestry Centre, Surendrabag in Bhavnagar district has proved that the trees planted as High Density Energy Plantation give 30 per cent of the total bio-mass produced as firewood. It was further shown that there could be as much as 25,000 trees of eucalyptus or subabool per hectare and the survival rate could be 90 per cent or more.

The selective cutting of one-third of the trees can be started in the fourth year; one-third of the trees can be cut thereafter every year. The average weight of each tree was found to be 15 kg which means that 4.5 kg per tree would be available as firewood. Let us be on the safe side and reduce this figure to only two-third or a minimum of 3 kg of firewood per tree.

One half of this 3 kg of firewood or 1.5 kg would be thin wood which could be in general unsellable in the market.

Thus, we have

Number of trees per hectare = 25,000
Number of trees per hectare at 90 per cent survival = 22,500
Trees cut annually in 3-year cutting cycle (starting from fourth year) = 7,500
Unsellable firewood of 7,500 trees at 1.5 kg/tree = 11.25 tonnes/ha year
The area required to produce 68 tonnes per year of unsellable firewood = 6 ha
Average landholding in India = 2.3 ha
The total land of 42 farm families (av of 2.3 ha) = 96 ha
Per cent of land coming under energy plantation = 6.2 per cent

It is worthwhile noting that it needs 6.2 per cent of land to be diverted to agroforestry to produce sufficient quantity of unsellable firewood to meet the complete firewood requirement of the entire village. It should be underlined that the diversion of 6.2 per cent of land is not exclusively for unsellable firewood.

In the present case we have assumed that all small and marginal farmers who constitute 28 per cent of households of the village will use unsellable thin firewood. Once, they opt for border plantation of trees, they will produce thin unsellable as well as thick parts of firewood. Once they have better firewood available with them, they too will opt for thicker size of firewood instead of the thin one. So the actual requirement of unsellable firewood will come down. Moreover, by providing efficient firewood, the energy requirement can be reduced considerably.

The project visualises an integrated approach towards producing fuelwood, use of energy saving efficient firewood stoves and encouraging small and marginal farmers to use all types of firewood produced from their border plantation on their fields. It would be quite sufficient to plan raising energy plantation on 5 ha of land for 100 households in the initial stage, a figure which could be cut down further.

### HOW TO ACHIEVE THIS RESULT?

Out of 42 farmers in 100 households, 28 are small and marginal ones and 14 are other farmers. Normally, about two meters of land at the border of fields lie vacant. The small and marginal farmers should be encouraged to plant five rows of trees at a close spacing of 60 cm × 60 cm. Each farmer could thus plant 2,000 trees on 0.05 ha of his land at the border such that they produce sufficient firewood for themselves.

But let us assume that only one-half of the farmers join in this initiative.

Then

Land covered by 14 small and marginal farmers at the rate of 0.05 ha per farmer = 0.7 ha
Land covered by 7 other farmers at the rate of 0.6 ha per farmer = 4.2 ha
Total land under energy plantation = 5 ha

### THE EFFECT OF CEREAL PRODUCTION

The scheme visualises diverting five per cent of the land to agroforestry as an energy plantation with timber as a main product and fuelwood as a by-product. This will not involve any decrease in cereal production or any other crop currently grown because of the following reasons:

For small and marginal farmers, it becomes a border plantation on the land which was not used efficiently.

The border plantation will act as a wind breaker which will reduce the damage of wind, which could be as high as 10 per cent in most cases.

The planting of trees on the countryside will change the micro-climate of the area resulting in higher agricultural production.

With the tree cover spreading in the countryside, the prospects of better and well spread monsoon also could be expected. With regular well spread monsoon, the water table will come up opening prospects of raising a second crop on the land which otherwise can have only one crop. Agricultural production could thus be greatly improved.

This will help progressing towards achieving the national target of having green cover over one-third of the land.

### OTHER SUBSTANTIAL BENEFITS

We have begun this paper with assuring fuelwood supplies mainly because that is considered an emergency situation. But it should be underlined that in the composite programme proposed by us, the quantity of unsellable firewood forms only 1.5 kg or only 10 per cent of the total bio-mass of 15 kg per tree which will be available through adopting the new agroforestry strategy. Of the remaining 90 per cent, 80 per cent of the bio-mass is good saleable timber which makes tree farming a cash crop and the remaining 10 per cent is reasonably good and sellable firewood which can be sold in the urban and rural markets. As shown in our study[4] it will be producing per hectare nearly 90 tonnes of good timber (7,500 poles) which when sold as timber at a conservative price of Rs 5 per pole would bring Rs 37,500 annually to the farmers; a return which is as much as 5 times what he would have received under normal cultivation or Rs 30,000 at the present market price of firewood. The unsellable firewood supply is *in addition* to the sums cited here. Thus, the return to the cultivator arising out of this 90 per cent sellable wood (101.5 tonnes per hectare per year) are handsome indeed. It is therefore important to keep them in mind as constituting the central focus of our strategy.

### ENERGY PLANTATION UNDER RAINFED CONDITION

It has to be noted that High Density Agroforestry (HDAF) visualises use of fertilisers and waterings which may not be available at all the places. Thus, it has a limited scope. Vast areas do not have irrigation facilities. We have many areas where soil fertility is very poor. These areas can be categorised as wasteland, marginal and/or saline soils. We should plan raising energy plantation on such soils also, to make it applicable to all types of soils and under different rainfall conditions.

In such cases, we should not think of timber production. We should select suitable species that grow in such soils under rainfed conditions even.

### PROSOPIS JULIFLORA IN ENERGY PLANTATION

The growth of eucalyptus and subabool is appreciable in good soil under irrigated conditions but not so in poor soil and under rainfed conditions. Prosopis juliflora (locally known as gando baval or pardesi baval) grows very well in saline soils and wasteland under rainfed conditions, in semi-arid and arid conditions even. It does not require special care for raising as energy plantation.

It is extensively grown on the sea coast of Gujarat, Maharashtra and Andhra Pradesh. It is now found in the desert of Rajasthan too. Once raised, it soon spreads to adjoining areas. It has excellent coppicing characteristics. Thus, there is hardly any fear of survival against illicit cutting. It could become a reliable renewable source of energy.

### OTHER PROMISING SPECIES

Acacia tortilis is another contender for use in energy plantations. It is also known as umbrella thorn in Africa and Israeli babool in India. It supplies fuel to much of the arid and semi-arid parts of Africa and the Middle East. It is a drought resistant species that can be established under extremely arid conditions. Fuelwood plantations of this crop are being established in Gujarat, Rajasthan, Haryana, Tamil Nadu and Andhra Pradesh with success.

### PROSOPIS PLANTATION IN BHAVNAGAR DISTRICT

The massive planting of prosopis juliflora on marginal and saline soils near the sea cost in Bhavnagar district was undertaken by the Forest Department of Gujarat state with success. Through wind, cattle and floods, this has spread to many areas.

Prosopis plantations exist as a close block in 9,000 ha in four adjoining talukas of Bhavnagar district. A similar plantation on a big scale has also been established in the Kutch district of Gujarat.

### YIELD AS FUELWOOD

The bio-mass of prosopis has practically no timber value but has a high calorific value. Thus, all that is produced as a biomass is fuelwood, and becomes energy plantation in the true sense.

According to K S Rao and K K Bokil (unpublished report) one hectare of prosopis yields 31 tonnes of bone dry firewood per year. At Vatva in Ahmedabad district, Gujarat state, the annual production of firewood from prosopis (spacing 3 m × 3 m) was recorded at 25 tonnes per hectare per year under rainfed condition. Adopting better agronomical practice, a 25 per cent increase in yield can be easily achieved to amount to about 30 tonnes per hectare per year.

### AREA REQUIRED

In the case of irrigated plantation of subabool and eucalyptus, we have considered the unsaleable firewood as a major input for meeting the fuelwood crisis. It has been observed that the prosopis plantation in many areas, especially in Bhavnagar district, provides self-employment to many labourers. They derive their livelihood by cutting and selling of firewood to urban and semi-urban areas. While cutting this prosopis, they use the thin parts of their own home consumption.

Many farmers have adopted a crop sharing system in the case of energy plantation of prosopis in the area. The farmers raise prosopis plantation on their own fields and bear all the expenses of raising the plantation till it reaches the cutting stage. Once the plantation goes into cutting, agricultural labourers are given the contract of cutting, stacking and marketing of fuelwood. The net earning after deducting the expenses of transportation are equally shared by the farmers and labourers. While cutting the trees, both the labourers' families and the farmers' families get free firewood for their home consumption. They cannot afford keeping all the firewood for home consumption because the farmers have invested in raising the crop, and the labourers have to get money for the labour they have invested in cutting, stacking and marketing. We should therefore plan the yield to be two times the local requirements of fuelwood.

The fuelwood requirement for 100 household is about 110 tonnes per year. It is safe to assume that more than 10 per cent of this can be met from agricultural waste and firewood from public land. Thus, the fuelwood requirement for 100 households that should be met from the energy plantation would be about 100 tonnes per year. The energy plantation should thus, aim at producing 200 tonnes of fuelwood per year.

Taking a yield of 30 tonnes per hectare per year, the area under energy plantation comes to 6.7 ha or say 7 per cent of the total agricultural landholding of 100 rural families. Such an energy plantation can be raised on wasteland, marginal and saline soils. Hence the best fertile land need not be diverted to energy plantation. Part of it may be raised even on private land and part on public and panchayat land. The prosopis has very good coppicing characteristics and hence can be raised on public land even. Once the trees survive, more trees will come up through their being spread by wind, cattle and rain water.

To be on safe side, let us assume that 75 per cent of the fuelwood required is produced on private land and the rest on public land. This means that for 100 households, 5 ha of private land should be under energy plantation. The yield from energy plantation on public land may be half the normal yield. To meet with possible shortfalls the energy plantation on public land should be extended to twice the actual one, which means that 3.5 ha of energy plantation should be raised on public land and panchayat land.

In short the area devoted to energy plantation should be as follows:

| | |
|---|---|
| Land covered by small and marginal farmers at the rate of 0.05 ha per farmer possibly on the border | = 0.7 ha |
| Land covered by 7 other farmers at the rate of 0.6 ha per farmer | = 4.2 ha |
| Total energy plantation on private land | = 5 ha |
| Energy plantation or public land | = 3.5 ha |

### NET INCOME FROM ENERGY PLANTATION UNDER RAINFED CONDITION

| | |
|---|---|
| Total bio-mass per hectare per year | = 30 tonnes |
| Half to be sold and half for home requirement saleable firewood | = 15 tonnes |
| The price of firewood at year 1984 level (at farm site) | = Rs 300 per tonne |
| The total income to be shared by farmer and agricultural labour | Rs 4,500 per ha |
| Share of income per farmer | Rs 2,250 per ha per year |
| Share of income per labourer | Rs 2,250 per ha per year |

Quite clearly, the income is indeed high, particularly considering that only poor soil under rainfed condition is used for the purpose. Again, by providing an improved firewood stove fuelwood requirements could be halved. The area under energy plantation can also be halved.

### CONCLUSIONS

The rural poor cannot buy firewood. The problem of firewood shortage can be met by producing simultaneously both unsaleable and saleable firewood.

The problem can be solved by putting five per cent of land under High Density Agroforestry. This will result in self-sufficiency in unsaleable firewood in addition to a large quantity of saleable firewood for urban areas that can help in easing the fuelwood crisis in the cities.

In the case of rainfed plantations, five per cent of the private land needs to be brought under energy plantation in addition to small energy plantation on public land. This will produce twice the fuelwood required for home consumption. Thus, half will find its way to urban areas helping it reduce the fuelwood crisis in the cities also.

The energy produced should be combined with energy saving device by providing efficient firewood stoves in the kitchen. Providing efficient firewood stove should be given equal importance to raising energy plantation. If this is successfully carried out. the size of the energy plantation can be considerably reduced.

## Notes

1 See Patel, V J: 'A New Strategy for High Density Agroforestry', Centre for Monitoring Indian Economy, Bombay, January 1983.

2 For details, see ibid.

3 See Patel, V J: 'Basic Statistics Relating to Indian Economy', Centre for Monitoring Indian Economy, Bombay, 1976.

4 Patel, V J, op cit.

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# Assam Accord

THE Memorandum of Settlement on Assam appears to be a text rather in the line of holy texts of all religions, meaning all things to all persons and calculated to please everyone, and has indeed apparently succeeded in the short run in this objective. Such implaccable foes as the leadership of the Assam agitation and chief minister Hiteswar Saikia have welcomed the accord, though their interpretation of the terms of the Memorandum of Settlement naturally vary. However, given the fundamentally different perceptions of the basic issues in Assam on the part of the major protagonists, the present near-universal welcome of the accord and the accompanying jubilation perhaps reflect more a sense of relief that the days of agitation are over than anything else. For about the best thing that one can say about the Memorandum of Settlement signed in the small hours of August 15 by the Assam agitation leaders and senior officials of the Union and state governments in the presence of the Prime Minister is that it promises to bring to an end a period of extreme tensions within Assamese society. If the accord were to bring to an end, or even halt, the gathering tendencies towards further disintegration of Assamese society it would have achieved a lot.

From the very beginning the agitation on the question of foreign nationals in Assam was marked by a certain unreality about its stated objectives. For it should have been obvious to so sophisticated a group as the leadership of the Assam agitation and their advisers that the stated objectives of the agitation—the identification, deletion from electoral rolls and deportation of all foreign nationals who have entered the state illegally after 1951 (later modified to 1961 and deporation replaced by dispersal, though not formally)—were not in the realm of practical politics and were unrealisable even if the whole agitation leadership were to be transformed into the elected government in Dispur with power and authority. Hence right from the beginning there has been the need to articulate the aims of the Assam agitation in realistic and realisable terms, so that a basis for bargaining could be established. It has been only in the last one year or so, after years of agitation during which, apart from the incalculable losses of human lives and property and disruption of educational institutions and normal social relations, there has been a more generalised brutalisation of life, that those realisable and negotiable aims of the agitation have been, even if only implicitly, stated and pursued. This is an inexplicable aspect of the agitation that needs to be investigated.

Of the terms of the Memorandum of Settlement itself, leaving aside promises on the economy and culture of Assam, the only major concession made by the Union government has been in the matter of taking back the cut-off date from March 24, 1971 to January 1, 1966; and the commitment that that segment of illegal immigrants in Assam who entered the state between these two dates will be disenfranchised for a period of ten years from the date of their detection. Indeed, much of the hard bargaining that has gone on over the last year at highly publicised 'secret' parleys between the agitation leaders and officials of the Union government has been on this question. This concession is bound to create problems when it is sought to be implemented, apart from the inherent anomolies in it; for it is theoretically possible, were the elections to the state assembly and Lok Sabha to he held before the end of the year on the basis of the electoral rolls that were recently revised on the basis of the 1971 electoral rolls and are on the point of being finalised, for a foreigner to be elected as an MLA or MP and at some future date be detected as a foreigner and disenfranchised for a period of ten years. Already the West Bengal government and every political party in that state have expressed their opposition to the accord; as always on parochial questions, there has been a remarkable unity cutting across party and ideological lines on this question, though the national units of most of these same parties, barring the CPI(M), have welcomed the accord. But even without the parochial aspect of this opposition, one can see more rational grounds on which the accord may be questioned.

Indeed, much would depend on the construction and interpretation put on the unrecorded parts of the accord, especially those relating to the dissolution of the assembly and the modalities for the next polls. The agitation leaders have strongly denied they have accepted the revision of the electoral rolls based on the 1971 electoral rolls and thus for all practical purposes accepted the later cut-off date for the conduct of the coming polls; but these denials have not carried much conviction, as reports from Assam suggest, even with the agitation's own supporters. For, ever since the agitation leaders decided initially not to oppose the revision of electoral rolls based on the 1971 lists and later actually directed their cadres to co-operate with the revision work, they have in fact even if not formally committed themselves to accepting the rolls that are currently being revised, with the proviso that the revision has to be to their satisfaction. Some steps in this regard have already been taken by the election authorities and the Chief Election Commissioner's latest instructions to the state election authorities, while ordering a fresh revision of rolls in some 13 assembly constituencies where, the student leaders had complained, there was an 'unnatural' increase in the voting population, include a directive to refer to the National Register of Citizens (NRC), a document whose relevance or even authenticity the Union government had refused to concede all these years. This perhaps is a pointer, one among many, to the shape of things to come.

But the real problems for the leaders of the Assam movement will be those faced by any and every radical movement: the problems of transition from being leaders of an agitation against established authority to being leaders who, after their success, have to move on to the far more arduous task of translating the gains of the agitation into practical terms. For despite disclaimers to being 'political', the Assam agitation has been not merely over the presence of illegal foreigners in the state but the equally important and related political question—the feared (more realistic observers would say, accomplished) loss of political power following the fundamental demographic changes that have taken place in the state. The agitation has therefore been essentially a political one, though the terms of its articulation have been almost stridently 'non-political'. AASU itself, the leading and the most explicitly non-political of the organisations in the agitation, realised this dichotomy following its experience during and after the bloody elections of February 1983, particularly in the way in which the Hiteswar Saikia ministry, transparently the child of a fraudulent election, proceeded to establish its legitimacy at least in practice and, in its thirty months of existence, even succeeded in seducing away some important elements from the movement. Hence the resolve at the AASU-sponsored convention in Jorhat early this year to strive to bring together on a common political platform the existing regional parties in the state. But this task of building a new regional party or, in the convoluted phraseology of Jorhat, of "bringing the existing regional parties of the state on a common political platform" is turning out to be problematical. For, inconceivable as the prospect may appear, there are powerful and influential elements among sections sympathetic to the agitation (if not within the lower ranks of the leadership of the agitation itself) who, now that the problem of foreign nationals has been so 'brilliantly' solved by the Prime Minister, would like to steer the agitation leadership towards the ruling party, away from the confrontationist postures of the last six years. Indeed, the cries of 'Rajiv Gandhi Zindabad' along with cries of 'Hiteswar Saikia Murdabad' that rent the air when agitation supporters took out processions on the evening of August 15 and 16 were not merely the handiwork of agents provocateur or NSUI and Youth Congress elements opposed to Hiteswar Saikia masquerading as agitation supporters, as some anti-Congress(I) agitation leaders suggest.

Another problem, not unrelated to the above, that the agitation leadership has to tackle in the days ahead is of dissidence. For apart from the open disassociation with the Memorandum of Settlement expressed by three constituent units of the All-Assam Gana Sangram Parishad (Purbanchaliya Lok Parishad, All-Assam Tribal Youth Association and Young Lawyers' Forum), dissidence within the ranks too, now that the agitation has been formally withdrawn, has to be logically expected. It is to be seen how AASU and its colleagues will tackle these problems of victory which may indeed prove more formidable than the problems of struggle in the coming months.

## *World Bank and India*

### To Market, to Market . . .

THE Government of India has, not surprisingly, rolled out the red carpet for the President of the World Bank, A W Clausen, currently on a six-day visit to this country. The Prime Minister, the Finance Minister (at whose invitation formally the visit is taking place), the Industry Minister as well as the Deputy Chairman of the Planning Commission have all met him during his stay here. And he has been afforded an opportunity to publicly pronounce on different aspects of the Indian economy at a press conference. These pronouncements were mostly reassuring and even complimentary. He claimed to have been impressed by the Government of India's emphasis on modernisation of technology and while he thought the goals of the Seventh Plan to be rather ambitious, aiming at something more than what was readily achievable would spur the economy to greater effort. The World Bank group, for its part, would assist this country on an even larger scale in the Seventh Plan than it did in the Sixth Plan. Of course, given the constraints on IDA's resources, this would mean greater recourse to assistance from the World Bank (on near-commercial terms). The World Bank President did not apparently want to sound entirely pessimistic even on the prospect of assistance from the IDA. So he referred to the possibility of the IDA-VII replenishment, which now stands at $ 9 billion, being enlarged by another $ 3 billion, even though it is well known already that all hope of a supplemental fund of $ 3 billion for IDA-VII has by now completely disappeared. This was confirmed by one of the Vice-Presidents of the World Bank itself in Washington last month while releasing the highlights of the Bank's performance in its financial year 1984-85.

Be that as it may, the question is: has the World Bank President really come here to boost the morale of the government and the planners as they toil to produce a finished version of the Seventh Plan and to acquaint himself at first hand with what the government has been doing to improve the lot of tribals in Mirzapur district of UP? It is doubtful that such is the case. It is a fact, of course, that the World Bank is on the whole pleased with the direction of the Government of India's economic policies. Together with the IMF it may even justifiably claim some credit for steering the government in this direction. But it should not be surprising if the World Bank (like the IMF) is not entirely satisfied with the pace of change in the government's policies and if it believes that it is possible and necessary for the government to move more decisively, especially to further liberalise import policies. It is also likely that the World Bank has come to the conclusion that one major reason for the government's half-heartedness on this score is the fear of being landed in serious balance of payments difficulties. The World Bank's approach to allaying this fear would be to convince Indian policy-makers that larger current account deficits—which, to the World Bank's way of thinking, can only be a short-term development since, spurred by enhanced efficiency and competitiveness induced by a liberal import regime, export growth will soon catch up with the rise in imports—resulting from a relaxation of restrictions on imports can be readily financed if only the government would overcome its inhibitions about commercial borrowing in the international markets. The World Bank's latest annual confidential report on India is said to have put the desirable level of international commercial borrowing in the Seventh Plan period at $ 4.5 billion per year on average and held out the assurance that "given India's record of prudent borrowing in the past and the manageable foreign resource requirements for the future . . . the country should face no difficulties in raising the projected amounts in the commercial markets". It is not all that difficult to guess that behind the cover of the public relations exercises exuding satisfaction with the performance of the Indian economy, the principal purpose of the World Bank President's visit was to personally press the above message upon Indian policy-makers.

It is not a question just of what the World Bank considers good for the Indian economy. For A W Clausen the whole subject cuts somewhat closer to the bone. The Reagan Administration has made it very clear how it wants to see countries like India relying primarily on commercial loans to finance their development, with aid, both bilateral and multilateral, playing a supplementary role. It clearly expects the World Bank to use its leverage with these countries to persuade them to take greater recourse to commercial borrowing. Similarly, the large US and other multinational banks have been eyeing India as a prize client potentially and have been growing impatient at how slowly the potential seems to be materialising. India is by far the World Bank's largest client. If despite this the Government of India continues to act coy on commercial borrowing, this will hardly seem either to the US Administration or to the larger multinational banks like a commendable performance on the part of the World Bank. And this is something which Clausen cannot afford to be unmindful of, as his tenure at 1818 H Street NW, Washington, DC, draws to a close.

## *South Africa*

### Not Anti-Asian

SPEAKING at the Congress of the ruling National Party at Durban this week, the head of the racist Pretoria regime, P W Botha, declared that he was "not prepared to lead white South Africans and other minority groups on a road to abdication and suicide". Equal voting rights, he said, "would lead to domination of one [racial group] over the others and to chaos". Further, "destroy white South Africa and our influence and this country will drift into factional strife, chaos and poverty". The perverse logic of these arguments calls for no comment. Yet the US Administration has welcomed the speech as an 'important statement' and expressed the hope that "the steps President Botha has outlined will advance the end of apartheid". The reference is to Botha's statement that while white domination would most certainly not end, influx control, under which special permission is required by blacks to work and live in 87 per cent of the territory set aside for whites, coloured and Asians, was proving "outdated and too costly", implying that such control might be modified.

Even this relatively minor admission has been forced out of the racist regime by the black struggle which has gathered momentum since September last when the 'new' constitutional arrangements were enforced, providing for a tricameral parliament so as to give a veneer of political participation for the coloured and Asian people. These 'constitutional changes' were expected to provide a buffer between the blacks and the whites, though the 20 per cent turnout of Asians in the 'elections' which followed clearly showed that the changes did not enjoy much credibility among the people for whom they were meant. The black people's struggle, on the other hand, became more widespread, engulfing the trade unions. Also, there has emerged a movement for attacking African and other collaborators of the racist regime. The district councils were boycotted and black councillors attacked. White shops in black townships were boycotted and there have been attacks on Asian shops.

It is not true that the attack on Asians was an attempt to create a division between the blacks and Asians. The attacks merely spilled over from the neighbouring black townships into this area. And unlike in 1949 when the targets of black wrath were Indians, leaving 87 blacks and 50 Indians dead, this time only two Asians have been killed. More important, the Natal Indian Congress has said that the conflict was not racial since even black collaborators have been the objects of attack.

There is much basis for blacks to feel resentment towards Asians, especially Indians. The role of Indians in the rest of Africa shows that they have rarely tried to link themselves with the liberation struggles and indeed at times have behaved little differently from the predatory white rulers. In South Africa the racial laws discriminate against every racial group except the whites, but the blacks suffer the most. Besides, what is often held up as the commercial dynamism of the Asians or Indians is merely a gloss for usurious moneylending practices or market-place exploitation of the blacks. The presence of a small number of enlightened Indians (or Asians) is no basis for suggesting that the community as such supports the struggle against racialism. There is little reason, given this situation, for the disenfranchised and dispossessed blacks to have a sense of comradeship towards the Asians. What is however remarkable is that despite this objective basis for resentment there has been so little conflict between blacks and Asians, suggesting the political maturity of the black liberation movement.

## *Soviet Union*

### Grotesque Gesture

COME November, the USSR will be celebrating the 68th anniversary of its founding revolution. It is somewhat surprising that nearly seven-decade long practice has not yet succeeded in giving its state-craft a sophisticating touch. Witness, for instance, the recent award of a Soviet decoration to the Filipino dictator, Ferdinand Marcos, ostensibly for his, somewhat ambiguous, role as a soldier in the US colonial army against the Japanese invaders 40 years ago. The timing of the award is even more inapt than its citation.

For a long time, particularly since the murder of the liberal opposition leader Benigno Acquino on the tarmac of the Manila international airport in 1983, the world Press has been full of reports not only about the brutal repression and stinking corruption of the regime headed by the Marcos couple, but also the swelling mass upsurge for their overthrow. Not only is the armed struggle led by the National Democratic Front (NDF) steadily advancing, but moderate/liberal leaderships of various shades are also regrouping their forces for pushing the Marcos clique out. Even its embarrassed patron, the US Administration, is engaged in various manoeuvres and is drawing up alternative contingency plans for ditching Marcos in favour of some new regime with a less brutal and corrupt face.

A recently leaked top secret inter-agency study, prepared by members from the CIA, Pentagon, State Department and so on, notes that "depressed economy, the weakness of the Philippine military, and its abuse of civilians, popular fear and resentment of the military, and the government's inability to deliver economic and social development programmes" are factors contributing to the "continued steady progress" of the Philippine revolutionary movement. It warns against the danger of being "seen as favouring a continuation of the Marcos regime to the exclusion of other democratic (*sic*) alternatives". Indeed, the study recommends quite a sophisticated approach. It says:

> . . . while President Marcos at this stage is part of the problem, he is also necessarily part of the solution. We need to be able to work with him and to try to influence him through a well-orchestrated policy of incentives and disincentives to set the stage

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> for peaceful and eventual transition to a successor government whenever that takes place . . .

The study does not fail to emphasise that, political and diplomatic interests apart, "continued unhampered access to our bases at Subic and Clark is of prime importance".

What really inspired the Soviet government to resort to the grotesque gesture of honouring Marcos, apart from its known antipathy for the Maoist-oriented communist party of the Philippines which is heading the mass struggles against Marcos? A report entitled 'The Philippines at the Crossroads' recently published in the Soviet periodical *International Affairs* may provide a clue. After noting that "the difficult living conditions and the restriction on democratic rights and freedoms have forced the broad masses to social protest", the report says, "the country's leadership has revised its foreign policy . . . Attempts are being undertaken to reach a balance in relations with the USA, the line has been taken on the diversification of foreign policy relations and maintaining normal relations with all states regardless of their socio-political systems."

Is the Soviet foreign ministry really so naive as to take the counter-manoeuvres of the Marcos regime against the US moves all that seriously, to the extent of showing contempt for the swelling mass struggles against the dictator?

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## BUSINESS

# In Search of Quick Fortunes

THE stock market has, of late, been increasingly in the news. This is scarcely surprising. The phase the market is currently passing through is indeed very extraordinary; it has really no parallel. Never before has the stock market moved so fast and for so long. Spectacular, staggering, phenomena can no longer be considered exaggerations to describe the upsurge in equity prices which is quite incomprehensible. The upswing really started about the middle of November and equity price indices have been scaling new peaks month after month. All the principal markets other than Bombay recorded new highs about the middle of the second week of August. Bombay lagged behind a little in that it could not improve upon its previous best mark made on July 22 though it came fairly close to it.

Since the beginning of the upswing in November. the *Financial Express* equity price index for Bombay has risen by 112 per cent and the all-India index by 104 per cent. According to the equity price indices compiled by the *Economic Times*, the regional index for Delhi has registered the sharpest rise since the end of December (184 per cent) followed by Madras (98 per cent), Ahmedabad (92 per cent), Bombay (91 per cent) and Calcutta (75 per cent). The rise since the beginning of the year far exceeds the total rise recorded over the preceding four years—1981 low to 1984 high—the Bombay index having moved up by 64.7 per cent and the all-India index by 47.7 per cent.

It is not only the meteoric rise in equity prices that makes the current bull phase extraordinary. Never before has the stockbroking community had to contend with such a wide range of margins—daily margins, daily automatic margins, overall margins, carryforward margins and ad hoc margins—which add up to a really heavy burden. Also, never before has the market been known to put up such a remarkably firm show in the face of exorbitant carryforward charges ranging, at times, upto 60 per cent (annual basis). Nor has the disparity between the yield on equity and fixed interest bearing securities ever been so very wide as it is at present. Never before has the stockbroking community had to put up with so much paper work to complete its daily business, resulting in considerable delays in delivery of shares, settlement and payments.

The unprecedented boom on the stock exchange has had its inevitable impact on the capital market which also has been displaying remarkable buoyancy. Rarely, if ever at all, have so many new issues been so heavily oversubscribed. Seldom have unofficial premiums on new issues ruled so very high, holding out the hope of fantastic returns for the successful applicants. Subscription to new issues has acquired the semblance of a gamble. Instances abound where applicants receiving full refunds have far exceeded the number of successful applicants. Whoever heard of a company raising from the public (NRIs included) Rs 270 crore in one shot? Reliance Textile has done it. Until a few years ago, the entire corporate sector could not raise so much money in a full year?

Perhaps never before has the boom on the Indian stock exchanges attracted so much attention abroad, not only from prospective non-resident Indian investors but also from banks. Michael von Clemm, Chairman, Credit Suisse First Boston, London, world leader in the management of Eurobond and floating rate note issues, has described the current boom in the Indian stock markets as a 'fascinating' development which the investment bankers abroad are studying eagerly. Clemm has also expressed the view that the growth of activity in the Indian stock markets could lead to foreigners investing in Indian securities and Indians doing so in the stocks of companies abroad. Chances of such a development in the forseeable future, however, appear very remote.

Unlike commodities, the rise in equity prices does not need to be viewed with concern so long as it does not endanger the solvency of the market which raises questions about the strength and efficiency of the organisational framework of the stock exchanges and the financial position of stockbrokers handling the business of their clients. The rise in equity prices should normally be welcomed as a buoyant stock market facilitates the raising of resources from the market for the growth of the private corporate sector.

The current boom on the stock exchange has been the subject of a lively debate in official as well as private financial circles. While there is a general agreement on the various factors contributing to the rising trend in equity prices, there are marked differences among market analysts in regard to the degree of emphasis on the different contributory factors and the manner of the market's response.

The vigorous upsurge in equity prices has been seen as reflecting the spurt in confidence in the government headed by Rajiv Gandhi and a renewed desire to invest. The boom which began with the hopes of a new economic order has got strengthened with every new policy pronouncement. The stock market sees in these policy pronouncements a major effort to rebuild industry's confidence in government and to make it a potent instrument for the development of the high profit areas of industry.

The stock market is convinced that the government is really earnest about providing a stable economic regime conducive to growth. Its firm conviction about the dawn of a new era for the private sector and the steady flow of encouraging corporate news have brought about a profound change in market psychology. Speculators have been quick to exploit this situation. Reports are that quite a good deal of speculative activity is supported by black money which is being deployed not only for the purchase of specified and non-specified shares but also for 'benami' subscriptions to new issues. To think that these transactions can be easily detected is to underrate the ingenuity of black money holders who have developed considerable expertise in running a parallel economy over the years.

With equity prices rising rapidly week after week and daily fluctuations often wide enough to cover a full month's normal range in the past, there has come about an enormous increase in outside participation in stock exchange dealings. Many a small fry has been drawn to the market for making a quick fortune. Shares are being bought and sold in a big way by people who have no knowledge of company activities much less their prospects. There seems little doubt that speculative mania has firmly seized the market.

As a healthy bull market makes headway,

the public participates more freely. Such purchases are generally made on hopes of selling out when prices are higher, but a day comes when there are not enough buyers to go around for all the stock that is offered. This marks the beginning of a secondary reaction. Any daily movement counter to the primary trend may be the beginning of a secondary reaction.

The technical position of the stock market has been suspect for quite some time. High carryforward charges point to an overextended long account. The sharp setback in equity prices on August 12 and the further break in prices two days later attributable mainly to substantial disinvestment by institutional investors could well mark the beginning of the corrective phase. It appears that the stock market balloon which had been excessively inflated by the air of optimism has begun to leak. Bulls could certainly pump in more air into the balloon but it may only have the effect of making the holes bigger.

## *Synthetic Fibres*

### Heading for a Fiasco?

THE government's new textile policy announced on June 6 aims at providing a boost to the consumption of man-made and blended cloth by lowering the prices of such cloth. Towards this end the policy statement proposes that "(a) creation of capacity by new units and expansion of capacity by existing units for production of synthetic fibres/yarn would be so determined as to realise economies of scale in order to reduce costs of production; and (b) fiscal levies on man-made fibres/yarn and on the intermediates used as inputs for the production of such fibres/yarn, shall be progressively reduced in such a manner as to facilitate absorption of increased domestic production so that the benefit flows to the consumer in the form of lower prices of synthetic and blended fabrics".

Manufacturers of polyester staple fibre (PSF) and polyester filament yarn (PFY), however, appear to be determined to defeat the government's objective of reducing the prices of man-made fabrics. According to the All-India Crimpers' Association, producers of PSF and PFY have raised their ex-factory prices by as much as 88 per cent since March 1984.

The government, curiously enough, has not shown much concern over this development. On the contrary, the Finance Ministry is reportedly examining proposals from the Commerce Ministry for reducing excise duties on PSF from Rs 45 per kg to around Rs 25 per kg and on PFY from Rs 83.75 per kg to around Rs 60 per kg.

However, against the background of the recent behaviour of PSF and PFY producers in pushing up prices, how does the government propose to ensure that the benefit of the reduction of excise duties is passed on to the consumers of blended textiles in the form of lower prices, which after all is the objective of the textile policy? If prices of cloth do not come down and the benefit of the lower excise duties is appropriated by the producers of fibres or fabrics, the government would have sacrificed a large amount of tax revenue to no purpose. Is the government in a position to prevent such a fiasco?

The current demand-supply balance seems definitely to favour the producers. The domestic consumption of polyester staple fibre and filament yarn has been on the rise. Domestic production of PSF during the first half of 1985 is placed at 22,000 tonnes as against 15,358 tonnes in the corresponding period of the previous year. The total output during the year is expected to be 45,000 tonnes while demand is placed at 60,000 tonnes. In the case of PFY, indigenous capacity is at present about 80,000 tonnes per annum whereas current demand is around one lakh tonnes. Domestic output of filament yarn has gone up from 25,000 tonnes in 1982-83 to over 55,000 tonnes in 1984-85 and is expected to increase further during the current year.

In view of the gap between supply and demand which exists, one way, in reality perhaps the only way, of disciplining PSF and PFY manufacturers is through imports. It is already evident that imports have, therefore, become the focus of intense lobbying. Citing the steep increase in prices by PSF and PFY producers, the All-India Crimpers' Association has made out a case for larger imports to save textile mills from being exploited by the fibre producers. Towards this end the Association has demanded the abolition of the anti-dumping duty. The duty had been imposed in November 1982, at the rate of Rs 15 per kg on PSF and Rs 9 per kg on PFY, ostensibly to protect domestic producers who have, as already mentioned, used the protection to raise prices.

Sensing that larger imports could pose a threat to their cosy protected market, producers of PSF and PFY have launched a counter-campaign raising a scare of dumping by foreign suppliers, particularly from South Korea and Taiwan. Specifically, the campaign seems to be directed at forestalling any move by the government to scrap the anti-dumping duty.

It is, however, difficult to take seriously the scare sought to be raised by PSF and PFY producers. This is because in addition to the anti-dumping duty, there is an import duty of 175 per cent and a countervailing duty of Rs 45 per kg on polyester staple fibre and an excise duty of 225 per cent and a countervailing duty of Rs 83.75 per kg on polyester filament yarn.

There can be no doubt on the whole that PSF and PFY manufacturers have been enjoying enormous protection. How can the new economic pundits in the government, who are constantly railing against the deleterious consequences of excessive protection, justify the extent of protection afforded to the producers of synthetic fibre and yarn?

## *Equipment Leasing*

### Use as Tax Shelter

FOR us in India it should be of interest what is behind leasing business, for leasing business has grown phenomenally in the past five years.

Let us face it. Basically equipment leasing has evolved as a tax shelter. This will be the case in India, as it is in countries with longer experience in this matter.

As everywhere, Internal Revenue in the US is engaged in a running battle with business firms in the matter of tax shelters in general and leasing in particular. And the US Internal Revenue has not fared too badly in its crusade against tax shelters. The Tax Court has virtually upheld every major shelter case, including those questioning the abuse of leasing for tax avoidance.

Recently, however, the Department has suffered a setback. Interestingly, this was in a case of computer leasing sponsored by none other than E F Hutton, the brokerage and financing firm which was recently charged with fraud running into a few billion dollars. A partnership firm, headed by one Thomas, bought $ 9 million worth of computers and leased them to corporations. Only $ 1.2 million was paid by the partnership, and that too not all in cash because part was paid in the form of signed notes. The partnership claimed deductions on the whole of $ 9 million. The Department disallowed the entire deduction saying the partnership never really owned the computers. The whole deal was considered a fabrication intended to transfer the deductions to high tax bracket individuals.

The court overruled the Department, called the transaction genuine and sustained the deductions on the grounds that (1) the computers were bought at a realistic price, and (2) the investors reasonably expected significant residual value, i e, when the leases would expire.

So equipment leasing can once again become a major tax shelter in the US because it combines what is referred to as valuable lock-in and deferred benefits, particularly now when, under the Reagan Tax Plan, tax rates are to be reduced and various incentives offered in the form of accelerated depreciation and investment tax credit are to be withdrawn. By investing funds now in equipment to be leased, i e, in advance of new Tax Plan coming into effect, the taxpayer can lock-in the rapid write-offs now available and also take whatever deductions are currently possible to take under today's tax rates. True, subsequent earnings will be able to claim lower deductions but then the tax rate itself will be lower under the Tax Plan.

What is feared in the US could well happen in India as well, where too the Finance Minister has not only lowered individual tax rates but also promised a phased reduction in corporate tax rates. The leasing companies will bear watching.

# STATISTICS

| **Index Numbers of Wholesale Prices** (1970-71 = 100) | Weights | Latest Week (27-7-85) | Variation (Per Cent) Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85$^{++}$ | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| All Commodities | 1000 | 364.3 | 2.0 | 5.6 | 5.5 | 7.0 | 9.5 | 2.6 | 9.3 |
| Primary Articles | 417 | 344.0 | 2.4 | 1.8 | 6.8 | 4.8 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 331.3 | 3.5 | 6.0 | 11.4 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 301.8 | 0.2 | −8.7 | − 2.9 | 2.3 | 15.1 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 556.9 | −1.0 | −7.9 | 0.4 | 2.6 | 7.6 | 7.5 | 20.7 |
| Manufactured Products | 499 | 347.1 | 2.1 | 7.8 | 5.3 | 6.0 | 8.7 | 0.6 | 5.2 |

| **Cost of Living Index** | Base | Latest Month | Variation (Per Cent) Over Last Month | Over Last Year | Over March 1985 | In 84-85 | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| For Industrial Workers | 1960 = 100 | $606^6$ | 1.0 | 5.6 | 3.4 | 6.4 | 12.6 | 7.8 | 12.5 |
| For Urban Non-Manual Employees | 1960 = 100 | $546^4$ | 1.1 | 7.1 | 1.1 | 8.1 | 10.3 | 8.0 | 11.9 |
| For Agricultural Labourers | July 60 to June 61 = 100 | $524^5$ | 1.2 | 3.2 | 1.4 | 0.2 | 11.4 | 5.2 | 12.4 |

| **Money and Banking** | Unit | Latest Week (19-7-85) | Variation Rs Crore (Per Cent in Brackets) Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85$^{++}$ | In 83-84$^{++}$ | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| Money Supply ($M_3$) | Rs Crore | 1,06,839 | 1,223<br>(1.2) | 15,096<br>(16.5) | 5,193<br>(5.1) | 15,443<br>(18.0) | 13,031<br>(17.9) | 10,115<br>(16.1) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 54,497 | 540 | 9,073 | 5,517 | 8,460 | 5,757 | 4,748 | 4,965 |
| Bank Credit to Commercial Sector | Rs Crore | 72,469 | 1,287 | 10,412 | 2,496 | 9,447 | 8,830 | 8,247 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 2,394 | − 396 | 593 | − 605 | 1,419 | − 104 | − 977 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 76,570 | 2,300<br>(3.1) | 12,037<br>(18.7) | 5,384<br>(7.6) | 10,590<br>(17.5) | 8,550<br>(16.4) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets** | Rs Crore | 6,291 | − 395 | 393 | − 670 | 1,463<br>(26.6) | 943<br>(20.7) | 911<br>(27.2) | − 1,468<br>(− 30.4) |

| **Index Numbers of Industrial Production** (1970 = 100) | Weights | Latest Month | Average of Months* 1985 | Average of Months* 1984 | Variation (Per Cent) In 1985$^{++}$ | In 1984$^{++}$ | In 1983 | In 1982 | In 1981 |
|---|---|---|---|---|---|---|---|---|---|
| General Index | 100.00 | $191.6^4$ | 204.4 | 195.5 | 4.6 | 6.6 | 4.5 | 4.5 | 9.3 |
| Basic Industries | 32.28 | $280.9^3$ | 265.4 | 248.5 | 6.8 | 11.7 | 5.5 | 8.0 | 14.5 |
| Capital Goods Industries | 15.25 | $244.2^3$ | 222.9 | 232.8 | −1.2 | 9.2 | 4.3 | −0.9 | 8.1 |
| Intermediate Goods Industries | 20.95 | $168.5^3$ | 167.5 | 155.9 | 7.4 | 1.7 | 7.9 | 1.9 | 3.7 |
| Consumer Goods Industries | 31.52 | $174.8^3$ | 170.4 | 170.4 | — | 1.3 | 0.4 | 5.8 | 8.2 |
| Durable Goods | 3.41 | $213.3^3$ | 210.9 | 187.1 | 12.7 | 13.0 | 0.1 | 3.6 | −0.1 |
| Non-Durable Goods | 28.11 | $170.1^3$ | 165.5 | 168.4 | −1.7 | 0.5 | 0.5 | 6.5 | 9.3 |

| **Foreign Trade** | Unit | Latest Month (April 85) | Cumulative for* 1985-86$^{+}$ | Cumulative for* 1984-85$^{+}$ | 1984-85 | 1983-84 | 1982-83 | 1981-82 | 1980-81 |
|---|---|---|---|---|---|---|---|---|---|
| Exports | Rs Crore | 783 | 783 | 525 | 11,396<br>(15.4) | 9,872<br>(10.8) | 8,908<br>(14.2) | 7,803<br>(16.3) | 6,711<br>( 3.9) |
| Imports | Rs Crore | 1,344 | 1,344 | 956 | 16,592<br>(5.3) | 15,763<br>( 9.8) | 14,356<br>(5.0) | 13,671<br>( 9.2) | 12,524<br>(40.6) |
| Balances of Trade | Rs Crore | − 564 | − 564 | − 431 | − 5,196 | − 5,891 | − 5,448 | − 5,868 | − 5,813 |

| **Employment Exchange Statistics** | Unit | Latest Month (March 85) | Cumulative for* 1985 | Cumulative for* 1984 | 1984 | 1983 | 1982 | 1981 | 1980 |
|---|---|---|---|---|---|---|---|---|---|
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,744 | 23,744 | 22,603 | 23,547<br>(7.3) | 21,954<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) |
| Number of Registrations | Thousand | 454 | 1,362 | 1,681 | 6,220<br>(− 6.5) | 6,655<br>(13.5) | 5,862<br>(− 6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) |
| Number of Vacancies Notified | Thousand | 49 | 150 | 180 | 707<br>(− 15.5) | 827<br>(0.9) | 820<br>(− 8.4) | 895<br>(6.6) | 840<br>(− 4.1) |
| Number of Placements | Thousand | 29 | 86 | 111 | 407<br>(− 16.3) | 486<br>(2.5) | 474<br>(− 6.1) | 505<br>(5.2) | 480<br>(2.6) |

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* For current year upto latest month for which data are available and for corresponding period of last year.

** Excluding gold and SDRs.

+ Variation in current year upto latest month for which data are available over corresponding period of last year.

+ + Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript$^1$ indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

# A Moment of Correction?

**Romesh Thapar**

THERE may be divided views on the initiatives being taken to untangle the political knots in Punjab, Assam and Kashmir, but the relief is widespread that we are moving at last. What's more, Rajiv Gandhi has abandoned the old provocative posturings for wider consultation and what is being described by the coterie around him as 'open-mindedness'. All to the good when political life encourages abrasiveness and intolerance, even in Rajiv Gandhi.

There's no denying that it would be healthier to replace the personal equations of the PM with a more solid institutional frame. There is no reason why discussions with the Opposition should be confined to the parliamentary level, particularly when the ruling party commands massive voting power. To cope with continental problems like reservation policies, consultations with chief ministers are urgently needed. And they cannot take place in the National Development Council. We will have to move to the kind of Inter-State Council envisaged in the Constitution.

One can only hope that within the confidentiality of the PM's secretariat work has begun on this aspect of our functioning. Maybe, the evergreen L K Jha, now named an adviser on administrative reform, could address himself to this matter on a priority basis. He has enough experience to work out the mechanics of an Inter-State Council and to re-define the operations of other existing councils. The fear persists that in a fast-changing situation we move too slowly—yes, even with youth in the saddle.

Let me elaborate this. Rajiv Gandhi on his own, and with the assistance of the energised Foreign Office bureaucracy (even though it over-publicises itself!), might hammer out a realistic *detente* with our neighbours, but no amount of brainwave-ing in a few offices of the Government of India is going to produce an acceptable, alternative economic frame for this sub-continent now poised for a possible break-through. A number of sustained, institutionalised national consultations will be required, particularly if we desire to neutralise the verbose debate about socialism, its relation to the public sector, high-tech and the dimensions of a just and meaningful society. An occasional gathering of a bunch of MPs, headed by an inexperienced PM, is not the answer.

Rajiv Gandhi should be moving to some such conclusion because even within his own motley followers there are rumblings which could prove embarrassing. We've had occasion to comment on the critical undercurrents within the old guard of the Congress regarding the PM's economic free-wheeling, but even on the accord with Longowal there is reason to believe that various factions are far from reassured. Of course, these stirrings, suggestive of Rajiv Gandhi's own uncertain hold on his party, are indicative of the confusion, genuine and engineered, that prevails at this moment of correction.

Any ruler who aspires to intelligent rulership has to seek viable and respected institutional support systems. Jawaharlal Nehru understood this and allowed himself to be disciplined by institutional norms even though he could easily have ridden over them. Indira Gandhi, compelled to observe the rules of the game as laid down, spent a great deal of time and energy destroying the infrastructure built by her father—and, in her later years, fashioning the Congress Party into a formation cemented largely by corruption and criminality. It is this 'inheritance' that has to be transformed.

Depending on Akashvani and Doordarshan, as so many do these days, is an unsatisfactory business. It makes morons out of us, because none of the real issues get presented. Rajiv Gandhi can keep warning these servile electronic organs against 'image-building', but they know of no other gambit. After all, the programmers are aware that their young PM feels India is not ready for freeing the media—and who in terms of image-building, is for ever presenting himself to TV cameras?

Our politicians, young and old, are shit-scared of criticism. Rajiv Gandhi, too, judging from his parliamentary performance. We have a long way to go before we can stage the protest that British media organised around the censorship of the BBC. Those 24 hours of silence probably buried Margaret Thatcher's political future. The speed of the 'surrender' should be a lesson for our bureaucratic morons.

Somehow, in this phase of correction, we have to find a way to inform our people and involve them in the shaping of the correction. The stilted approach of the government-controlled electronic media, and the pussy-footing of a supposedly independent press in between investigating 'scandals', is reducing problem-assessment and solution-finding to rather narrow, middle class exercises.

Maybe, the matter needs 'opening up' through a pirate radio sponsored by oppositionist state governments or municipalities or even universities. And then, the Supreme Court could be requested to speak on our fundamental rights. Such actions become inevitable when governments assume divine rights.

I am convinced that unfettered, free-ranging, brutally frank debate on every issue that divides us, from the original terrorist defilement of the Golden Temple to the entry of the armed forces, from communal butcheries to caste wars *a la* Gujarat, from professionalised tax evasion to bank frauds, from black money to drug-peddling, and from smuggler activity to political funding, would create not disarray, but consolidation behind those values we have quietly forgotten. Rajiv Gandhi had better think again about his very private electronic agitprop, and stop the double-talk.

In such a situation no one really knows how policies are being forged—except, perhaps, the stock markets which are on their own heady rampage. Coteries are certainly at work. But don't ask questions about who is who, or what is the bureaucratic ambience, or do ministers get the responses they seek. The speculation is endless, particularly in the area of economic policy where our future is on the anvil. As for confused thinking, it is visible at every level. We are a worried people—that is, if you move out of five-starred drugging.

However, in a strange kind of way, the despondency of the first half of this year is dissolving. It is inexplicable in the context of the problems that are surfacing. They are awesome and we now lack the culture within which self-discipline grows. Maybe, some largely unreported moves by Rajiv Gandhi, as, for instance, the restoration of the seniorities of those police officers who investigated his mother and brother after the Emergency, and the appointment of independent judges like Rajinder Sachar as the Chief Justice of the Delhi High Court, are encouraging the people at large to see the need for a change in behaviour patterns, to grow up. Maybe.

But, the critical question at this moment of correction is, when will our rapscallion politicians see the need for change? This applies across the ideological divides, from Right to Left, and to all the other variations. I don't have to spell them out as we complete another year of Independence.

*August 9.*

## Indian Tube Company

INDIAN TUBE COMPANY's amalgamation with Tata Iron and Steel Company was approved by the Bombay High Court on August 1. The Calcutta High Court had passed orders on the amalgamation in May 1985. In September 1982, the Government of India had conveyed its approval to Tata Steel purchasing the holding of British Steel Corporation, UK, in the Indian Tube Company. Tata Steel then made an application, under the Monopolies Act, to the Central Government in May 1983 for amalgamation of the Indian Tube Company. Government's approval was received by Tata Steel in May 1985.

# Making Common Cause with Peru

### ISG

IN taking the oath of office as the newly-elected President of Peru on July 29, Alan Garcia Perez made a major announcement with regard to Peru's external debt. He announced that (1) Peru would like to renegotiate the outstanding of $ 14 billion external debt directly with the banks and creditors, and (2) until the negotiations for debt restructuring were completed, the country would limit its debt servicing to 10 per cent of its export earnings.

While disavowing any intention to bow down to an IMF-designed adjustment programme, Garcia did offer the assurance to launch an austerity programme of his own, a programme that would include severe restrictions on imports and controls on prices and on outflow of foreign exchange. That he meant this seriously, he demonstrated when he unfolded, within a few days of his inauguration, a number of emergency economic measures. These include a 12 per cent devaluation of the Peruvian currency, sharp increases of 30-40 per cent in prices of not only of gasoline but also food products, a 36 per cent increase in minimum wages to be followed by a freeze in both wages and prices and tightening of control on foreign exchange to restrict flight of capital.

That Peru faced serious difficulties with regard to its external debt has been known for some time. Peru has been in arrears in its payments to commercial banks. According to one estimate, Peru is currently in arrears to the tune of $ 450 million. When the US bank regulators met in June 1985, they put the US banks on notice that if the Peruvian position did not improve by the regulators' next meeting in October 1985, "the country can expect its credit rating to be downgraded". This means that the banks which have lent to Peru would then have to maintain larger reserves *vis-a-vis* their loans.

Peru has even otherwise been in a rather unenviable economic situation in recent years. Its gross national product has suffered a decline of 30 per cent between 1981 and 1984. According to the World Bank, per capita income in Peru declined by 17.5 per cent in just one year, 1983. In fact, Peru's per capita income declined by 0.4 per cent over the decade 1973 to 1982.

Export earnings, on which depends crucially a country's ability not only to import currently but also to service its external debt, have also been on the decline in Peru, as for most of Latin America. Its export earnings in 1983 were only 80 per cent of those achieved in 1981. The figure for 1984 is supposed to be lower by at least another six per cent at around $ 3.6 billion. Garcia's estimate for 1985 puts exports earnings at $ 3.1 billion. As against that, debt servicing liabilities will add up to $ 3.7 billion, including possibly interest payments of $ 1.5 billion. Even taking the whole of the past decade, Peru's debt servicing liability as a proportion of its export earnings must have been among the highest in Latin America.

When Fidel Castro argues that the external debt of the Third World in general and Latin American countries in particular has reached so high a level that it is simply unpayable, he is not exaggerating the problem. This is particularly so when it comes to countries like Peru. As a proportion of export earnings, Peru's external debt of $ 14 billion is not as high as that of Argentina and Brazil. But being a relatively small country and owing an amount that in absolute terms is not large enough to pose a major danger to the financial position of the foreign creditor institutions Peru is particularly vulnerable. It would, in normal circumstances, be liable to be hustled into debt restructuring and accompanying austerity programmes of greater stringency than bigger debtors. Mind it, even countries with massive external debts, such as Mexico and Brazil, are fast discovering how hard it is to abide by the arrangements they have entered into for restructuring their external debts.

Garcia is certainly not going as far as Castro to ask that Peru's debt, being unpayable, should be taken over by the creditor governments. But what he is clearly saying is noteworthy, namely that Peru's debt service liabilities are far beyond its present capacity and that therefore these liabilities need to be so rephased that it does not have to pay more than a reasonable portion—Garcia puts it at 10 per cent—of its annual export earnings. Also, and this too is very important to note, Garcia declines the intermediation of the IMF in negotiating whatever restructuring of Peru's external debt is called for with its creditors. For the country's present economic plight Garcia blames as much IMF's stringent rules as the overspending by his military predecessors. To quote Garcia from an interview he gave on the eve of his inauguration, "To follow the IMF path will only make Peru's economic situation worse. In the end we will neither manage to reactivate the economy nor will they collect a single dollar from us." Fidel Castro said more or less the same thing when he said that the leaders of the Latin American countries in debt were totally unwilling to lay upon the shoulders of their people the consequences of the IMF's recessionary policies and also sacrifice, in the process, economic development.

Two things have to be granted. Firstly, a country's debt servicing liability has to bear some relationship with its repayment capacity. Secondly, if under certain circumstances a country has incurred external debt beyond the level that it can service, the way out has to be such that it does not put the entire burden of the miscalculation—including the miscalculation involved in raising funds in excess of the country's capacity for repayment—on the debtor country. Unfortunately, the trend so far, under the leadership of the IMF, dominated as it is by a lobby of creditor countries led by the USA, has been completely to the contrary. Little allowance is made even for factors altogether beyond the control of the debtor countries, be it a decline in export earnings on account of a sagging world commodity market or enhanced interest liability on account of escalation in world money interest rates.

To say that on a country's export earnings depend on its import and debt servicing capacity is nothing new. Nor is there much new in saying that when a country's export earnings suffer a decline for reasons beyond its control, its debt repayment capacity gets impaired and that this has to be allowed for while enforcing the debt contract. Both of these are, in fact, very much embedded in the IMF's Compensatory Financing Facility (CFF) under which countries experiencing shortfalls in export earnings for extraneous reasons are entitled to temporary compensatory credit. The major problem with this particular facility is two-fold. Firstly, although entitlement to compensatory credit is linked to shortfall in export earnings, the actual amount of credit is tied to the concerned country's quota. No matter how steep the shortfall, the IMF assistance is subject to the quota-linked ceiling. In actual practice, as UNCTAD work on the subject has amply demonstrated, the IMF often uses its device of judgmental determination to scale down the shortfall itself in order to make it appear that its assistance is not too small. Secondly, the repayment obligation comes into effect even though the country concerned has not recovered fully from the shortfalls. These shortcomings of the facility notwithstanding, the point remains that the principle is recognised that decline in export earnings for reasons outside a country's control have to be specially provided for. If this is granted, it logically follows that when a country in debt experiences such a decline not only its capacity to import but also its debt-servicing capacity is bound to be impaired. Why should the country be held down to the obligation of a contract that it cannot fulfil given the deterioration in its circumstances?

Here, one must pause and take note of an argument often advanced in the past against any proposal to link debt servicing to export earnings. The measure it is argued, will be counter-productive because it would cause considerable damage to the creditor banks' reported earnings and, as a consequence, dry up new lending. Let us see what the experience so far demonstrates. As debtor countries have experienced difficulties in servicing their debts, the occasion has actually been exploited to hoist on these countries reschedulings which carry more stringent terms with regard to maturities, interest rate mark-up and other charges as *quid pro quo* for relief in repayments falling due in the immediate future. This is in addition to the policy programmes foisted on these countries, programmes which, as Garcia describes them, hardly ever succeed in reactivating the economy. The irony of the whole situation is that while so much song and dance is made of the need for debtor countries to follow appropriate readjustment policies, the countries, and people, who profess these programmes are unprepared to underwrite them by allowing debt servicing to be tied to the fruits of these programmes.

As for the danger of new lending drying up, the experience of debtor countries in recent years is that new lending to them has in any case more or less dried up. Fidel Castro has not pulled his figures out of a hat—he has taken them from the UN Economic Commission for Latin America—when he notes that in just two years, 1983 and 1984, there has taken place an outflow of net financial resources to the tune of $ 56.7 billion. According to an estimate of capital flight over the past three years, 1982-84, quoted in the *Wall Street Journal*, as much as Rs 100 billion is estimated to have left the shores of three major debtor countries of Latin America, Argentina, Brazil and Mexico.

Whether or not Garcia succeeds in having his way with his country's creditors, banks and their countries, there can be no doubt about the strength of his case. Will he be made to fight it singly or will other countries in Latin America and elsewhere in the Third World line up with him? The creditors are bound to resist Garcia to their utmost because in yielding to him they will be setting a precedent. But for precisely the same reason, should not the debtor countries make common cause with Peru?

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## INTERNATIONAL AFFAIRS

# An American Thriller

### GPD

THE calculations that the American foreign policy planners make can sometimes set boring. They read like a bad mystery novel where no murder takes place and the detective is forever looking for the murderer. Orwell had written an essay 'The Decline of English Murder'. Going by what first Nixon and now Kissinger have told the Press it would appear that the desire for murder has moved to the banks of the Potomac. Except that the bad men do not oblige. It was first thought by Nixon (apparently for the fourth time since the Americans played their game in Hiroshima with the atomic weapon) that the Chinese would intervene in the Indo-Pak war and he could play with his toy. Now Kissinger tells us that there is no truth in it. That was a thought only for the living quarters of the President. Kissinger had thought, however, that the Chinese would intervene in the Indo-Pak conflict. This would then be followed by a Soviet attack. So Kissinger has told us that "it was my view, and it was also surely President Nixon's view, that we did not wish the Soviets to destroy China". So Nixon and his Secretary of State instructed General Alexander Haig to receive the message from the Chinese (which was promised) and then convey to the Chinese the US assurance of moving against the Soviet Union. The message never came. The possible thriller remained a thriller. Another Hiroshima was avoided.

The logic of this murder story which was not to be is bizarre. Country A and B go to war. Country C is expected to intervene there. If it did country D would retaliate against C. If that happened the US would undertake the responsibility of defending C against D. As one can see the US is the fifth character in this absurd play. Why should it think of dropping nuclear weapons as the fifth entrant to a basically local conflict? American power presumably makes a question like that irrelevant. It will keep the 'global equilibruim' even at the cost of the globe disappearing in the process!

It is obvious that absolute power not only has corrupted people in Washington absolutely; it has also made them sick beyond comprehension. Nuclear weapons, nuclear blackmail are for them a matter of game theory. The sickness of all this speculation and scenario-making speaks once again for the fact that the US is the only superpower in the world. In any event it was never a retreating power as the Chinese tried to persuade us at that time.

However, that is only one part of the story. The entire 1971 episode has come into focus again. It is interesting to see *once again* how the Soviet Union and China at different levels of involvement in the conflict have essentially prevented it from going beyond its natural, normal bilateral proportions. It does not require much expertise to know that the Sino-Indian relationship was an adversary relationship if not an actually hostile one. Yet it was noteworthy then and now we are getting its further confirmation that matters relating to India were always a little removed from China's overall global understanding and strategies. In short China was not interested in pulling Pakistan's chestnuts out of the East Bengal fire.

We had commented upon it at that time but it is perhaps worthwhile to recall the letter which Zhou Enlai wrote to Yahya Khan after Sheikh Mujib-ur-Rehman had declared an independent Bangla Desh. The letter, if we remember right, was written in April 1971. After saying the usual things about India, the Chinese Premier promised Yahya Khan that "we shall, *as always*, support you" (emphasis added). Now this turn of phrase was curious. Why as always? And what did it mean? The only meaning that could be placed on it was—'as in 1965'. Now that ruled out active military intervention. Moral and material support, yes; military intervention, no; the Chinese seemed to suggest. It made good sense. It will be true even today. The Chinese are not going to fight other people's battles.

The amazing aspect of this episode is really that Nixon and Kissinger did not see such a simple power reality. There is reason to believe that our policy-makers saw it. There would have been no 1971 war had our policy-makers not actually ruled out Chinese military intervention. They, of course, did not say so. Nor would they say it even now. But the power realities in South Asia tell their own story anyway.

The Americans did not see things in that light. No wonder Kissinger was disappointed that the expected message from Beijing never came. People blinded by their own nucelar power cannot see these things. Asian states have, one must grant, greater sophistication than these sabre-rattling upstarts of Western civilisation and as a consequence believe in politics as a continuation of war by other means rather than the other way round. Of late we seem to be out to imitate these worthies from across the Atlantic in our search for modernisation and one wonders if we might not lose some of our traditional wisdom. Nixon and Kissinger have done well to remind us how mad their kind of modernisation can be.

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# Modernisation Drive

### Hansavivek

*TATA IRON AND STEEL COMPANY (TISCO)* has drawn up a five-year plan of capital expenditure of about Rs 1,000 crore, a major part of which will be devoted to new facilities to maintain and improve its steelmaking capability. This will enable it to rectify, after many years of neglect due to paucity of funds, some major deficiencies in its plant, such as the absence of a raw material yard and handling facilities, an additional sinter plant, more power generation, etc. With the addition of the bar and rod mill and certain modifications to the existing mills, the management hopes to maintain production for some years to come at the highest levels of plant utilisation. The company has initiated steps to implement the letter of intent for expanding its saleable steel capacity from 1.74 million tonnes to 2.10 million tonnes per annum. The Joint Plant Committee (JPC) has sanctioned a loan of Rs 80 crore to the company out of the Steel Development Fund for financing the rupee requirements of some major projects undertaken by it. These projects include schemes for modernisation of the facilities at the medium and light structural mills, improvement in infrastructural facilities such as a waste recycling plant, improvement of town services, etc. The company also proposes to approach the JPC for financial assistance of about Rs 300 crore to undertake other capital projects. The company has entered into an agreement with Korf of West Germany to set up a new company, subject to government approval, for the import of steelmaking technology which eliminates the use of coking coal and substantially reduces the necessity for power. At present, the size of such a production unit it restricted to about 3 lakh tonnes per annum, but it is hoped that higher tonnages might be possible in the near future. This will be a revolution in steelmaking in India and the future growth of the steel industry can be assured on a more viable basis.

The company has decided to utilise the slag, a waste material arising from the blast furnaces of Jamshedpur works, by adopting a well established process for the manufacture of portland blast furnace slag cement by mixing the slag with clinker made from limestone. For this purpose clinker manufacturing facilities are proposed to be set up at Maihar in MP which is close to the limestone deposits. The grinding and mixing units for the manufacture of cement will be located at Jamshedpur. The total capital cost of the project is estimated at Rs 106 crore which will be met partly out of internal resources and partly out of term loans to be negotiated with the financial institutions. The company was granted permission by the Department of Company Affairs to merge Indian Tube Company with it. Some procedures have to be gone through before the merger finally takes effect.

During the year ended March 1985, TISCO hoisted new peaks in production, sales and profits. Production of saleable steel at 1.714 million tonnes was 5.4 per cent higher than the previous year's 1.626 million tonnes. The turnover increased from Rs 781 crore to Rs 982 crore and with margins more than doubled gross profit expanded from Rs 63.15 crore to Rs 166.69 crore. Although provision for depreciation claimed more and tax liability was Rs 12 crore (nil), net profit amounted to Rs 84.74 crore compared to Rs 20.01 crore of 1983-84. Dividend has been stepped up by 4 points to 21 per cent. The distribution is covered 5.60 times by earnings as against 1.63 times previously. These results reflect the impact in a full year of the increase in selling prices from July 24, 1983 and further increases from June 22, 1984 and February 21, 1985. The new Chairman, Russi Mody, attributes the present profitability of the company to high performance as much as increase in selling of prices. "Had we operated our plant at the same level of capacity utilisation as the other plants, we too would have made a marginal loss", he adds. He also asserts that the increase in the price of steel in the last 15 years, including the recent one, is lower than in those of oil, coal, cement and power—all of which are important inputs in the build-up of steel costs. Mody tells shareholders, "Let no one be ashamed of high profits, honestly secured and re-employed in strengthening the company, and the national economy." The company's dealings with the government continue to be cordial, but Mody expresses a sense of disappointment at the interminable delay that still takes place in obtaining a decision even where the case for it is incontrovertible. Citing an example, he mentions a proposal the company made to the government in August 1984 to allow it to import 1.50 lakh tonnes of sponge iron which, with the addition of scrap, would enable it to produce an additional 3 lakh tonnes of steel, of which about 2.65 lakh tonnes would be billets which are in short supply in the country and would have to be imported at far

## The Week's Companies

*(Rs Lakh)*

| | | TISCO | | Orient Paper | | India Cements | |
|---|---|---|---|---|---|---|---|
| | | Latest Year 31-3-85 | Last Year 31-3-84 | Latest Year 31-3-85 | Last Year 31-3-84 | Latest Year 31-3-85 | Last Year 31-3-84 |
| Paid-up Capital | | 7202 | 7202 | 608 | 608 | 490 | 523 |
| Reserves | | 23024 | 16061 | 3733 | 3343 | 1273 | 939 |
| Borrowings | | 39852 | 38062 | 2841 | 1769 | 1108 | 1352 |
| *of which* Term borrowings | | 32231 | 25008 | 1739 | 744 | 265 | 268 |
| Gross fixed assets | | 91155 | 84364 | 9679 | 9242 | 5110 | 4521 |
| Net fixed assets | | 45155 | 45346 | 5008 | 4718 | 2258 | 1984 |
| Investments | | 10312 | 2022 | 455 | 455 | 38 | 38 |
| Current liabilities | | 34504 | 26028 | 3478 | 3401 | 2760 | 2176 |
| Current assets | | 49115 | 39985 | 5197 | 3948 | 3334 | 2947 |
| Stocks | | 24159 | 23254 | 2837 | 2233 | 1762 | 1652 |
| Book debts | | 11226 | 10944 | 1093 | 1049 | 245 | 203 |
| Net sales | | 98181 | 78109 | 12297 | 8554 | 9628 | 7259 |
| Other income | | 5385 | 4146 | 532 | 381 | 71 | 92 |
| Raw material costs | | 16100 | 13995 | 2923 | 1991 | 1512 | 1288 |
| Wages | | 17567 | 16193 | 1315 | 896 | 939 | 913 |
| Interest | | 5303 | 4528 | 544 | 454 | 207 | 191 |
| Gross profit (+)/loss (−) | | 16669 | 6315 | 1067 | 818 | 965 | 683 |
| Depreciation provision | | 6995 | 4314 | 480 | 530 | 305 | 263 |
| Tax provision | | 1200 | — | 80 | — | 197 | 105 |
| Net profit (+)/loss (−) | | 8474 | 2001 | 507 | 288 | 463 | 315 |
| Investment allowance reserve | | 3700 | — | 300 | 187 | 100 | 105 |
| Transfer to reserves | | 3262 | 777 | 90 | — | 265 | 129 |
| Dividend | | | | | | | |
| Amount | P | — | — | 2 | 2 | — | 3 |
| | E | 1512 | 1224 | 115 | 115 | 98 | 78 |
| Rate (per cent) | P | — | — | 7.86 & 5.5 | 7.86 & 5.5 | — | — |
| | E | 21 | 17 | 20 | 20 | 20 | 16 |
| Cover (times) | | 5.60 | 1.63 | 4.39 | 2.49 | 4.72 | 4.00 |
| *Ratios* (per cent) | | | | | | | |
| Gross profit/sales | | 16.98 | 8.09 | 8.67 | 9.56 | 10.02 | 9.41 |
| Net profit/capital employed | | 28.03 | 8.60 | 11.68 | 7.28 | 26.26 | 21.54 |
| Inventories/sales | | 24.66 | 29.77 | 23.07 | 26.10 | 18.30 | 22.76 |
| Wages/sales | | 17.89 | 20.73 | 10.69 | 10.47 | 9.75 | 12.57 |

greater cost than sponge iron. He says although everybody in Delhi has welcomed the proposal in view of the saving in foreign exchange, but in spite several follow-ups, no decision has yet been conveyed to the company. Twice during the year there was a shortage of coking coal at the company's works due to a decision by the government not to supply coking coal to the company. Subsequently, the decision was revoked, but the government made it clear that the company must rely on its own collieries or on imports in future. The management has planned a massive investment in the collieries during the next 5 years to enable the company to attain 100 per cent self-sufficiency. After long drawn out negotiations with the Bihar government, an agreement on the ownership and management of the company's lands at Jamshedpur was signed. The lease between the state government and the company has not yet been signed even after one year since the agreement was reached. Mody says that a rapport has been established between the management and the workers of the Tata Steel Works, in the mines and collieries, and in various offices and stockyards throughout the country which "it would be difficult to find elsewhere in the world". He has assured the workers of his total commitment to their welfare and happiness consistent with the prosperity of the company. J R D Tata, who had been Chairman of the board for 46 years, has stepped down from the Chairmanship. He will, however, continue as a member of the board. The board has appointed R N Tata as Deputy Chairman and S A Sabavala as Vice-Chairman.

*ORIENT PAPER AND INDUSTRIES* has produced good results for the year ended March 1985 with an all round increase in production, sales and profits. Production of paper and board was 1,27,626 tonnes as against 97,109 tonnes in the previous year in spite of the "slowdown tactics, cessation of work and other obstructive activities" resorted to by workmen from time to time in some departments at Brajrajnagar mills in Orissa. Moreover, the Orissa State Electricity Board imposed restrictions on supply of power from November 1984 to June 1985 which adversely affected the economic working of the caustic soda plant there. Production of cement was also higher at 4,10,461 tonnes against 3,35,599 tonnes. Because of a major breakdown in the cement mill, there could not be any production for a couple of months from mid-December 1984 to mid-February 1985.

The company's sales amounted to Rs 122.97 crore compared to the previous year's Rs 85.54 crore and gross profit increased from Rs 8.18 crore to Rs 10.67 crore. Profit margins declined due to a further increase in the cost of chemicals, raw materials, salaries and wages, spares and other inputs. Net profit, however, expanded from Rs 2.88 crore to Rs 5.07 crore to cover the unchanged dividend 4.39 times as against 2.49 times previously. The directors point out that supply of bamboo and hardwood from MP and from the leased out forests in Orissa continues to be inadequate. Illicit fellings have affected the potentiality of forests adversely. The company had to purchase these raw materials from distant sources at a higher cost. While the company's application for renewal of the agreement for supply of bamboo for a further period of 12 years is pending, the Government of MP has informed that the quantity of raw materials to be supplied to the industry in the next 10 years would be gradually reduced. The company has been asked to raise industrial plantations of bamboo and hardwood species through a joint sector company to be floated by MP Rajya Van Vikas Nigam, a state government undertaking, as promoter and the company as co-promoter. The joint sector company will supply the produce first to the company and would sell the balance to others. The company is also negotiating with the Government of Orissa for industrial plantation of bamboo and wood to ensure steady supply thereof to the company's mills at Brajrajnagar.

The directors observe that the enhancement of the specific rate of excise duty by Rs 210 per tonne on printing, writing and kraft paper has had an adverse effect on the offtake in the otherwise slack paper market. The supply of white printing paper at Rs 6,400 per tonne continues to be far below the manufacturing cost. Consequent upon promulgation of an Ordinance by the Governor of AP validating the increase in the Mineral Right Tax on limestone from Rs 4.50 to Rs 40.50 per tonne, the company alongwith other cement manufacturers filed petitions in the Supreme Court. As per the interim order, all cement manufacturers in the state are required to pay 25 per cent of the enhanced tax on limestone and furnish suitable security for the balance to the state government pending final disposal of the matter. The company has purchased land in Haryana for the purpose of implementing the projects for manufacture of air pollution control equipments and heat and mass transfer equipments and components, for which it has received letters of intent from the government. The government has also approved foreign collaboration agreements for both the projects. The company received from Panafrican Paper Mills (EA), Kenya, Rs 137 lakh for technical know-how and services rendered and Rs 38 lakh being dividend on shares for 1983-84.

*INDIA CEMENTS* has drawn up a capital investment plan of Rs 25 crore for the next three years, apart from the modernisation programme to convert the present wet process in the Sankarnagar plant to a more fuel-efficient process. In the light of the results obtained at this factory, the company will take up the Sankari factory's conversion. On a representation made by the company, the derated capacity and the sickness relief to the Sankarnagar factory were continued in 1984-85. The company's representation for continuing the relief in the subsequent years is being considered by the government. In view of the modernisation programme contemplated by the company, it has also requested that the sickness relief be continued for a 5-year period, instead of on a year-to-year basis, to finance a part of the programme. IDBI has sanctioned a term loan of Rs 746 crore under the Project Financing Participation Scheme in participation with IFCI, ICICI, LIC and GIC in connection with the modernisation project at Sankarnagar and Sankaridurg. IDBI and UTI have also sanctioned financial assistance in the form of term loans/subscription to privately placed debentures.

The company has turned in good results for the year ended March 1985 with production, sales and profits all higher than in the previous year. The average daily limestone mined from the Sankarnagar quarries increased from 860 tonnes in March 1984 to 1,696 tonnes in March 1985. For a long time, limestone raising from the company's own mines at Sankarnagar averaged only about 800 tonnes per day and the company had to rely heavily on outside contractors, which dependence now stands reduced. Production of cement at the Sankarnagar factory was 7.66 lakh tonnes and that at the Sankari unit 6.19 lakh tonnes, against 5.94 lakh tonnes and 5.22 lakh tonnes, respectively, in the previous year. Sales amounted to Rs 96.28 crore against Rs 72.59 crore and gross profit was Rs 9.65 crore against Rs 6.83 crore. These figures show enhanced margins. With both depreciation and taxation requring more, the gap has been narrowed and net profit turned out to be Rs 4.63 crore (Rs 3.15 crore). Dividend has been stepped up from 16 per cent to 20 per cent and is still covered 4.72 times by earnings as against 4 times previously. During the year, the company spent Rs 5.35 crore on plant, machinery and equipment, both in the factories and mines to sustain the new level of operations. The company has been pursuing progressive policies in relation to its employees and has instituted several welfare measures for their benefit. The latest such measure is the 'own your own house scheme' which has evoked a very good response. Under the scheme, the company procures land, arranges housing loans and builds the houses, which on completion are given to employees on full ownership basis, the loans being guaranteed by the company and repaid by recovery from the employees in easy instalments. The company has already handed over 30 such houses to employees at Sankarnagar factory and 50 houses are under construction at the Sankari factory.

# Project Tiger and People

## A Report on Similipal

THE idea of selecting certain areas of the country for the development of a natural forest region free from human interference took shape in the early seventies. In 1973 Project Tiger was conceived. It was named Project Tiger since usually the free flow of nutrients through the complex web of nature in the forest ecosystems culminates in the emergence of the tiger. For in a natural habitat micro-organisms break up plant and animal residues to form humus which accounts for soil fertility. The resultant diverse vegetation conserves soil and enriches water. Predatory animals like tigers thrive on this kind of environment.

Initially in 1973-74 nine tiger reserves were established. Later two more were added in 1979 and four more in 1983. Each reserve has a core area of the project where the habitat is to be completely free from any interference with a buffer zone all around the core. As the number of reserves increased the total number of tigers, according to the 1984 census, has increased four times to become now almost a thousand. Besides deer, elephant, rhino, wild buffalo and other animals have also multiplied. Similipal is one of the earliest reserves established in December 1973. It is located in the Mayurbhanj district of Orissa.

Mayurbhanj district is in the north-east corner of the state at the trijunction of three states with Singhbhum in Bihar and Midnapore in West Bengal on the border. Most parts of the district consist of forests.

### BEFORE INDEPENDENCE

Till the time of independence Mayurbhanj was a part of the princely state of the Bhanjdeo Rajas. One of the few dynasties in the country to have an almost unbroken succession for nearly a thousand years, the Bhanjdeo kingdom virtually became a tributary of the British East India Company in 1812. But it was during the reign of Sri Ramchandra Bhanja Deo from 1890 that the state was firmly integrated with the economy outside. The discovery of iron-ore deposits in Gorumahisani in the north-eastern part of the state paved the way eventually for the establishment of the Tata Iron and Steel Company at Jameshedpur in the 1910s. It was also the period when more systematic exploitation of forests began in the district. Till then the exploitation of forests, which started in 1885 with the establishment of railways and mines in the neighbouring British administered province, was done departmentally with somewhat irregular leases to businessmen and traders. Moreover, the exploitation of forest produce was confined to the peripheral regions of the vast forest area of the state. The central core of the forest area known as Similipal itself was relatively untouched. Similipal served as the hunting reserve of the Rajas. But in 1906 the Raja entered into a contract with B Borooah and Company. The company was given monopoly rights on a thirty-year lease for a large area including Similipal forest. Meanwhile, Mayurbhanj State Railway came into existence connecting Baripada, the state headquarters, to the Bengal-Nagpur Railway. Borooah and Company's contract continued till the merger of the state.

It appears that prior to this contract, human settlements were there only on the frontiers of the central core of Similipal forest. Most of the people belong to the Bathudi, an Oriya tribe. The company for its own purposes encouraged human settlements even inside the forest, although the extent of such settlement is not very significant. That seems to be the period when the Kolhas (presently the majority in this part) and other Bihari tribes came and settled here. This was the period when a large influx of tribals from Bengal and Bihar came and settled all over Mayurbhanj. The Santhals became the largest tribe of the state. Most of the people settled here during what they call the 'Ramesh Bandobast', the first land settlement survey in Similipal forest conducted by Ramesh Chandra Ghosh in 1927. In fact the very names of many villages inside the forest indicate the migrant origin.

These changes affected both the social life of the state and the forest-based economy. But the interior forest area of Similipal itself was relatively less affected and it continued to be the pleasure hunt of the feudal kings. They organised hunting expeditions for the pleasure of both themselves and their guests and British masters.

After independence Maharaja Pratap Chandra Bhanja Deo signed the instrument of merger in October 1948 and on January 1, 1949 Mayurbhanj became a district of Orissa.

The district presently has a population of about 1.58 million. More than 45 per cent of the total geographical area of the district is covered by forests. With more than 58 per cent of its population comprising tribals, the district has the highest population of tribals in the state. The single largest group is Santhals who originated from the neighbouring Chota Nagpur region. They are followed by the Kolhas, Bumij and Bathudi tribes. Altogether there are as many as 46 tribes in the district. The overwhelming majority of the population is engaged in cultivation.

The central portion of the district is what is known as the Similipal area. The Meghasani hills, the highest in the region, form the southern extreme of the long Similipal hill range. The hill range, which receives the monsoon at its advent, influences the climate of Orissa, Bihar and West Bengal. The range is also the source of a number of rivers and rivulets. Budhabalanga, Gangahara, Sone and other rivers and 12 rivulets originate in Similipal. Some of them join Subarnarekha and Baitarani rivers. With an unusual variation in altitude from 30 metres to 1,000 metres Similipal has a wide variety of forests—from semi-evergreen to extreme dry deciduous forests. Similipal is also the abode of wild animals like the famous Khairi tiger, leopard, elephant, sambar, deer, python, hyena, etc. Thus this somewhat unique character of the Similipal forest as a natural habitat seems to have determined its choice as a National Park.

In 1956, Similipal was declared a National Park for conservation purposes and for the development of tourism. In 1972 the Wild Life (Protection) Act came into force. Orissa state made its rules under the Act a year later. In 1973 northern Similipal was notified as a National Park under the provisions of this Act. The new National Park area of 304 sq km became the core area of Project Tiger. The buffer zone around the core has been declared a sanctuary under the same Act. Both these legal provisions empower the government to take steps to prohibit or regulate human activity in the notified areas. Thus the total notified area (legal status: sanctuary) is about 2,750 sq km of which the core (legal status: National Park) was initially 303 sq km. Recently since May 1, 1985 the core has been extended to 800 sq km. Total area-wise it is the fourth largest tiger reserve in the country. And core area-wise, it is the fifth largest. A separate directorate of Project Tiger took over the management of the forest.

### ACCELERATED EXPLOITATION OF FORESTS

Meanwhile, the systematic exploitation of forests in Similipal which began with the Borooah Company continued unabated on an ever-expanding scale. Construction of roads inside the forest paved the way for it. From almost no roads in the beginning of the century, the interior forest has now about 900 km length of roads. The Similipal region contributes about 90 per cent of the district's forest revenue. Timber and firewood among the major forest produce and sal seeds among the minor forest produce are the chief sources of revenue in Similipal. The auctioning off of areas has been done more organisedly since the mid-sixties when the Orissa Forest Development Corporation came into existence. The revenue earned from timber and firewood was on an average Rs 3,500 per sq km of forest in Orissa. In Similipal it became Rs 12,000 per sq km. Jashipore in the local parlance became a timber town. Situated on the Bombay-Calcutta national highway, it became a transit point for forest produce en route to Calcutta, the headquarters of the trade. In sal seeds local contractors grew to be politically very powerful people. For instance, the most influential trader in the entire Western Orissa now was a small trader from Sambalpur who grew with the trade in sal seeds of Similipal.

Alongwith the legal trade, illegal trade also increased. Large scale felling of trees for commercial purposes took place. Besides in Similipal an organised trade in tuskers, animal skins, etc, also thrived. The increasing scale of both legal and illegal trade in forest products and animals over long years resulted in the growth of a section of forest officials who are closely involved in these operations. Thus among the vested interests that decisively influence Similipal now should be included a section of the forest bureaucracy.

Eventually in December 1979, a new organisation called Similipal Forest Development Corporation (SFDC) took over the production and trade of both major and minor forest produce in the buffer zones of Similipal. Initially SFDC eliminated all forms of middlemen. But in later years the middlemen came back in the form of mahants in forest villages, acting as middlemen between the corporation and the tribals. In April 1980 the complete prohibition of felling of trees for any purpose, already in force in the core area, was extended to the entire Similipal. But as the demand for forest products went on increasing, the market laws could not be controlled by such legal notices.

Consequently the deforestation process became accentuated. Timber, firewood and various other forest products are smuggled out regularly. An interesting feature here is that denudation is more in the uninhabited parts and less in the inhabited areas. The few villages inside Similipal are dispersed over a large area. A single village of very few households having no other human settlement anywhere around is quite common. In areas around the human settlements the presence of people effectively became a check on illegal trade. Finally, as an SFDC report puts it, "with the stoppage of felling of trees . . . organised theft from the forest has commenced" (page 7, "A Note on Future Management of Similipal Forest", SFDC, December 1983). Given the fact that the entire area is cordoned off and free entry is prohibited under the provisions of the Wild Life Act, such organised theft cannot take place without the knowledge and consent, if not the active involvement, of the forest officials. Hence the environmental degradation, a familiar phenomenon in other forest areas of the country, also affected Similipal. Simul (silk cotton trees) from which the region acquired its name, were the chief targets. Simul has a life span of over 400 years; yet no simul trees older than 100 years are now found in the forests. Thus Similipal itself has becom a misnomer.

The forest area of the district, which is 51 per cent according to the revenue department and 45 per cent according to the forest department, has been shown by satellite survey to be only 20 per cent. In the village Gurguria the patch of land which houses the Gram Panchayat office is still officially 'reserve forest'. This deforestation process led to afforestation programmes. A separate afforestation wing of the forest department is now actively engaged in the buffer zones. Under this programme totally new species are being introduced such as eucalyptus at Chahala, Sunajhari (Acacinauriculiformis), Chakunalas (Kesia) and others. The introduction of new species has serious implications for the environment.

### ENTRY OF PLEASURE-SEEKERS

The scenic beauty of the region coupled with the wild life also made Similipal an attractive place for tourists and other pleasure-seekers. Tourists need permits from the forest department to enter the area, but these permits seem to be issued rather liberally. Inside the forest there are a total of 15 rest houses. In the year 1984-85 as many as 560 parties constituting 5,000 people were issued permits from Jashipore alone. And Jashipore is only one of the five entry points to the forest. In addition to 'pure' tourists, the list includes a number of officials whose visit to Similipal has very little to do with their official duties. Thus the register at Jashipore reads like a who's who of Eastern India. It includes the names of the American Consulate General and the Governors of Bengal, Bihar and Orissa. The House Committee and the Public Account Committee of Orissa Assembly, the Board of Revenue (twice in one year), the Chief Justice, the Chief Secretary, top forest officials of all the three states and top officials of the police and other departments all visited Similipal. Evidently secluded Similipal has become the pleasure haunt of the elites in the region. According to the villagers alcoholic drinks and even womanising are a part of this tourism. There are also reports of poaching. The impact of all this seems to be devastating on tribals in the vicinity. A section of the tribals have become suppliers of the means of such pleasure to the visitors.

On the whole now there are traders of forest produce and smugglers of ivory and animal skins who operate through a chain. At the apex are the big traders and smugglers of both Orissa and West Bengal who are also politically very influential. Next in the ring are traders, especially Marwaris at Jashipore and Baripada, followed by mahants and mukhias of the villagers. The last are the villagers, some of whom are settled in the villages for these purposes.

From the government side there are four agencies which overlap one another. First there is the forest department which generally looks after the protection of plain forests and monitor forests to meet the requirements of the forest produce of local inhabitants. Large parts of Similipal come under the territorial division of the Karanjia forest division and a small part under that of the Baripada division. The SFDC is the sole authority for production and trade of all forest produce in the buffer zones (which is presently around 1,950 sq km). The Project Tiger directorate is in complete control of the core and is also in charge of manipulation of habitats in the buffer zones. Finally, a separate afforestation division looks after the afforestation programme in the sanctuary. Predictably the four agencies are at loggerheads with one another and are always willing to give, both officially and unofficially, information about how the other agency is responsible for all the ills of the region. Together they blame politicians and the people.

### NEW MOVE

Meanwhile, a new move to take the Similipal a 'National Biosphere Reserve' is afoot. Initiated by UNESCO under its Man and the Biosphere (MAB) Programme, the Biosphere Reserve Programme is intended to conserve representative ecosystems. It is aimed at providing natural conditions and long-term conservation of plants, animals and micro-organisms. The concept emphasises the need for conservation of entire ecosystems of suitable size, to ensure self-perpetuation and unhindered evolution of the living resources. It is distinguished from the concept of Project Tiger in its emphasis on research and scientific management. Instead of focusing on particular species like tigers or wild animals the emphasis is on the sum total of biological communities whose elements are interacting within a single life-zone. Already about 12 such zones have been identified for the development of Biosphere Reserves in the country. A seminar held at Baripada in May 1985, sponsored by the state-patronised Orissa Environmental Society, recommended that Similipal should be added to the list. The state bureaucracy, especially the forest department, does not seem to be in favour of the idea as it would mean Central take-over of the entire project. But we understand that the proposal is under the active consideration of the Centre's Department of Environment.

Meanwhile since May 1, 1985 the core area of Similipal has been extended from 304 sq km to 800 sq km. The decision to extend the core has become a controversial decision. For extending the area and thereby increasing the tiger population (which now numbers 65 in Similipal) would result in imbalances in the population between tigers and their prey animals. Consequently tigers would have to resort to human killings. In fact, a recommendation in the proposal of the project itself has clearly stated that "holding the tiger population artificially high levels . . . can have disastrous results for the habitat and its dependent fauna". The SFDC has throughout opposed the extension. Yet the government has gone ahead and extended the core area of the Project Tiger.

### IMPACT ON THE PEOPLE

It is against this background that one should see the impact of Project Tiger on the people of the region. The entire Similipal Sanctuary has about 2,750 sq km. It has about 75 villages with 40 villages in Karanjia, 15 villages in Baripada and 20 villages in Udala tehsils. Within this sanctuary the original core had only 10 villages but the extended core has about 25 villages.

But it should be noted that the impact of the project cannot remain only within the confines of the core or the sanctuary. Wild animals moving freely in the forest usually follow the streams and their actual mobility is determined by nature. Since the legal boundaries demarcated by the Wild Life Act are not enforceable on wild animals themselves, the people both in the buffer zones and the surrounding areas (what is called the cultural zone) should also be included for all practical purposes. In that sense the project affects 150 villages—110 in Karanjia, 20 in Udala and 20 in Baripada tehsils.

The average population in these villages is 200 or less. Some of the villages have as few as 10-15 people. Hence the number of people affected directly or indirectly by the project will be around 25 to 30 thousand. But within the core itself the population will not be more than 5,000. Since the forests are relatively virgin forests where large scale human settlements are of recent origin, the density of population is extremely low. In the core region it is around 5 persons per sq km.

An overwhelming majority of these people are tribals, with Kolhas and Bathudi being predominant. They are all dependent on agriculture, apart from irregular forest work. The cultivation is settled and not shifting cultivation.

Ever since the area has been notified as the National Park and Sanctuary, moves are afoot to evacuate the people. Since 1978 the government has issued evacuation notices to the villagers at least three times. But as yet they have not been enforced.

In the government's view the evacuation is necessary for four major reasons. Firstly, it is argued that the presence of human settlements in the vicinity of predatory animals is dangerous to the lives of people and cattle. One instance of a tiger killing cattle is often cited in support of this argument. But it should be kept in mind that the perception of man's relationship with predatory animals which informs the plains people does not govern the tribal's own attitude. Rare instances notwithstanding, the tribals do not view wild animals as a danger to their lives. This simple and yet profound difference in perceptions seems to be completely lost on the government.

Secondly, poaching by tribals, it is argued, is dangerous to wild life and would defeat the objective of the project. One instance of a tiger which killed cattle (the same instance referred to above) being killed by tribals in Uski village is often mentioned. Other than this there seems to be no general poaching by tribals of Similipal. But a major event every year called *Akhand Shikar* (continuous hunting) is the bone of contention between the people and the state.

## GROWING TENSION

The Santhals of Bihar celebrate the first day of the Vaishakhi month (usually in the second week of April) as Akhand Shikar day on which tribals go on mass hunting expeditions and present the meat of the animals to their community head. This practice got a boost in Similipal when the Rajas encouraged it and in the process also generalised it. Every year they used to lead a large mass of not only Santhals but also other tribal people in a massive hunting expedition. It almost became obligatory for the subjects of the king to accompany him. Since otherwise the tribals were prevented from hunting in the reserve forests of Similipal, for the tribals it became an occasion for hunting and enjoying meat. Thus during the Rajas' rule the ritual of the tribe got institutionalised on a larger scale. The practice has continued even after the Rajas. It is this practice that is now referred to as Akhand Shikar.

The forest department officials we met maintained that this killing expedition is harming wild life in the forest. They also point to the number of animals injured during the hunting. There seems to be a controversy about the precise period of Akhand Shikar. While some officials maintain that it is no longer confined to Vaishakhi day (known as Pana Sankranti in Orissa) but extends over a whole period of two months, others say it is only for one week. In any case the government is making determined effort to curb this practice. Given the vast area in which thousands participate in the hunting expedition, governmental efforts have had limited success. In 1982 the Jharkhand Mukti Morcha (JMM) championed the Pana Sankranti and attempted to assert the right of tribals for Akhand Shikar. Well known Jharkhand leader Shibu Soren was arrested along with a large number of people. This year, five battalions of the Orissa military police was mobilised. About 110 people were arrested and were charged with violation of the Wild Life Act read with the Indian Arms Act. They were produced before the sub-divisional magistrate who remanded them to prison. Two months later when the team visited the area they were still in the overcrowded Karanjia sub-jail awaiting trial.

The forest officials maintain that to prevent such expeditions it is necessary to evacuate the people. But the curious fact about Akhand Shikar is that contrary to the official view, Similipal tribals themselves do not seem to be participating in it. The people say that if they really want to kill wild animals they do not need an occasion like this once a year since the animals are easily accessible to them. The fear of evacuation seems to have put off any prospective hunters amidst them. In any case all the arrested people presently lodged in Karanjia sub-jail are from outside Mayurbhanj district. The Akhand Shikar, which by and large is the practice of tribals from outside, has now become the single major source of violent tension every year.

The government also feels that evacuation of human settlements in and around the core area will also eliminate illegal trading activities since the tribals are the source of supply of materials and labour for all such activities. Here the role of forest officials mentioned earlier is completely ignored.

But the major reason for the government's programme of evacuation is the idea that tiger reserves should be left without any human interference. Cultivation in such a zone will introduce new bio-chemical interactions which upset the natural equilibrium. Since the project conceives the area as a region where free flow of nutrients through the complex web of nature will help development of the natural ecosystem it should be free from any human interference. Hence, it is argued, the need for evacuation.

The people of the Similipal are dead set against evacuation. Some of the villages which have been issued notices have written to the government to that effect. A government pro forma seeking to find out the extent of land and properties people have and the compensation expected remained a dead letter. People simply refused to fill up the forms. Given their food and drinking habits and their culture and ways of living which are firmly rooted in forests and tradition, tribals feel insecure about any idea of leaving their places. Meanwhile government denotified some reserve forests in the newly irrigated Udala block to rehabilitate people. Some of the people were taken around the place. But the people remain unconvinced. They cite the example of the experience of tribals affected by the Hatigarh Irrigation Project in Keonjhar. Almost ten years after the evacuation, people there are yet to receive the compensation and in the new settlement areas many people, unable to adjust, have actually died. It is reported that in one single village alone more than 80 people died of starvation in these new settlement areas. Hence the people are in no mood to co-operate with the government in evacuation. Socialist Unity Centre of India (SUCI) whose MLA represents this area in the Assembly is opposing the evacuation programme and has held dharnas and meetings at various places.

## THE REAL CHOICES

The conception that representative forest areas of the country should be preserved for research and scientific purposes and for the maintenance of the ecological balance in the long range may have its validity. It is on this basis that the government is initiating moves to evacuate people in Similipal. But the actual execution of such a programme cannot be judged merely by its scientific validity. For the execution takes place in a given social and political environment. This environment is reducing the entire conception of conservation of forest, in which lofty ideas and rational principles are embodied, to choice between different interests.

Thus in Similipal the choice is not between no poaching and poaching but between gentlemen poaching by tourists and organised smugglers and occasional tribal poaching. The choice is not between no cultivation and cultivation but between large scale illegal denudation of forests and cultivation by tribals. The choice is not between preservation of the natural ecosystem and imbalances introduced by cultivation but between mindless pollution by dangerous new species under the afforestation programme and fertilisation of land by tribals. The choice is not between complete removal of human settlement and deforestation by tribals but between organised deforestation with the connivance of state agencies and limited deforestation caused by tribals. In the end the choice is not between an ecosystem without human interference and that with human interference but it is between interference by tribals and interference by smugglers, traders and pleasure-seekers. It is a choice between two sets of human beings.

It is this inescapable choice that is now shaping the emerging social tension in Similipal. But the manner in which the state is proceeding from a National Park, to Project Tiger with a core area of 304 sq km and then an extended core area and now the idea of National Biosphere Reserve, in disregard of the actual problems it is generating at field level, in disregard of the people and their perceptions will only intensify the tensions. Today the tensions are reflected only during the Akhand Shikar. But as the two sets of choices gradually take their shape, social tensions will only be accentuated and local people will be driven into hopeless corners. Hence there is immediate need for democratic intervention.

[With a view to understanding the problems intensified or generated by Project Tiger, a team of scholars investigated the complex issues involved. The team included Hutasan Purohit, Ashok Babu and C V Subha Rao. The above is the text of the team's report.]

# Police Terror against Landless Peasants

## A Report from Dehradun

**Navin Nautiyal**

**Bharat Dogra**

THE existence of big mansions of 'gentlemen' farmers side by side with the small huts of landless or near-landless peasants, unsure of the next day's meals, in the terai area of the Kumaon and Garhwal divisions in Uttar Pradesh has led to several sporadic movements for redistribution of land and other measures of social justice. The events in Tehri-wala village in Dehradun district have to be seen against this background.

This village, earlier known as Tehri Farm, is located at a distance of about 45 kms from Dehradun, a little away from the Dehradun-Hardwar road. The curious name of the village can be traced to the fact that the royal family of Tehri owned a large part of the land which was later sold to a powerful Seth. Over the years nearly half of this land has been purchased by poor migrants from the hills, displaced from their homeland by ecological ruin and other factors. The Seth, moreover, cornered a lot of village common land and started cultivating it for his own benefit. He also managed to avoid ceiling laws by getting the land registered in the name of a co-operative. Using his money power and high level political connections, the Seth has managed to avoid any action against him for encroachment on common land as well as for the breach of ceiling laws.

In mid-1983 a local organisation of the rural poor, the Bhumihin-Kisan Sangharash Samiti (BKSS) took the initiative in demanding the redistribution of this land, illegally occupied by the Seth, among the poor. On July 23, 1983, BKSS activists and supporters occupied the community land. The police was called in but the BKSS leaders convinced them that the land was earlier being cultivated illegally. On August 20, the BKSS activists further occupied the illegally held land in excess of the ceiling. In the meantime, due to the administration's attention being drawn towards this land by the struggle, demarcation operations had been undertaken which had further exposed the illegality of the previous ownership. A sizeable part of this land which was lying barren under the Seth's occupancy was now planted by the rural poor. On October 14, a procession was taken out in Dehradun by the BKSS activists and its supporters demanding that this land be properly redistributed among the landless and the poor. However, the administration took no action.

At the time of harvesting when the rural poor had already harvested the paddy crop, a police force from Rishikesh town was sent to these fields. Due to the united stand taken by the people no arrests were made, although later 31 activists were implicated in legal cases. A protest demonstration against this was held in Rishikesh on November 17.

On December 14 at the initiative of BKSS land was distributed among 200 landless or near-landless families, including 12 tribals who had been working as bonded labourers for the Seth for over a decade. On January 16, 1984, more land was redistributed among the poor.

On January 23 the police invaded the village and started destroying the standing crop of wheat. In the next four days, 66 persons were arrested, including several women. Several of them, including women, were beaten up indiscriminately. As a result of this beating one pregnant woman aborted and had to be sent to hospital from the jail.

Later the administration handed over the above-ceiling land to the horticulture department. However, villagers threw the demarcation posts into the Ganga river to protest against the denial of this land to the landless, in keeping with the established policy of the government. The police came again and this time 47 persons were arrested.

On May 23 there was an arbitrary lathi-charge by the police in the village. Some villagers were taken to the Seth's mansion and beaten up there. The police started coming to the village from time to time and threatening the villagers with arbitrary arrests. As a BKSS activist said, "the administration and its police were silent for decades when the Seth was illegally cultivating the land. When we tried to give the land to the poor under the government's own policy and programme, we were greeted with lathis and arrests."

However, after some time there seems to have been a change in the attitude of the administration and towards the end of 1984 such atrocities and threats stopped. Thus the year ended on a note of triumph for the villagers who had been able to bring under cultivation nearly 200 bighas of land. However, as administrative action accepting their occupation of this land has not been taken yet, they are still living an uncertain existence—nearly two years after their struggle started and after several sacrifices.

While appealing to the concerned authorities for the necessary administrative action in this regard, BKSS has also demanded that land meant for landless but occupied by vested interests in other neighbouring villages should also be distributed among the rural poor. Similarly, the demand for protecting the interests of villagers, such as those of Bapugram, who are being harassed by the forestry department, has been raised. Hundreds of villagers are facing eviction on account of arbitrary action by the forestry department.

Several long-standing problems of the landless or those having no security of the land being cultivated by them have not been satisfactorily settled by the administration even though the Mangal Dev Visharad Committee, several press reports as well as social workers have drawn repeated attention to these. The only encouraging sign is that some groups or parties close to the interests of the rural poor are trying to raise these issues but it remains to be seen how far they will unitedly struggle on these issues.

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**SRI LANKA**

# Constraints on a Solution

### Qadri Ismail

SRI LANKA's ethnic conflict is thirty years old at least; it began in earnest only after the 'Sinhala Only' Act of 1956, which replaced Sinhala with English as the official language. The Tamils, deprived of an equal place in the national life, began their protests then. Sinhala chauvinists like to see the conflict as being centuries old; as being a relict from the first South Indian invasion of Sri Lanka. Thus they lionise their king Dutugemunu, the most famous 'Sinhalese' to defeat a 'Tamil' invader. All this is a selective and not entirely accurate interpretation of history. The Sinhala Buddhist identity as we know it today was a creation of the nineteenth century, part of the colonial legacy since it emerged inspired by and as a reaction to European nationalism.

It is such an interpretation of history which sees the Sri Lankan Buddhist people as being the race chosen by the Buddha to preserve the religion, that is the main mytho-psychological force acting on the people which prevents a settlement today. There is no historical evidence backing up these myths: that the Buddha ever came here; or that he died at the same time as the mythical father of the Sinhala 'race' landed here from India; or that he then bestowed his dying blessings on Lanka. The standard text of the Mahaparinibbana Sutta, the last sermon of the Buddha, makes no mention of this. The Mahawamsa, or the Great Chronicle of Sri Lanka, on the other hand, does. However, as many historians have noted, this was written by Buddhist priests not on the basis of facts but to legitimise their need to play a powerful role in ancient politics.

In an attempt to demystify the myths, something very necessary to create a humane and tolerant environment in Sri Lanka, several (Sinhala) scholars argued all this in the pages of the national press last year. They were roundly dismissed as being traitors to their 'race'. It would appear then that the Sinhala people, and therefore the Sri Lankan government which even if elected eight years ago still represents them, are not yet ready for an honourable peace. Their 'historical mission' would conflict with devolving power to the Tamils.

That is the context to the attack by the Liberation Tigers of Tamil Eelam on Anuradhapura in May this year, when 150 or so civilians, including Buddhist priests, were massacred. Anuradhapura was the ancient capital of Lanka, home of the sacred Bo tree (under whose parent, in India, the Buddha attained enlightenment) and the place where Dutugemunu won his famous battle. The daring attack and the killings were symbolically most effective: a violation of the Sinhala spiritual soul.

It is to be doubted whether the 'Tiger' guerillas ever foresaw the consequences of that massacre. Their intention was to prevent, once and for all, retaliatory attacks by security forces on innocent Tamils in the north whenever the guerillas successfully attacked them. The 'Tigers' failed here because the forces again retaliated. More disastrously from their point of view, Sinhala opinion, led by the Buddhist clergy, pressed for peace more or less at any cost and strengthened the hand, eventually, of Jayawardene. This led to him and Rajiv Gandhi being in a position to arrive at what appeared to be a workable compromise on a political settlement. In return for 'concessions' to the Tamils, Gandhi would break up guerilla camps in India. After Anuradhapura, he had the 'moral' right to do so; and if a settlement was reached, as seemed likely, he would have the political sanction too.

But the threat of more Anuradhapuras seems to have left the collective mind of the Sinhalese. Most of them are once again not talking peace. They are certainly against any 'peace' which would mean "giving something away" to the Tamils. This, after all, is sanctified Sinhala Buddhist country; how can (Hindu) Tamils hope to rule even a part of it?

Without the demystification of such a belief, without the spread and popular acceptance of modern human rights consciousness, there can never be a lasting peace in Sri Lanka. Jayawardene has promised peace by the end of the year. What he looks likely to do is to offer the Tamils regional autonomy on the Indian model within the framework of a unitary constitution, an offer they cannot (because of Gandhi) refuse. A leading Tamil lawyer told me this was impossible, that the problem cannot be solved without real federalism. But that is not likely to come about. And in another historical irony of the type that Sri Lankan politics is turning out to be full of, the government has decided not to put such a package before the people for their approval. Only last year it had argued, purely in order to deny the Tamils any 'concessions', that a referendum was absolutely necessary. Even more ironically, the TULF, which last year flatly refused to go along with the referendum call, now privately claims that a referendum is needed for the settlement to be permanent. But what Jayawardene seems likely to do is to carry through the settlement by force; being brutal, if necessary, with all dissenters.

This, of course, is not the stuff that real peace is made of. Without a public debate on the issues, preferably sponsored by the government, the Sinhalese are likely to be very suspicious. Here, the government has fallen into the pit dug by itself. The line it took till Anuradhapura on the question was that it would give nothing away to the Tamils. Here, it was loyally backed by the Sinhala press which, if anything, felt the government was not being tough enough with the 'terrorists'. Now it has to explain that devolution does not mean 'giving in' at all but, rather, granting the Tamils legitimate rights. Rather than do this, rather than admit its mistakes (if it sees them, in the first place) the government has decided to bull-

There are other areas of possible conflict. At the first round in Thimpu, the Sri Lankan delegation, led by Jayawardene's brother, merely reiterated proposals put before the aborted All-Party Conference in 1984—clearly a negotiating position. It is bound to return with further 'concessions', though one wonders whether it would make real ones like agreeing to stop colonisation of Tamil areas and granting regional governments police powers. It is also a moot point whether the government will recognise—eventually, that is, since it has currently rejected them outright—the four 'basic principles' that all six Tamil delegations at Thimpu felt cardinal for a settlement: recognition of the Tamils as a distinct nationality, recognition of their 'traditional homelands', recognition of the Tamil right to self-determination, and granting all Tamils in Sri Lanka citizenship. While Tamil and Indian opinion-makers have interpreted this as a sign that the groups are willing to settle within a united Sri Lanka (i e, to give up Eelam), the Sri Lankans argue that recognising these principles is tantamount to conceding Eelam. Presumably Gandhi, who is bound to be bouyed after settling the Punjab crisis, will force all sides to compromise. But there is no way Rajiv Gandhi, or any other foreigner, can ensure peace between ordinary Sri Lankans of different communities.

There is, too, the Muslim factor. They comprise 33 per cent of the eastern province but just 18 per cent of 'Eelam'; and in the event of the northern and eastern provinces being merged into a unit as part of a settlement, they feel they would lose any political status or influence. These fears have led many Muslim politicians in the east to think in terms of forming a Muslim political party, which will eventually happen, but has not so far solely because the pressures are not yet strong enough to eclipse petty grievances. When that happens, Sri Lanka's 'ethnic equation' will become more complex. Right now, the government is using the Muslim argument to deny the Tamils a region consisting of the north and east. While this is what the Muslims in the east desire too, that may not be all they desire. One of the significant non-issues of the conflict so far has been that of parity of languages, which was the prime issue of 1956. This is explicable since the TULF/militants are fighting today only the cause of Tamils in the north and east, where a regional government would be free to use the language of its choice. But there is also the issue of Buddhism being the state religion. At least one Muslim politician has told me privately that Sri Lankans—or rather, Buddhists—will have to get used to the fact that for a lasting solution to the (problems that may emerge in the) ethnic conflict, we will have to have parity of languages and religions.

But these are issues that will not even be broached at Thimpu. What we can at best hope for from the talks, then, is a (temporary) settlement, no solution. For permanent peace, we will have to create a Sri Lanka where all communities, just as much as all individuals, are truly equal.

# 'Holy' Alliance against Working Class

### Badruddin Umar

A NEW wage-scale was announced by the manpower and labour minister of Bangladesh on July 2, 1985. According to that announcement minimum basic wage of an unskilled labour has been fixed at Taka 560. In addition to this an allowance of Taka 288 will be paid on account of house rent, medical allowance, etc. Thus, according to the new arrangement an unskilled labour will get a total monthly wage of Taka 848. According to the old scale this total monthly wage was Taka 627. So with the introduction of the new scale there has been an increase of Taka 221 per month.

Before we go into the other aspects of the government wage policy it will be useful to consider the Noor Khan Commission recommendation in 1969 according to which the minimum basic wage for an unskilled worker was fixed at Rs 125 per month and the total wage inclusive of medical allowance, house rent, etc, amounted to Rs 155. If we calculate the rise in the cost of living with 1969-70 as the base year then it would be found that there has been an increase of 12 to 15 times. And from this phenomenal rise in the cost of living it will be quite easy to understand the extent to which the real wage has been depreciated. In order to keep the real wage at the level of 1969-70 it was necessary to fix the minimum money wage at Taka 1,800 per month. Instead according to the new wage-scale it has been fixed at Taka 848. Thus we find that even after the re-fixation of the minimum wage the real wage has depreciated by more than 50 per cent since 1969-70.

It may be mentioned here that the new wage-scale does not cover workers who are employed in private sector industries. The manpower and labour minister, while announcing the new scale, clearly stated that it did not cover workers who are employed in private sector industries and that the wages of the latter will have to be fixed through negotiation between the collective bargaining agents (cba) and the owners of such industries. In this connection he also said that the government had neither any responsibility nor any involvement in the matter of such industrial negotiations. Its only 'concern' was with the 180,000 workers employed in the nationalised industries. The remaining 1.5 million workers employed in the privately owned industries were thus excluded from the area of governmental intervention, giving a free hand to the owners of such industries.

Here it may be instructive to note that the agreement which was signed jointly by the Workers and Employees United Front (SKOP) and government representatives on May 21, 1984, also excluded the 1.5 million workers of privately-owned industries in spite of the fact that the latter participated in industrial strikes and in the democratic movement on a massive scale and quite powerfully. The other thing to note in this connection is that minimum wage for unskilled workers was fixed at Taka 455, more than a hundred Taka less than what has been provided now.

The 1984 May agreement was declared as a 'great historic victory' by the leaders of the SKOP, the leaders of 22 political parties which controlled SKOP, as well as the leaders of government. However, it soon turned out that the government was in no mood to implement the said agreement which provided for a wage increase and also for certain democratic and trade union rights of the workers. Thus the 'great historic victory' soon turned out to be a 'great historic defeat' and the SKOP launched a new movement for the implementation of the above mentioned agreement.

That a government can be so irresponsible as to throw away an agreement signed with such fanfare and after such a powerful working class strike movement which ran parallel to the democratic movement of that period may be a matter of a great surprise to many. But there was really nothing to be surprised about if we consider the circumstances in which the agreement was signed as well as the provisions of the agreement.

The agreement was signed at a moment when the working class actually emerged as the most powerful factor in the widespread democratic movement of the time and they were daily getting more and more militant. In fact, the five-point based movement which was only meant to pressurise the government for holding general elections on terms laid down by the 22 party alliance, started giving way to a kind of democratic movement which aimed at extracting very large economic and political concessions for the working people in general. The movement was being increasingly strengthened by the workers and the students who were putting pressure on the political parties to adopt more democratic and militant programmes.

This alarmed not only the government but also the leadership of the political parties which were at the head of the political movement at that time. And being thus alarmed the political leaders and their agents in the trade unions had no alternative but to surrender to the government. They were scared by the prospect of the trade union and democratic movement exceeding the limits set down by them and thus going out of their hands. The basic class interests of the leaders of the 22 parties and the men in government coincided and that made it possible for the 'brotherhood' to come to a solemn agreement which was signed on May 21, 1984. And this happened on the eve of a previously announced 48-hour general strike scheduled to be held on May 22 and 23. The strike was called off with the signing of the agreement.

Thus it is not at all difficult to explain why the workers of privately-owned industries were not covered in that agreement and were relegated to the 'goodwill' of the owners in the same manner in which they have been relegated now by the honourable minister for manpower and labour of the Government of Bangladesh. In fact, the leadership of the 22 political parties, the combination of 15 and 7, wanted and still want the political operations to be conducted within such limits as may not lead to any radical transformation of society and lay hands on their pockets. Thus they agreed to enhance the wage of workers of nationalised industries but were unwilling to do anything for at least a similar wage rise of workers of privately-owned industries. This was possible because the 22 political parties represent the interest of these owners of private industries and actually many of them directly own such industries. That the leadership of the 22 political parties and their trade unions included elements who acted as agents of the exploiting classes was proved beyond any doubt when two of them unceremoniously deserted the united front and became ministers in the important departments of commerce and information. From the leadership of the two trade union federations and two component political parties of a united front which was leading a broad-based democratic movement to ministership may seem to be a very exceptional performance. But such political conduct is nothing exceptional in Bangladesh today. On the contrary, this has now become the norm of political behaviour of the representatives of the new rich and the lumpen bourgeoisie of Bangladesh.

The present wage policy does not only reveal the very high rate of exploitation of the working class but also indicates the anti-productive character of the powers that be. This policy does not actually promote the cause of industrial development in this country. It may appear so from the favour which is being dished out to the industrialists. But it must be understood that this kind of favour, in fact, helps enrichment of industrialists at the cost of the industries which they are supposed to promote and organise.

It is not possible to go into the details of the methods which are being employed by industrialists for their private enrichment. But it can at least be mentioned that a very large part of their gains come from their purchase of machineries, raw materials, etc, and also through other manipulations. This causes considerable loss to the industries and such losses are sought to be covered by depreciating the wages of labour, by continuously increasing the rate of exploitation.

Thus the massive plunder which is now being carried on by the trading class of people in this country covers the industries. It is the same section of the bourgeoisie which has come to own the industries and indulges in the kind of practices which have been mentioned above. In their drive for more and more gains they are now set on a policy of killing the goose for the egg and in this pursuit of gains the bourgeoisie, both inside and outside the framework of power, has entered into a 'holy' alliance and is moving towards its historical destiny.

# Class Structure in Rural Bengal

### Anjan Ghosh

**Classes in a Rural Society** by Pradip Kumar Bose; Ajanta Publications, New Delhi, 1984; pp xv + 272, Rs 150.

RURAL society in India has been characterised by sharp inequalities. Village studies which constitute the staple of sociological research have highlighted primarily its caste elements. In his study Pradip Bose focuses on the rural class structure to explain the structure of rural society in West Bengal. It is based on a study of four villages in Birbhum and Purulia districts. The book developed from the author's doctoral dissertation, brings together data gathered through extended fieldwork in the villages between October 1974 and January 1976, with an additional month-long return to the Birbhum villages in March 1977 to cover the Lok Sabha elections.

Analysis of rural classes in Bengal though initiated early on by Mukherjee (1948, 1957) was eschewed by subsequent village studies which concentrated attention on the cultural aspects of community life and social integration (Sarma: 1955, Chattopadhyay: 1963). The problematic of classes in agrarian society receded into the background as sociologists contended that it did not 'correspond to divisions in rural society as perceived by the people themselves' (Beteille: 1974: 33). It was not until the impact of rural development programmes like Community Development Programme or the Intensive Area Development Programme, meant to alleviate rural poverty, was increasingly manifest in growing disparities and aggravated agrarian conflict that interest in agrarian class stratification was revived. Class cleavages among the peasantry was adduced to explain the tardy and highly skewed nature of agricultural development in Bengal (Danda and Danda: 1971, Bandopadhyay: 1975, Chakraborty: 1981). The crystallisation of agrarian conflict into militant peasant movements in different parts of West Bengal after the mid-1960s led by the Left parties also contributed to the renewal of interest in peasant classes. While on the one hand it led to enquiries into the mode of production in agriculture to ascertain the specific configuration of class conflict and class antagonisms in rural West Bengal (Bhaduri: 1973, Rudra: 1978), on the other it stirred interest in the study of peasant movements as the result of conflict of class interests (Dhanagare: 1976, Mukherji: 1978). A different perspective gained ground among sociologists as agrarian structure was 'defined in terms of relationship which exists between those who have command over land and those who operate this land by supplying labour power for productive activity' (Joshi: 1975: 204). Class relations were thus seen as germane to the agrarian social structure and attention on the processes of change in agrarian relations yielded a rich harvest of indigenous class categories like zamindar, jotedar, bargadar, adhiar, mahindar, etc (Beteille: 1974: 171-187, Xaxa: 1980). The relations underlying these terms defined the contours of conflict in rural society. In his book Bose forcefully highlights the structural nature of conflict among peasant classes in rural Bengal.

In his description of rural classes Bose follows the Marxist theoretical tradition exemplified by Lenin and Mao's analysis of agrarian class structure. The five classes which he distinguishes—landlords, rich peasants, middle peasants, poor peasants and peasant proletariat—are differentiated on the basis of landholding, exploitation of labour and the propensity to actually work on the land. Collective political mobilisation is taken as indicative of class consciousness. In the villages, Bose notices a 'close correspondence between caste and class' (p 44).

Discussing the economic attributes of class, the author provides a detailed enumeration of the elements of mode of production and distribution in agriculture for the four villages. As the principal productive resource, land is the real measure of prosperity in rural areas, substantial landholders not only acquire the other inputs of production like water from irrigation channels, improved seeds and fertilisers, they also possess the necessary draught animals and farm implements. This is confirmed by the data which Bose furnishes. Hence distribution of land is a definitive index of the nature of economic inequalities in rural areas. Landownership is more unequally distributed in the three Birbhum villages than in Tusugaon, the lone Purulia village. Among the Birbhum villages, disparity in landownership is most acute in the irrigated village of Kanchanpur where concentration of land in the hands of the landlords is accompanied by a high preponderance of agricultural proletariat (p 96). On the other hand in Tusugaon a greatly diffused pattern of landholding leads to the absence of landlords and the pre-eminence of middle and poor peasants. The number of agricultural labourers is also small in the Purulia village.

From his description of the economic structure of the villages certain changes in the nature of agrarian relations is evident. In the social composition of landlords the erstwhile high caste (Brahmins, Rajputs) landlords have increasingly been replaced by middle caste (Sadgope, Mahato) individuals, in the wake of zamindari abolition. These 'new climbers' (p 144) among the landholders prefer to exercise direct control over agricultural production. Hence unlike the absentee landlords of yore who let out their land to sharecroppers, they tend to cultivate with hired agricultural labourers working under their supervision. This has led to a decline in sharecropping and increase in the use of hired labour for cultivation. Even when land has been let out to sharecroppers, the *adhiar* (50:50 share) has been reduced to *Kisheni bhag* (33:66 share), thereby further impoverishing the lot of the sharecroppers. *Mahindars* or annual farm servants who were paid a lump sum in cash and kind are also being replaced by agricultural workers who though hired for the year are generally paid a daily wage of Rs 1.50. It is evident that the trend towards proletarianisation, though slow, is emerging in the Birbhum villages while in Tusugaon the polarisation process has been thwarted by the preponderance of middle and poor peasants. But notwithstanding the incipient process of proletarianisation in Birbhum, the content of social relations are not governed by capitalist norms and pre-capitalist forms of exploitation through usury and intimidation continue unabated.

Of the social aspects of agrarian relations Bose considers caste relations and the nature of family ties. Though he posits a congruence between high caste status and landownership (p 159) his own data does not suggest any immutable convergence. As has already been indicated above, the traditional high caste landlords have been displaced by enterprising middle caste landholders, thus fracturing the caste-class congruence. Another feature is the internal differentiation of the numerically preponderant castes. As a result caste identity has been fragmented in the Birbhum villages while its impact is greater in Tusugaon where the economic differentiation is less sharp. In the former, caste taboos and rules of pollution have been eroded but they are rigidly adhered to in the latter. A consequence of this has been the breakdown of the rank consensus among castes within the Birbhum villages allowing for equivocation and caste mobility. However, the fracturing of the caste-class nexus at the top is not present at the bottom of the caste scale. Thus '80 per cent of [the untouchables] are agricultural labourers' (p 159) embodying the homogeneity of their caste-class situation. Caste relations have undergone a transformation in the more class differentiated villages exposed to the influence of the market and political mobilisations. In the isolated village of Tusugaon it still maintains much of its traditional vigour. The attenuation of caste relations in the Birbhum villages, however, does not indicate its demise.

Family structures are not unrelated to caste-class position. Although the principle of endogamy in marriage holds undisputed sway, yet within its fold different classes have different considerations. The upper castes seek marriage alliances between families of commensurate economic standing. Secular considerations of land and property play a pre-eminent role in the choice of marriage partners from within the caste group. This narrowing down of the marriage field at times leads upper caste families to extend marriage links even to 'distant' villages. Generally this distance does not exceed a radius of 10 miles or beyond the same or adjacent police station. Only about 5 per cent of marriage alliances take place beyond a radius of 20 miles. This exemplifies the limits of the social world of the villager. For the lower castes and tribes this is further circumscribed. Among the lower castes the primary consideration for marriage partners is the 'capacity for labour' (p 165). Bride price which used to be paid among lower castes and tribes is no longer uniformly prevalent. While the tribals still retain the practice, among some of the lower castes like Bauris, dowry has already made its appearance.

Perusal of the data on family structure suggests the dominance of the nuclear family or its variant. There is no clear indication that only the economically better-off families prefer joint families. A number of factors including landholding, occupational diversification within the family, the number of working people in a family and the differences in their earnings, all contribute to determining the family structure.

In his discussion of the power structure in the villages Bose has largely confined his attention to the institutional domain of politics. His analysis of the role of panchayats shows how these ostensible vehicles of decentralised democracy had become moribund (this is before the Left Front came to power in 1977) and were entirely dominated by the rural gentry (*bhadraloks*). The lower caste-class interest was unrepresented in the panchayat and it was perceived as an institution of and for 'only *bhadraloks*, not us, the *chotoloks*' (p 206). Yet *chotoloks* did articulate their grievances especially during the turbulent years of the United Front ministry in Bengal during 1967-72. The peasant movements unleashed in those years in the Birbhum villages, specially the forcible occupation of vested lands and the harvesting of paddy from *benami* (illegal) lands under the leadership of the CPI(M)-dominated All-India Kisan Sabha left a deep impression on the poorer sections of the peasantry. Though lasting gains were few, it did temporarily imbue them with a sense of their own power. This short-lived triumph which was soon subverted by the machinations of the rural oligarchy created a sense of affinity with the CPM expressed with disarming candour by a peasant: 'We have no party; we support those who give us food. The CPI(M) did that; we support the CPI(M)' (p 215). Eight years after the Left Front came to power in West Bengal, the above statement might sound like a distant refrain, yet it provides a clue as to why the rural constituencies have remained the Left Front's main bastions. This heritage of agrarian movements has suffered considerable erosion in the successive years of its rule. Yet it was this which underscored its electoral victory in 1977. Bose ends his narrative with the coming to power of the Left Front in 1977. It would be interesting to pursue the analysis of changes in rural class relations during the intervening years.

In his book Bose provides a structured view of class relations in four West Bengal villages. The objective notion of class structure at times weighs down his presentation into a scrupulous description of class attributes. Though this enables him to counterpose the presence of class as an important variable of rural social reality, it also constrains his representation of class as embodying a consciousness of oppositional relationship. A greater attention to this process of power relations which though not absent is swamped by the immanent characteristics of class, would have greatly enriched his account of class structure. Considering that Bose adduces the Marxist method of class analysis what is surprising is the absence of a historical mode of analysis which could have highlighted the processes of class formation. In his conclusion the author posits the transitory nature of extant rural class relations (p 253). One is tempted to ask a transition to what? For the answer to this query may hold the key to a different form of class analysis of the countryside. The book is a significant addition to the literature on the class structure of present day rural Bengal.

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MARXIAN THEORY AND THE THIRD WORLD

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The book is an invaluable reference tool for all scholars and others interested in the historical-structural problems of the Third World.

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# Education and the Social Order

S Shukla

**Education and the New International Order** edited by J Veeraraghavan; Delhi Concept Book Co and National Institute of Educational Planning and Administration, 1983; pp 147, Rs 60.

THIS is a collection of papers in a seminar held in 1979, along with two papers by Johann Galtung and Louis Emmerij published elsewhere which were circulated to the seminar. Emmerij's paper is illustrative of the viewpoint of the non-radical Westerner who, however liberal or enlightened, does not recognise the fact of western or industrial nations' dominance over polity and economy as crucial elements in the world situation. Hence he asks Third World nations not to repeat the mistakes of the First, and brushes off as insignificant the Third World feeling that most such advice asks them to accept the second best in science, technology and learning which reinforce the current international inequality. Or, when he talks of recurrent education and flexible intermixture of work, education and retirement all through life. These are solutions which the prosperous West, with its unemployed alongside, can perhaps manage. But it is only misleading to disseminate them elsewhere. This was a singularly inappropriate inclusion in this volume.

Galtung, as expected, is incisive and accurate in his piece "Educational Disparities, World Politics and NIEO". Some of his basic points are: ". . . the higher the educational growth, the greater the disparity [within nations]" (p 76); ". . . the countries left behind . . . are trailing behind at a snail's pace, along the same track where at the moment the two Super Powers . . . are in leading positions" (p 76); and increasing disparities ". . . the most schooled countries and individuals increasingly distant from the less schooled countries and individuals" (p 77). Current Western dominance in economic, military and political terms has its educational counterpart in the educational systems training bureaucrats and capitalists. As the Western multinationals build subsidiaries in the Third World, education also trains their bureaucrats and capitalists "needed to staff the bridgeheads—from a Western point of view" (p 82). And these people have their Western counterparts as their models. Hence the push to increased disparities within the Third World. Some Third World countries may attempt a more independent role.

The case of China under Mao and the Cultural Revolution is special. It sought to introduce "educational sharing, not only economic sharing" (p 87) with "no sharp distinction between a well educated elite engaged in non-material work and production and the masses just enough schooled to read and follow instructions . . . elites would also engage in material production, on a rotation basis, and the non-elites would also be stimulated to a maximum of creativity and to participate in the design of production processes" (p 87). It reversed gear after Mao. Meanwhile, the West with its surplus of educated people even in a high-tech situation may go in for export of manpower to Third World in dominant positions or for a different model of education reducing the distinction between elite and mass education and a social movement to reduce the power of the centralising elites. The socialist countries might be less inclined to the latter on account of the less secure status of *their* elites.

Galtung speculates on many interesting implications of this situation in education clearly pointing out ". . . schools follow the social order, domestic and global and not *vice versa*; but the co-ordination is never perfect except under conditions of extreme autocracy . . . Gaps . . . will be among important sources of social dynamics" (p 89). But basically, he dispels illusions which discussions of new international order in international agencies and of education generally often seek to promote. Director Moonis Raza's "Introduction" similarly, though more diplomatically and even with some ambiguity and circumspection, points out "Yet the very need of NIEO arose from the perception that in the existing order such 'concessions' would never be given on an adequate scale or in time, that whatever would be offered would be a tale of too little too late. It cannot be otherwise" (p xiii).

Coming to the contributions actually made at the seminar, J D Sethi's inaugural address as (then) a Member of the Planning Commission again brilliantly brings out the features of dominance and inequality—inter as well as international—which characterise the world situation in economy, politics and education. His two important new points are "the developed countries [should] accept zero growth rate except that part which is the result of increasing productivity through technical progress . . . [and] allow a free flow at least of the educated persons across borders" (p 14). In their papers, Malcolm Adiseshiah's plea for egalitarian measures in education, J P Naik's for an 'alternative' or 'other' development and most of the other contributions share a common characteristic. The situation is bleak, even desparate, regarding dominance and inequality between nations and within them. It is getting worse all the time. But this recognition lurks at a subterranean level. Varying degrees of wishful thought and optimism are attempted and new educational or economic policy devices are explored so as to reverse this trend. Perhaps radical pessimism—or revolutionary strategies—which alone constitute proper responses are not appropriate to academics co-operating with an international agency (UNESCO) or governmental institutes like NIEPA. They have to be optimistic, 'constructive'. One does not find, therefore, in this volume as penetrating an understanding as is justified by the actual situation. But for Galtung's contribution alone and for the facts on the education-economy-polity-employment relationships, etc, in articles like those of Ramashray Roy and P R Panchmukhi, the book is useful.

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# Scholarship on China
## Victim of Political Campaigns

Harmala Kaur Gupta

*Scholarship on China seems to have accepted that the series of events that have occurred in that country after 1949 are to be regarded as the outcome of a sharp and protracted struggle within the Communist party leadership over the path China's efforts at socialist reconstruction ought to follow: the Maoist path with its stress on revolution, or the Liuist path with its stress on the development of the productive forces. Scholarship dealing with the post-Mao period again betrays the same conscious, or in some cases perhaps unconscious, acceptance of the 'two-line struggle' argument. Thus while one section of scholars is busy arguing that a 'capitalist restoration' has occurred in present-day China, another section is involved in defending the revolutionary credentials of the new regime.*

*It is the contention of this paper that the so-called 'two lines' are really different approaches that the political culture allows at a particular point of time as equally legitimate for the solution of contingent and pressing problems. Thus, though the political culture is relatively stable and fixed this is not to say that (a) it does not have a flexibility of its own, or (b) is incapable of change. It has its time-scale and temporal cycle, but the process of transformation is neither an open-ended or multi-vocal affair, nor does it take the form of violent zig-zag-like swings from one extreme to another. Rather it represents a process of giving salience now to one aspect and now to another aspect of the political culture.*

### I

THE bulk of scholarship on China appears to have accepted in the main the Chinese version of events in China from 1949 to the present. That is to say, it is accepted that the series of events that occurred during this period are to be regarded as the outcome of a sharp and protracted struggle within the party leadership as to what path China's efforts at socialist reconstruction should follow: the Maoist path with its stress on revolution, or the Liuist path with its stress on the development of the productive forces.

Differences with the Chinese version, where they exist, are confined to such issues as (a) the set of terms to be employed to describe the combatants—'moderates *versus* extremists', 'pragmatists *versus* dogmatists', and so on; (b) the number of combatants involved—the Mao/Liu dichotomy some feel should be extended to include Zhou Enlai, Deng Xiaoping, Peng Dehuai and Peng Zhen, to name a few; and (c) the timing of the final break—the Civil War period, 1958 and the Great Leap Forward, or the Cultural Revolution.

Further attempts at modification include the suggestion that a struggle between lines should really be read as a struggle between political competitors for the highest post in the land. On the other hand, some argue for a broadening of the contours of the 'two-line struggle' argument to take into account the effects of mass consciousness, the compulsions of technology and the pressures of the world capitalist system on decision-making.[1] Arguing on the same lines, the term 'lines' is sought to be replaced by the term 'general tendencies' which it is felt can accommodate within it factors such as institutional differences of interest, patron-client relationships, and factional and coalition politics.[2] All such attempts however basically accept the existence of a 'two-line struggle' and all they argue for in essence is a more comprehensive representation of possible friction points and areas of conflict.

When we look at scholarship that deals with the more recent period in China, i e, the post-Mao period, we again come across the same conscious, or in some cases perhaps unconscious, acceptance of the 'two-line struggle' argument. Thus, while a section of scholars is busy arguing that a 'capitalist restoration' has occurred in present-day China,[3] another section is involved in defending the revolutionary credentials of the new regime.[4] Among the latter efforts, the most insightful, and one which deserves special mention we feel, is that of S J Noumoff who opines that in China, "Each successive major policy shift is conceptualised at a level of antagonistic contradiction *vis-a-vis* its immediate forerunner, rather than either legitimate differences which can only be mediated through practice, or the culmination of one period of development, which having reached the maximum of its contribution requires moving on to the next stage".[5] The question that naturally arises and which we believe is of paramount importance is: why are these legitimate differences portrayed as antagonistic ones?

The answer we feel lies in a recognition that the political culture of a society, far from being a malleable entity which can be moulded in any and every shape and direction, is fairly resilient and obdurate. This is a fact appreciated by Mao Zedong and others as far back as the period of revolutionary struggle, when they, while seeking to replace the old political culture with the new, were careful to evoke images and use language which had their roots in the past and with which the people could therefore relate, even though the content of these images and language was now quite different. What was true for the pre-revolutionary period is also true for the post-revolutionary period, and perhaps with even greater force. For the values, the ethics, the style, and even the rhetoric of the earlier period of struggle, which came to make up the political culture of the CPC, continue to exist in the later period and serve with equal force as legitimisers. It is not for the CPC then to ignore them or calmly brush them aside. It should therefore come as no surprise that in a post-revolutionary society such as China disagreements tend to be couched in the rhetoric of an earlier period of struggle and are therefore often portrayed as of a fundamental and irreconcilable nature. It is here that we believe the 'two-line struggle' argumentists among us China scholars err, for they tend to mistake the intensity of the language used for the intensity of the struggle itself. Thus legitimate differences conceptualised as fundamentally antagonistic by the Chinese leadership and media are accepted as such by China scholars who then go on to interpret events in China as the victory now of one line (the zig) and now of the other (the zag).

It is our contention, and one which we hope to substantiate in what follows, that the so-called 'two lines' are really different approaches that the political culture allows at a particular point of time as equally legitimate for the solution of contingent and pressing problems. Thus, though the political culture is relatively stable and fixed this is not to say that (a) it does not have a flexibility of its own or (b) is incapable of change. It has its time-scale and temporal cycle, but what we should like to emphasise is that the process of transformation is neither an open-ended or multi-vocal affair and nor does it take the form of violent zig-zag-like swings from one extreme to another.

Rather it represents a process of giving salience now to one aspect and now to another aspect of the political culture. A process which we see no more strikingly at work than in post-1949 China.

## II

Despite the different vocabularies used, a consensus exists among Chinese scholars on the question of what constitutes the essence of the two lines referred to above, the one associated with the name of Mao Zedong and the other with the name of Liu Shaoqi, or if you like, with Deng Xiaoping.

With regard to the former, the Maoist approach is portrayed as an attempt to evolve an autarkik model of growth, based on mass initiative and indigenous effort. Thus the stress on agriculture, light industry and heavy industry in that order, the location of industry in rural areas, the use of labour-intensive techniques and the eschewing of material incentives.

As regards the line associated with Liu, Deng, and others, it is depicted as seeking inspiration from the Soviet model, with its stress on the building of heavy industry, the use of capital-intensive techniques and material incentives, and the acceptance, if not actual encouragement, of inequalities—be they between different income groups, between different regions or between the town and countryside.

To put it in a nutshell, while the Maoist approach seems to stress the superiority of humans and human organisation over technique and technical organisation in achieving the goal of rapid economic growth, the Liuist approach appears to have greater faith in technique and technical organisation.

This way of looking at Chinese reality we feel is basically erroneous, for it ignores the fact that neither Mao nor Liu, in pursuit of high indices of growth, was willing to sacrifice certain shared revolutionary ideals and values which formed the corner-stone of the political culture that each had been instrumental in evolving, and which enjoyed widespread legitimacy in the eyes of the masses. Though it is widely acknowledged that the ideological principles and guidelines for action laid down by the CPC during the Yan'an period were responsible for assuring its victory first over the Japanese and then over the Goumintang, and continued to be employed in the post-revolutionary period, for some strange reason they are associated with the person of Mao Zedong alone. It is all too often forgotten that Mao's emergence as undisputed leader of the party at the Seventh Congress, held in 1945, was no overnight affair nor did it represent a simple personal triumph. For, though Mao assumed the top party post in 1935, it took some ten years for his 'line' to eventually triumph in the party. During this period Mao continued to face a formidable challenge from the returned students faction headed by Wang Ming, which given its Soviet connection, enjoyed fairly widespread support within the party. The consolidation of Mao's position went hand in hand with a growing realisation by the majority of the party leadership that in order to advance the revolution further, and emerge as victors, the CPC would have to make a fundamental break with its past which involved a repudiation of the Soviet Union's part in it as well.

The role played by persons in key positions in the party, such as Liu Shaoqi, in influencing the majority of the party leadership in this direction through a personal vigorous endorsement of the Maoist version of the party's past, and the need therefore to seek indigenous solutions wedded to Chinese conditions, cannot be underemphasised.[6] The 1942-44 Rectification Campaign was part of this process and it is therefore not surprising that its main aim was the 'sinification' of Marxism, which came to mean the propagation within the party of the CPC's new line associated with the leadership of Mao Zedong. Given this goal, the campaign was confined mainly to the upper reaches of the party leadership and excluded the masses, despite the fact that Mao had by then evolved the tactics of the 'mass line'.[7] It was therefore not by accident, but very much by design, that by 1945, with a little help from his friends, Mao emerged as undisputed leader of a united party. Despite the fact that the succeeding years leading upto victory were trying ones for the CPC, never once was this unity placed in jeopardy, based as it was on an understanding of the unique character of the Chinese revolution and on an acceptance of the principles and guidelines for action laid down by the CPC at Yan'an. The 1947-48 Rectification Campaign is an illustration of this and makes nonsense of the argument that while Mao sought to expose the party to the masses, Liu sought to keep them out of rectification.

The purpose of the 1947-48 Rectification Campaign was to further revolutionise the CPC's policy of land reform. It was anticipated that this would meet with resistance from certain persons in the party who had a vested interest in seeing that this did not happen, and so the masses were sought to be mobilised to assist the party in carrying out its task. What is of interest to us, in the light of our argument, is that the evidence indicates that both Mao and Liu were in fundamental agreement throughout the campaign. That is to say, both favoured bringing in the masses to 'rectify' possible rightist shortcomings within the party at the initial stage, and both were equally in favour of curbing mass enthusiasm later on.[8] A pattern which, if one looks at the post-1949 period, tends to persist and repeats itself with unfailing regularity till as late as the Socialist Education Movement (1962-1965).

## III

After the first few years of reconstruction (1949-1953), the CPC was ready to adopt a planned model of growth so as to accelerate its development. The model that was most easily accessible and acceptable, and which had already shown results, was the Soviet one, and it therefore came as no surprise that the First Five-Year Plan of the PRC was based on the Soviet model. Emphasis was therefore laid on the building of capital-intensive heavy industry, the use of sophisticated techniques and the adoption of rational systems of management, such as the 'one man' system of management in industry, which took into account the needs of specialisation and the division of labour. While the subsequent results in terms of rates of growth were no doubt gratifying, though of course not as high as for the earlier period of reconstruction, by the mid-1950s a sense of unease began to set in among the Chinese leadership. Not only did it appear that a certain amount of stagnation had set in in agriculture, but the organisational and ideological consequences of adoption of the Soviet model were now also being felt.

To be more specific, by the mid-1950s, the combined effect of the whole ensemble of organisational structures and practices which made up the Soviet model was evident most sharply in the decline of party organisation and the growth in its place of a bureaucratic system of administration. This was most clearly marked in industry, where the adoption of the one-man management system had resulted in a widening gulf between managers and technicians on the one hand, and workers on the other, with the party being relegated to the sidelines.[9] If, therefore, the basic principle on which the Chinese revolution rested, and on which there was a general consensus, namely the maintenance of the closest possible link between the party and the masses, was to be preserved, the party would have to act swiftly. That it did by abandoning the Soviet model and instead seeking a Chinese model of development which saw its initial expression in the Great Leap Forward (GLF). And not surprisingly, Liu Shaoqi among others, besides Mao, was one of the most fervent advocates of the new policy.[10]

The post-GLF period, we believe, despite the numerous differences that arose among the leadership over issues of timing, pace and method, did not dilute this quest for a Chinese model of socialist development. The entire leadership, including Mao Zedong, showed a rare and commendable flexibility in the series of adjustments to policy that they made in this period. Thus, contrary to the opinion that "The trouble was that Mao had laid down many different and contradictory sets of principles and did not always have the courage to do so firmly enough",[11] we opine that this very flexibility of Mao's, as of the entire Chinese leadership's, was a tribute to their courage and demonstrated their abiding commitment to a Chinese way, even if this meant revoking earlier policies or adopting policies that they may have initially rejected. It also we believe explains the often contradictory positions taken by Mao during the years of the Socialist Education Movement (1962-65). Initially, Mao advocated a mild approach wherein the masses would be subject to strict party control: "[Rectification] is to be conducted from within the party to outside the party, from top to bottom, and from the cadres to the masses",[12] but by mid-1964 he came down in favour of Liu Shaoqi's approach which, in light of the token rectification that had occurred so far, sought to radicalise the movement by sending in work teams from outside which would mobilise the masses at the local level to expose party shortcomings.[13] Subsequently, at a key series of meetings in December 1964-January 1965, Mao reacted to the problems created by Liu's approach—a high purge rate and resultant demoralisation within the party—by endorsing a shift back to the earlier more lenient approach of 1963.[14]

To sum up therefore, we believe that an approach which seeks to interpret events in China from 1949 onwards as a struggle between two or more fundamentally opposed tendencies or lines is basically incorrect. Our reading of events, based on available evidence, shows that the policies adopted during these years upto the Cultural Revolution though often contradictory, had the full weight of majority consent behind them. They represented an attempt to evolve a model of development which though not rigidly bound down by any golden rule and thus capable of accommodating diverse approaches, was firmly wedded to one cardinal principle: maintenance of the historically close link between the party and the masses. A principle which, as we shall argue further on, no leader of the party was willing to compromise. Thus, the dismissal of prominent partymen both during this period, and subsequently during the Cultural Revolution, and even after, did not occur as a result of disagreements over fundamental issues but were prompted by other considerations. We shall elaborate below.

After the first flush of the GLF, Mao was as involved, as was everyone else, in making pragmatic policy adjustments. He was also critical of himself for having made a 'subjective' estimate of steel production in the summer of 1958: "I was enthusiastic at that time and failed to combine revolutionary fervour and a practical spirit."[15] A look at the statements made by the so-called critics of the GLF at the Lushan Plenum, at which Peng Dehuai was accused of voicing fundamental opposition to the GLF, also shows that what was being demanded was no more than adjustments in existing policies and that these were consistent with what Mao himself had said in the preceding months: the need to tone down targets and avoid subjective estimates, restore planning and balance in the economy, give up backyard furnaces for producing iron and steel, reassert the socialist principle of remuneration according to work done, renounce ultra-egalitarianism, allow for the free play of market forces, and re-examine the question of the system of ownership within the communes. It is also worth noting that Peng's letter to Mao referred to the failure to properly implement GLF policies, and not to the policies themselves, as the source of China's ills.[17]

That fundamental differences over policy had little to do with Peng's dismissal is further affirmed by the fact that eventually Peng was attacked not for any fundamental disagreement with the party over policy, but for organisational indiscipline, i e, for having conspired against the party.[18]

As regards the dismissals of Liu Shaoqi and Deng Xiaoping, identified respectively as the number one and number two capitalist-roaders within the party during the Cultural Revolution, it is instructive that Mao's only reported criticism of them was that they had set up "two independent kingdoms" at the party centre[19]—an accusation that had been levelled against Gao Gang and Rao Shushi in the early 1950s and which had therefore sought their dismissal on organisational grounds. In fact, as late as early 1965, the basic shortcomings of party leaders at the Centre were not identified as ideological ones, but rather as behavioural and organisational ones—acts of corruption, exploitative behaviour, violation of discipline—born out of the position of power and prestige that they now enjoyed in post-revolutionary China.[20] As regards the leading core of the party, Mao's utterances on the eve of the CR indicate that he felt it was basically sound and that given a spirit of give and take shortcomings could be overcome and misunderstandings settled amicably.[21]

To sum up therefore, till the eve of the CR there is no evidence to indicate that the leadership was divided over fundamental issues of policy. That a section of the leadership under Mao's tutelage, subsequently, during the CR, for reasons of their own, sought to portray these differences as essentially antagonistic must we feel not blind us to the fact that *at the time they occurred they were not regarded as such either by Mao or by anyone else*. Disagreements identified were essentially of a non-antagonistic and manageable nature and were not seen to jeopardise the basic principles to which the CPC adhered in its attempt to build a modern socialist China.

Developments in the post-Cultural Revolution period offer further proof of this. For not only were attempts made to rebuild the party and curb the powers of the Red Guards and Revolutionary Committees, but many partymen identified as capitalist-roaders during the Cultural Revolution, were asked to come back and participate at all levels of decision-making. The most notable of these was Deng Xiaoping who was rehabilitated at the highest level of policy-making, without having to submit an apology or make a self-criticism, by no less a personage than Mao Zedong himself. Moreover, the fact that Zhou Enlai, who had argued for a cautious approach as early as the Great Leap Forward, and who was later one of the principal advocates of the 'Four Modernisations' Programme, continued to occupy the post of Premier throughout the years of the Cultural Revolution, and later, we feel, adds further weight to our contention that: (a) differences over policy were not in fact regarded as of a fundamental nature by the leadership, so that (b) attempts to portray them as such with reference to certain persons within the party, must be attributed to other factors, such as an attempt to eliminate potential claimants to power by those who sought to rule in the name of Mao.

Information available to us today, in official and semi-official publications from China, as well as the accounts of China, scholars who have visited China lately, about the programmes and policies being pursued by China's present-day leadership does we feel further call into question the basic assumptions on which much of contemporary scholarship on China rests.

To be more explicit, how is it we ask ourselves that even after the triumph of a line associated with Mao's adversaries, emphasis continues to be laid on the Maoist list of priorities—agriculture, light industry and heavy industry—in that order, with perhaps even greater emphasis on investment in agriculture and light industry than in the past?[22] Mao Zedong's well known commitment to the peasantry and his refusal to allow them to be 'squeezed' so as to finance development elsewhere, is nowhere more clearly reiterated than in Hu Yaoban's report to the Twelfth National Congress of the CPC where he states that to raise the standard of living of the peasantry and see that they enjoy the fruits of prosperity is the primary aim of the new economic policies.[23] Moreover, why has the Maoist policy of 'walking on two legs' been retained and reaffirmed by a leadership which we are told is committed to a highly capital intensive, technologically sophisticated, heavy industry oriented model of growth? Instead, we find a call being given to continue to build labour-intensive industries, using less sophisticated indigenous techniques, in the rural areas so as to bridge the gap between town and countryside, and thus prevent an influx of labour into the cities.[24] And again, what is one to make of the measures taken to decentralise the economy in a really meaningful way, so as to allow enterprises a greater say in their operations, subject of course to fulfilment of the state plan?[25]

As regards the party, attempts are being made to disengage it from the administrative system as well as from the management of economic units. It has been asked to leave the day-to-day running of the state to the government and its agencies, and neither is it to interfere in the business operations of economic enterprises.[26] The latter have been made responsible for their own performance and towards this end they have been instructed to implement a system of democratic management wherein workers supervise their leaders *via* a Congress of Workers and Staff, which will appoint a manager and give him the necessary operational authority for running the enterprise under the party's overall political control.[27] This way not only is it hoped that the retarding influences of bureaucracy will be kept under check within the party, but that those who have been given managerial powers will remain sensitive to the needs of the workers. The party thus is to restrict itself to the ideological and political realms alone, and has been given the high sounding task of ensuring that the general line of the party is properly adhered to at all levels.[28]

Material advancement it appears is to be matched by spiritual upliftment—thus being expert is not enough, one will also have to be sufficiently red.[29] As a first step in this direction, the work style of the party is being rectified with corruption, the misuse of position, and organisational indiscipline in particular, coming in for heavy censure. Rectification norms, it is stated, are to revert back to those established by the party under the leadership of Mao Zedong for the 1942-44 Rectification Campaign: the use of 'gentle breeze' methods aimed at 'curbing the disease in order to save the patient'.[30] And even though open-door criticism of party members by the masses is ruled out today, the setting up of Discipline Inspection Commissions (DICs), with more powers than they have ever had in the past, including the right of higher level DICs to directly impose disciplinary punishments on party members at lower levels,[31] shows that the leadership is serious about rectifying shortcomings within the party. In this regard it is pointed out that punishing guilty party members or waging a few political movements could not in the past solve deficiencies in party style.[32] And this in fact is the attitude that characterises China's present-day policy-makers, namely, that we must draw lessons from the past and analyse problems and suggest solutions in light of past successes and failures.

Which leads us to contend that China's present-day rulers are as committed to finding a socialist path of development suited to Chinese conditions as were their predecessors. A commitment which, as we have argued, had its roots in the CPC's experience of revolution, on the basis of which certain guidelines for action were drawn up at Yan'an, of which the most important was the tactic of the 'mass line' which sought to keep the CPC ever sensitive to the needs of the masses.[33]

## IV

In this section, we intend to more concretely illustrate our contention that the so-called zig-zags evidents in policy-making in China from 1949 to the present far from representing a struggle between two lines are a comment on the give of the political culture which, at a particular point of time, conferred equal legitimacy on more than one policy approach, provided it allowed the maximum possible participation of the masses in decision-making *via* the operation of the mass line. A study of the twists and turns that have characterised China's system of industrial management over the years we feel offers us an opportunity to observe this process at work.

As mentioned earlier, in the early 1950s, the CPC introduced the Soviet Union's 'one-man management' system of factory organisation. Under this system the sole authority for business operations was vested in a technically competent factory manager, and under his authority individual heads of shops and of production teams had unchallenged control of their units. Likewise the manager was directly and solely responsible only to higher echelon authorities. This reduced the role of the factory party committee,[34] whose secretary at best fulfilled only a consultative role. Neither was there any provision in such a system for worker participation in decision-making in the factory at any level. The consequence of such a system of vertical rule was the creation of highly bureaucratic structures (from which the party was not immune)[35] with a correspondingly high degree of concentration of authority in the hands of the industrial ministries.[36]

As the end of the First Five-Year Plan approached in 1956, CCP leaders became increasingly aware that the adoption of the Soviet model of factory management was leading to a situation where the gap between the party and the masses was steadly widening with the party due to its alienation from the policy-making process at the enterprise level, losing contact with the everyday concerns of the workers. Subsequently, an attempt was made to close this gap as it were by awarding party committees a greater say in policy-making at the factory level, while the opinions of workers were to be solicited in the drawing up of production plans.

The Eighth Party Congress held in 1956 officially accepted this change in policy which came to be known as the system of factory manager (director) responsibility under the leadership of the party committee.[37] What is important is that this policy basically signified a reaffirmation of faith by the leadership in the system of administration evolved during the Yan'an period which had relied on a dual system of information and command—one which went upwards in the administrative hierarchy as well as sideways.[38] Under this system not only was a lower ranking agency subject to one or more higher placed agencies, but it was also partially subject to another body at the same level of administration. In Yan'an the local party branch was often the local co-ordinating body in the administrative system. Such a system was characterised by a high degree of flexibility of command and relied on the principle of encouraging the highest possible level of mass participation.[39]

The new factory management system accordingly sought to combine party collective leadership with individual responsibility. Thus, though the extensive authority conferred on the factory managers by one-man management was now withdrawn, full individual responsibility for performance remained with them. There was now an attempt to draw a distinction between policy and technical decisions. If any matter related to policy, the manager had to bring it before the party committee for collective decision-making, but if the problem was of a technical nature, he could make the decision on the spot. His main responsibility was therefore operational—to assure the achievement of policy goals within the factory. The factory manager thus became more of a technician and was thrown into increasingly closer contact with the workers.[40] Collective leadership involved not only a lateral shift of authority (from manager to party committee) but also a downward shift of decision-making powers to lower level cadres.[41] While in this system, as can be seen, there was scope for differing interpretations of what constituted policy matters and therefore were the concern of the party, and what were technical matters and thus fell into the purview of the manager, there were two areas where the party enjoyed undisputed authority: personnel matters and formulation of the state plan.[42]

The lack of definition of what constituted policy and what constituted technical matters soon led to a blurring of distinctions, so that by 1958 the party was not simply a co-ordinator but had assumed full operational leadership as well. This was the feature of the Great Leap Forward strategy which sought to decentralise decision-making, which in effect meant that party committees at the regional level now made policy decisions and production teams led by party cadres carried them out. There was practically no industrial management worth the name during this period; there was little supervision and control and a final accounting was to take place only when the production period ended.[43]

Industrial management returned in early 1961, when in face of the chaotic conditions existing in the economy, in the area of financial accounting in particular, managers were asked to come back. They now went back to a system within which the ministries reacquired much of their lost power (power which they had enjoyed under the one-man management system and lost during the subsequent shift to collective party leadership). The economic power exercised by party-dominated provincial and district governments during the GLF period was on the other hand reduced, while in industry there was relatively greater autonomy for the factory manager compared to the earlier system of collective party management, though of course not as much as under the one-man system of management. The manager was given 'independent operational authority' by virtue of the fact that enterprise profit was now made a major criterion for success in Chinese industry.[44]

In the spring of 1964, in a move that Schurmann sees as amounting to the Centre assuming greater control over financial and commercial activity,[45] Beijing announced the setting up of 'political departments' in all branches of economic administration down to the basic level. The political departments were party organisations under the jurisdiction of a central department attached to the Central Committee. They were responsible to higher-echelon political departments, but also to local party committees. Their purpose it seems was to assure a more steady capital accumulation. This implied control over the enterprises' money and supply matters and to that extent a dwindling in the policy-making powers of the party committee at the regional and local levels.[46] A process dramatically speeded up by the Cultural Revolution which all but disbanded the party organisation at all levels.

The Cultural Revolution dissolved factory party committees and replaced them by entirely new organisations. These consisted of the workers' management teams, the Red Guards and the revolutionary committees (consisting of masses, cadres and soldiers of the PLA). Technicians were now integrated into the work brigades and the post of factory manager was abolished; while management became the responsibility of the revolutionary committee. Workers' management teams were to focus on orientation, inspection and investigation, and on ideological work, with the Red Guards acting as a control on them.[47] It appears that this was an attempt to avoid the consequences of decentralisation during the GLF, when, as we have mentioned earlier, decentralisation came to mean the centralisation of power in the hands of the party at the regional level. Instead effective power was now to reside in the hands of the Red Guards and later the revolutionary committees.

In 1969 new party committees were set up. It was now stated that the revolutionary committee was an administrative body, under the political leadership of the factory party committee, in charge of implementation of established policy, while worker management teams were to function as intermediaries between management and the masses, and to act as a control on the managerial bodies, as well as on party members and administrative departments.[48]

The more recent past has seen the abolition of the 'new born things' of the Cultural Revolution, including the '3-in-1 revolutionary committees'. Interestingly enough, however, this has not meant the institution of a system under which the factory manager assumes full responsibility and control. China's present-day leaders have made it clear that even though the manager is to assume responsibility for enterprise profit, which has now become a criterion for success in Chinese industry, he is to be supervised by a Congress of Workers and Staff. The latter, in accordance with relevant state stipulations, is to decide the principles guiding the enterprise's production and operation, its plans for production, for securing material supplies and for marketing products as well as other important matters such as business, accounting, labour use, wages and benefits. The Congress too has the power to dismiss workers and staff members, to elect or recall the factory director and submit the decision to higher authorities for the record, or for approval. When the Congress is not in session, a Standing Committee of the Congress exercises its functions and sees to it that adopted resolutions are carried out. As the administrative leader of the enterprise, the factory director nominates the deputy factory directors, chief engineers and chief accountant who are appointed by the Congress or its Standing Committee.[49] The role of the party is visualised as that of general co-ordinator and political overseer. It has the responsibility of seeing that general policy guidelines are adhered to at the level of implementation, that workers' interests are properly represented and that ideological purity is maintained. Decentralisation has now come to mean greater control by the enterprise over its economic operations, subject to the state plan and to the highest possible level of worker participation.

## V

A study then of China's system of industrial management from 1949 to the present shows that changes made in the system at different points of time have primarily reflected concern on the part of the leadership at the growth of such phenomena as bureaucratisation of the party and its steady alienation from the masses. It is thus no accident that the debates that occurred within the party during this period centred around such issues as the kind and degree of centralisation and decentralisation to be undertaken, and the proper relationship to be fostered between the Centre, and the regions and industrial enterprises.

Thus from a system which concentrated power in the hands of industrial ministries at the Centre, and in the hands of the manager at the level of the enterprise, by 1958, we have a situation where the concentration of power is now in the hands of the party at the regional level. The post-GLF years were characterised by attempts to steer clear of both extremes and thus 1961 saw power being restored to the manager of the industrial enterprise and to the Central ministries, while the power of the party at the regional level was correspondingly curbed.

According to Schurmann, on the eve of the Cultural Revolution there were indications of further centralisation of power at the expense of the party at the regional and enterprise levels, a process somewhat rudely accelerated by the launching of the Cultural Revolution which saw the party stripped of all policy-making powers and of operational responsibility. Effective power now lay at the Centre and in the hands of the new mass organisations. By 1969 the situation seems to have been somewhat rectified with party committees once again being set up and given some policy-making powers—a trend which was to gain momentum in the succeeding period.

1979 marked the beginning of yet more changes in the system of industrial management. The mass organisations set up by the Cultural Revolution were officially disbanded, while a process of decentralisation was set in motion aimed at correcting the over-concentration of power at the Centre and the regionalisation of the economy. What is important to note here is that when China's present-day policy-makers talk about decentralisation, they are not talking in terms of handing over control over operations to the party at the regional and local levels. Control over business operations is now to be transferred to the enterprises' management with the proviso that it will not reside in the hands of the manager but in a Congress of Workers and Staff.

To conclude, therefore, over the last few decades or so, it is not a zig-zag or pendulum like process that we see at work in China but, as we have tried to argue above, a process of constant readjustment which aims to build on each preceding stage so as to continue to accelerate the pace of growth and development, without however sacrificing the CPC's close and historic link with the masses from which it derives its legitimate right to rule.

## Notes

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# Finance for Export of Manufactured Goods from Developing Countries

**Kalyan Banerji**

*This paper analyses the altered composition of the export basket of developing countries in South and South-East Asia. Thereafter, it proceeds to deal with financing issues that emanate from the curious feature of developing countries which are importers of capital having to cope with almost necessary export of capital arising out of sale of manufactured goods.*

MANUFACTURES are increasingly accounting for a larger share of total exports of developing countries in South and South-East Asia region. Support for financing exports has been deficient. This paper analyses the altered structure of export basket of developing countries in the South and South-East Asia region. Thereafter, it proceeds to deal with financing issues that emanate from the curious feature of developing countries, who are importers of capital, having to cope with almost necessary export of capital arising out of sale of manufactured goods. Focus is on a single region, *viz*, South and South-East Asia region.

## RISING EXPORTS AND INCREASED TRADE DEFICITS

During 1970-1981 developing countries in the region increased their exports ten-fold, registering annual average growth rate of upwards of twenty-five per cent. However, region's trade balance turned increasingly adverse from deficit of $ US 290 million in 1977 to deficit of $ US 19 billion in 1981. Doubtless, oil prices have been a major contributor to the rising trade balance deficit. Rising exports and increasingly adverse trade balance are evidenced in Table 1.

The growing adverse trade balance is all the more noteworthy when the region's increased share in total world exports is viewed. The region increased its share of world exports to 7.7 per cent in 1981 from 4.8 per cent in 1970. Data on this growth are presented in Table 2.

## COMPOSITION OF EXPORTS

Besides the remarkable export value level achieved by developing countries in the region, it is the composition of exports that attracts attention. Manufactured goods have been the most dominant element of exports. Nine developing countries in the region account for upwards of seventy per cent of the region's exports. Table 3 provides a snapshot picture of the increasing share of manufactures in the exports of the nine countries.

There is a notable difference in the composition of export between the large and small developing countries in the region. The difference lies in the fact that while some small countries have moved on to specialise in light manufactures, the larger countries have sought to diversify exports including capital goods. K goods refer to those goods that constitute the economic function of investment. K goods, therefore, cover essentially durable goods constituting the fixed assets for production, involving machines and equipment regardless of whether they are fixed or movable purchased for the purpose of production process. These goods are the result from the processing of metals.

Developing countries (China included) account for about eight per cent of the world production of K goods. This achievement in the 1970s is remarkable when compared to the fact that in the 1950s developing countries accounted for a negligible portion of world K goods production. In 1979, developing countries exported K goods worth $ US 22 billion, accounting for about five per cent of world trade in K goods.

Speed of development of K goods sector in developing countries of the region does reflect the level of development achieved as well as the development strategy opted. According to the stage of development achieved in the K goods sector, in the region, three country grouping can be derived. First group consists of China, India, South Korea, Singapore. In these countries, K goods sector besides producing a fairly wide range of standard equipment has also commenced manufacture of technologically complex equipment. In the second and intermediate country grouping may be classified Philippines and Thailand where production of standard equipment has commenced. The third country group consists of developing countries in the region where K goods sector is in a nascent stage. The first group accounts for a predominant share of K goods production and exports from the region. Countries in the first group have also made entry in export of technology and turnkey plants, *albeit* in relatively simple industries like textiles, sugar processing, cement, electrical generation and machine tools.

An additional dimension here is the direction of exports of K goods from developing countries in the region. Though data on this aspect is somewhat diffused, it can be stated that labour intensive K goods move towards developed countries and relatively capital intensive K goods move towards developing countries. Whilst recognising that only about eight per cent of K goods imported by developing countries originate in other developing countries, this level could be greater if financing support was available in good measure.

The period of credit extended in sale of K goods tend to be longer than in the case of other manufactured goods. Developing countries need increased foreign exchange earnings immediately to hasten economic growth and ease foreign exchange bottlenecks that have worked as a halter to growth by limiting the capacity to import intermediate and K goods of higher technology levels. One of the major constraints impeding the expansion of exports by developing countries in the region, particularly of complex K goods, is the limited ability to extend credit matching competitors from developed countries.

Two major structural changes characterise developing economies in the region. First, a decline in the share of agriculture and increase in the share of industry related activities in total output. Second, a shift in the relative share within industry between consumer goods and K goods including intermediate products. This trend of structural transformation means a faster growth rate in K goods than of industry as a whole.

## STRUCTURAL CHANGES

Altering composition of exports, manufactures accounting for increasing share, including K goods, in total export serves as some evidence of a continuing structural

TABLE 1: EXPORT GROWTH

| Year | Value of Exports (FOB) ($ US billion) | Annual Average Growth Rate (Per Cent) | Trade Balance Deficit ($ US billion) |
|---|---|---|---|
| 1976 | 61 | 33 | 2 |
| 1977 | 73 | 20 | 0.3 |
| 1978 | 87 | 19 | 5 |
| 1979 | 114 | 31 | 5 |
| 1980 | 144 | 33 | 11 |
| 1981 | 153 | | 19 |

*Source*: Handbook of International Trade and Development Statistics, United Nations.

TABLE 2: EXPORT VOLUME

| Year | Exports in ($ US billion) | Annual Average Growth (Per Cent) | Share in World Exports (Per Cent) |
|---|---|---|---|
| 1972 | 21 | 24 | 5 |
| 1973 | 32 | 55 | 5 |
| 1974 | 47 | 47 | 5 |
| 1975 | 46 | −2 | 5 |
| 1976 | 61 | 33 | 6 |
| 1977 | 73 | 20 | 6 |
| 1978 | 87 | 19 | 7 |
| 1979 | 114 | 31 | 7 |
| 1980 | 144 | 27 | 7 |

change in developing countries in the region. Industrial revolutions of the past twenty decades in Europe and North America are being followed by industrialisation in developing countries, particularly in Asian and South-East Asian countries. Literature on this trend and on the changing pattern of comparative advantage is indeed large and growing.[1] Most developing countries view industrialisation as a centrepiece of economic policy. Together with agricultural progress, industrialisation is viewed as an integral part of economic development and structural change.

In a number of products, developing countries could step into markets so far served by countries which are developed and whose comparative advantage is shifting to more advanced products and technology.[2] As developing countries speed their process of industrialisation, the old industrial countries are moving on to deploy their capital and labour in the production of skill-intensive and technically advanced goods.

Through the 1960s the developed countries' manufactured imports from the developing countries grew faster than growth of manufactures in developed countries. During 1970-78, manufactured exports from developing countries to developed countries grew three times as rapidly as developed countries' manufacturing output.

However, structural adjustment is a gradual, slow process. In developed countries, it involves shifting resources from lower to higher productivity uses, exercising options to promote industries with high growth potential and maintaining a strong position in international trade. In the meantime, it can be expected that developing countries will experience increasingly severe competition and pressures in their endeavour to increase export of non-traditional manufactured and industrial goods. Amongst several aspects of competition, the terms of credit can be anticipated to be one of the key factors. It is in this area that developing countries need financing support in the face of competition and, almost imperceptibly, slow yielding of traditional supply sources of industrial goods. It must be added here that it is in lower technology goods that developing countries have acquired and are acquiring comparative cost advantage. Developing countries merit encouragement to export such goods as this will increase their capacity to export industrial goods and upgrade technology levels. Credit competition from developed countries is an enormous hurdle for developing countries.

TABLE 3: GROWTH OF SHARE OF MANUFACTURES IN TOTAL EXPORTS

| | 1965 | 1970 | 1980 |
|---|---|---|---|
| Hong Kong | 92 | 95 | 96 |
| India* | 47 | 45 | 56 |
| Korea | 52 | 75 | 80 |
| Malaysia** | 6 | 6 | 19 |
| Pakistan | 36 | 57 | 48 |
| Philippines | 6 | 6 | 20 |
| Singapore | 29 | 27 | 46 |
| Sri Lanka | 0.84 | 1 | 19 |
| Thailand | 2 | 4 | 24 |

*Notes:* * Last year figure relates to 1979 and not 1980 as latter year figures not available in handbook.
** First year's figure relates to 1968 and not 1965.

*Source:* Handbook of International Trade and Development Statistics, United Nations.

### DISADVANTAGES OF DEVELOPING COUNTRIES

Competition is not only in price, quality, post-sales service, delivery schedule but also in the availability and cost of export credit finance. Manufactures, especially K goods, attract term credit terms. Such goods can hardly be sold in the international marketplace on cash terms. When goods are exported on credit terms, providing for repayment over a period of time, instead of cash payment upon delivery, export credit occurs. Whilst the exporter recovers, through his domestic bank, the value of goods exported, the exporting country has to sit out for many years for repayment.

For the exporting country there are at least three effects, emanating from term export credit, to cope with. First, accrual of foreign exchange earning gets postponed until repayment over a period of time is received from the overseas importer. Second, in the meantime, local currency in exporter's country enters the purchasing power stream, through local financing of exporter, pending realisation of export proceeds. Third, export term credit represents transfer of real resources from the exporting country to the importing country.

A developing country needs accrual of foreign exchange, soon after export occurs. It can ill-afford to postpone accrual of foreign exchange earnings related to exports. Not being capital surplus, a developing country when selling on credit, especially to a developed country bears a heavy burden flowing from the transfer of real resources that occurs when exports are made on credit terms. Moreover, companies in developing countries operate at rather low cash flow levels, most of production cycle being financed by bank credits. This can contribute to inadequacy of collateral to raise export refinance. Additionally, companies need some imported materials for production. Hence, the need for foreign exchange can arise from the start of production process. Postponement of foreign exchange accrual for an exporting country that is a developing economy can, therefore, hamstring its export capabilities, especially in the face of rising export volumes.

Several developing countries in the region have set up institutional mechanisms to provide export credit refinance. Most notable examples are South Korea, Singapore, Hong Kong and India. Published reports on South Korea show that the country utilises various sources to finance its export credit support programmes, including drawal of its foreign exchange reserves, commercial borrowing of Eurocurrency markets, discounting export paper covering especially sale of ships. Such sources are not available to most countries in the region.

Comprehensive data on the volume of export credits which developing countries are extending to finance their rising trade in manufactures is not available. Some indications are obtainable from reports that five developing countries (Hong Kong, India, Argentina, Israel, Spain) increased their insurance coverage on export credits from $ US 5 billion in 1975 to $ US 8.6 billion in 1978.[3] China has lately decided to enter the export credit business by providing low interest loans to encourage export of machinery and ships.[4] A number of other developing countries are also beginning to offer, or are planning to introduce, programmes for financing export of non-traditional exports, e g, Bangladesh, Philippines, Indonesia.

### CURRENT OPTIONS

Developing countries of the region can be categorised into two groups according to composition of their exports. The first group (Group A) consists of countries that export predominantly primary products. In other words, share of manufactured goods is low. The second group (Group B) consists of countries whose manufactured goods export accounts for a major share of total exports.

Consider Group A countries first. Credit is required during the production stage, upto the time of shipment. In most countries, domestic commercial banks provide the pre-shipment finance, under clearly designed pre-shipment financing schemes. There are, however, developing countries in the region where no such sector financing is available, e g, Nepal. Credit in the post-shipment period is needed to bridge the time required to receive export proceeds from the time of shipment. This varies from 90 days to 180 days. Such exports are short-term, traditional exports.

Short-term, traditional, exports can be refinanced in international markets through international banks. However, there are three factors that merit consideration. First, where the institutions or importing countries issue credit instruments covering short-term imports, such instruments can be discounted in international markets in the light of financial solvency of the creditors. In other cases, where the importer is not a developed country with a track record of credit-worthiness, discounting may attract a high cost especially when the credit-worthiness of the exporter has also to be weighed in. In the ultimate analysis, should the importing country not pay the export bill on due date, the discounting bank will claim recovery from the exporting country. In this context, the credit-worthiness of the exporting country is likely to influence the discount rate it attracts.

Second, the exporting country given its low per capita GNP, low debt repayment capacity, may either find it less than easy to get access to the international money markets or it may not welcome being seen in international markets attracting a high discount rate for short-term export paper.

Third, in many Group A countries, there is either absence of an institutional mechanism in the form of export credit insurance for short-term exports or the commercial banking system is not satisfactorily integrated to gain access with advantage to the international money markets. Where national export credit insurance is absent, it is possible that international banks may seek national government guarantee or its equivalent including guarantee from a bank outside the exporting country before discounting occurs.

Increasingly, Group A countries are likely to be involved in processing, marketing and distribution of their products. Again, with the spread of industrialisation, semi and finished forms of manufactured goods can be expected to gain significance for many Group A countries. Such exports may attract term credits. In the absence of an appropriate international refinancing mechanism, such exporting countries are likely to find it difficult to sit out for accrual of foreign exchange for corresponding periods of export credit extended.

Group B countries illustrate the institutional and financial requirements of non-traditional exports with some starkness. Such exports comprise products and projects that cover credit terms ranging from one year to three years and even longer terms between 3 and 5/10 years. Here the negative impact of delay in realising accrual of foreign exchange is evident on the balance of payments of a developing country. Moreover, in the production process of such products and project exports, there is a portion of imported raw materials and components for which there is immediate foreign exchange outflow. On the one hand, there is a deferment of collection of export proceeds, and on the other hand there is the need to pay cash for imports required for the production process. Where K goods are involved, the production process can be longer than the period over which proceeds are realised after shipment. Hence, both pre-shipment as well as post-shipment cost and credit availability determine the competitiveness of a developing country.

Where buyers of manufactured goods are developing countries and terms of credit are medium term, the placement and discounting of credit instruments, created by the buyer, in the international markets is difficult and, where possible, it attracts a high cost. This has particular relevance for trade among developing countries, when K goods producing countries can sell to countries that can profitably absorb such goods when appropriate credit terms are available. There is also an appropriateness of technology involved in such trade.

Income levels determine the type and quality of final products used in a country. The latter determines the character and level of K goods required to produce the final products. Developing countries produce K goods which are consistent with their factor endowments, especially skill endowments. Moreover, trade flows are likely to radiate outward towards proximate and similar markets. Since developing countries are more similar to one another, the implication is that a large trade, *ceteris paribus*, among developing countries is possible. Attractiveness of the latest technology from advanced countries coupled with attractive credit terms could be partially offset should international financing support for deferred exports be available. It could enable developing countries' endeavour to match terms offered by competition. Viewed another way, options in regard to supply sources could also meaningfully enlarge.

Evidence suggests that export of machinery to developing countries is a faster growing market. During 1972-76 the growth rate

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of such exports to developing country destinations was in the region of thirty-nine per cent compared to an overall developing countries' growth rate in manufactures of about thirty-five per cent. It has been argued that if the present rate of growth in developed countries continues, then sustained growth amongst developing countries is attainable only with increased trade among developing countries.[5]

### A COUNTER-ARGUMENT

It can be argued that the rapid expansion of exports of manufactured and K goods, especially amongst the newly industrialising countries in Asia, has occurred in the absence of any international financing of such exports. Hence the expansion in export of manufactured and K goods has not been restrained for want of export finance.[6] This argument would appear to avoid the next question, *viz*, how has the increase in exports of manufactured and K goods, involving postponement of accrual of foreign exchange, been financed? One route has been commercial borrowing in international and capital markets, including access to the discount/acceptance market. This has been possible and is likely to be possible to a somewhat decreased extent only for a few newly industrialising countries. The other route has been to expend domestic currency and bear with some immediate outflow of foreign exchange for procuring imported raw materials and components required for producing export products. Thereafter, the inflow of foreign exchange earnings have necessarily to be waited for. The cost impact has two dimensions. One relates to the domestic investment foregone and the other is the domestic resource cost of foreign exchange earned. This could lead to a faltering of the growth of non-traditional exports when the needs of developing countries are compared to those of newly industrialising countries.

The international money and capital markets can hardly be depended upon by developing countries for refinancing deferred exports. Worsening of the external environment has also worsened the external payments position of developing countries. The current account deficit of non-oil developing countries increased to $ US 70 billion in 1981, seven times the figure for 1972. Repayments of capital borrowed in the past have risen and net lending to developing countries has decreased. The consequence has been a heavy debt service burden. Transnational banks have been reducing their exposure to developing countries, causing a curtailed access to capital markets. Besides the shift in relative weights of the private and official flows of finance in the international monetary system, the private financial flows into developing countries are declining. Hence, even for those newly industrialising countries who have access to international capital markets, it may not be easy to rely on foreign borrowing to support expansion of exports in manufactured and K goods.

Moreover, attitudes to lending to developing countries have to be recognised. Lenders stress capital adequacy and lending limit constraints experienced by banks. With the increasing attention that national regulatory authorities are devoting to 'country risk', the decline (intrinsic or notional) in the creditworthiness of borrowers in developing countries cannot go unnoticed. Hence the cost of commercial overseas borrowing to support expansion in export of non-traditional goods is likely to get costlier. Besides, such borrowing will be ranked as debts counting in debt-service ratio computation and country-limits applicable to lending.

### CONCLUSION

The critical payments deficits of developing countries call for a considerable increase in non-traditional exports. This means considerable increase in finance availability, particularly medium and longer term finance. Both the newly industrialising countries as well as the developing countries are likely to be placed between Scylla and Charybdis. Whilst access to international capital is not going to be easy for newly industrialising countries, diversion of increasing amounts of domestic investible resources or support through created local currency for expansion of non-traditional exports involving deferred payment terms will be increasingly difficult.

However, non-traditional exports have been buoyant and are likely to maintain the momentum. When industrialisation strikes root, the effort is to promote industrial exports. Apart from the beneficial externality effects generated by industrial exports, there are other benefits which merit mention. These are, improved capacity utilisation, economies of scale, motivation for technological improvements, possibly improved allocation of resources through competitive pressures from overseas. Additionally, debt-servicing capacity of a country improves and its ability to attract overseas lending increases.

In the early phases of industrialisation, most countries have tended to respond to lack of foreign exchange resource with efforts to replace imported manufactures with indigenous products. This has enabled countries with large domestic markets to build up considerable and fairly efficient machinery capacities. Most developing countries in the region are now looking to outward strategies, in varying degree, recognising the benefits of exports.

Developing countries in the region have reached a stage of buoyant exports of manufactures. Sales attract term credit repayment terms. Competition from developed countries who offer cheap credit terms through a mix of aid credit and export credit is keen. The process of developing countries stepping into production areas that are likely to be vacated by developed countries in the course of their structural adjustment process may be impeded if developing countries cannot find international financing for deferred exports. Support for financing exports has been inadequate.[7] A developing country can ill-afford to postpone accrual of foreign exchange. An international refinancing mechanism alone appears to be a solution to the apparent paradox of a developing country importing capital as well as exporting capital which occurs when it sells industrial goods on long repayment terms.

## Notes

1 Kawaguchi, Y, "The LDCS' Comparative Advantage and Industry Characteristics in Japan" (World Bank, 1977).

2 Drucker, Peter F, 'Japan Gets Ready for Tougher Times', *Fortune*, November 30, 1980.

3 Cizauskas, Albert C, "The Changing Nature of Export Credit Finance and Its Implications for Developing Countries" (World Bank Staff Working Paper No 409).

4 'Trade Finance', *Euromoney*, May 1983.

5 Lewis, W A, 'The Slowing Down of the Engine of Growth', *American Economic Review*, Vol 70, 1980.

6 Study of operational priorities and plans of the Asian Development Bank of the 1980s.

7 The Report of the Independent Commission of International Development Commission on International Development Issues under the Chairmanship of Willy Brandt: "North South—A Programme for Survival", The MIT Press (1980).

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## Premier Vinyl Flooring

PREMIER VINYL FLOORING (PVF) is setting up a Rs 9.85 crore project for the annual manufacture of 5.5 million square metres of PVC floor tiles, floor coverings, sheetings and films, wall coverings and coated fabrics at Sikandrabad in Bullandshahr district of UP, a 'backward' area eligible for concessional finance from financial institutions. The company has entered into a technical collaboration agreement with Pegulan Worke of West Germany, Europe's leading manufacturer of PVC products with 24 factories in Europe and an annual turnover of DM 1,300 million. The main plant and machinery for the project has been imported from West Germany. All the raw materials for the project *viz*, PVC dioctyl phthalate (DOP), stablisers and calcium carbonate are available from indigenous manufacturers. Commercial production is expected to commence in September 1985. The company is making a public issue of 17.50 lakh equity shares of Rs 10 each, out of which 8.50 lakh equity shares have been reserved for preferential allotment to non-resident Indians and persons of Indian origin resident abroad. The subscription list for NRIs opens on August 24 and for the Indian public on August 28. The issue is being managed by the Merchant Banking Division of State Bank of India.

# Infant Mortality in India

## Level, Trends and Determinants

Leela Visaria

*This paper aims at a critical review of the available data on the level of and trends in infant mortality and of the associated differentials during the last quarter of a century. An attempt is made to identify the gaps in our existing studies where future research efforts may be oriented.*

*The paper begins by setting out an approach to the analysis of data on infant mortality. Following that the national and the state level estimates of neonatal, postneonatal and overall infant mortality by sex and rural-urban residence are reviewed. Attention is then focused on the available evidence on the contribution of various prenatal, natal and postnatal factors to infant mortality during different time period. This approach is adopted to help identify and assess the possible role of different intervention programmes.*

[This is the second part of the paper which is being published in three parts for reasons of space. The first part appeared last week and the third part will follow next week.]

### INTRANATAL VARIABLES AND THEIR IMPACT ON NEONATAL MORTALITY

SOME of the important factors causing high neonatal mortality in India and particularly in rural areas of the country are the place of delivery, the type of attendant and the practices followed with respect to care of the new born.

As indicated earlier in Table 5, neonatal deaths form more than half of the total infant deaths in both urban and rural areas. The proportion has not changed significantly during the 1970s or even with a significant decline in infant mortality.

A majority of the neonatal deaths are attributed to certain birth-related practices and can easily be avoided. The available literature both on the type of practices and on the epidemiological causes of neonatal deaths is examined to understand the correlates of neonatal deaths and the interventions which can help reduce them.

Table 13 shows for the country as a whole and for the 15 major states the SRS data on the distribution of births by nature of attendance at birth. Evidently, in the country as a whole only around 14 per cent of births take place in hospitals, nursing homes, maternity homes, etc. In rural areas the proportion is very low and increased only very little between 1970-72 and 1976-78 (from 6.4 to 7.1 per cent). In urban areas, the proportion of births occurring in institutions was relatively high; and it has steadily increased from 30 per cent in 1970 to 43 per cent in 1978. The proportion of births conducted at home by doctors or other trained persons such as nurses, midwives, etc, has remained around 10 per cent in rural areas and 23 per cent in urban areas. Overall the proportion of births delivered by trained practitioners in urban areas is thus 66 per cent and is about 16 per cent in rural areas.

More than 80 per cent of rural births are delivered at home by untrained dais or other untrained practitioners of this activity as well as by relatives and other family members included in the category of 'other'. In the 1970s there has been virtually no change in this proportion. In urban areas, the proportion of deliveries conducted at home by untrained birth attendants has come down from nearly half in 1970 to about a third during 1976-78.

The inter-state differentials in the type of attention and help available at the time of delivery are very large. At one extreme, are states like Jammu and Kashmir, Madhya Pradesh, Rajasthan and Uttar Pradesh where less than 10 per cent of the deliveries in rural areas are conducted by trained professionals either in institutions or at home, (the situation in Bihar is also unlikely to be any different, although we do not have any data from that state and from West Bengal). At the other extreme in Kerala, where even in rural areas 56 per cent of deliveries during 1976-78 were attended by trained personnel. The high density of population makes the rural-urban difference in Kerala relatively invalid but the neighbouring Tamil Nadu had the second highest proportion of rural births attended by trained personnel.

The urban situation in all the states is considerably better than that of rural areas, but there are large inter-state variations. In urban areas of Kerala, Tamil Nadu, Himachal Pradesh, Punjab and Maharashtra 75 per cent or more of all births are conducted by trained personnel. At the other end of the spectrum are Rajasthan, Orissa and Madhya Pradesh, where less than 50 per cent of urban births are attended by trained personnel.

These statistics reflect the uneven spread of medical facilities and their utilisation between states and they have some bearing on the level of neonatal mortality. However, Tamil Nadu with the second highest proportion of births attended by trained personnel did not report the second lowest IMR and therefore we need to understand the practices of traditional birth attendants (TBA) and their implications with the help of the data available from micro-studies.

Of course, a human infant can withstand substantially reduced level of hygiene as can be inferred from the fact that even in the worst circumstances, infant mortality has probably never exceeded 300-400 per 1,000 live births. And yet, it is suggested that this level can be brought down to a very small fraction of it, if births take place in hygienic conditions and certain level of medical care is available to the mother.

A majority of the rural births take place at home attended by village dais or other family members and the situation is unlikely to change over the next several years. The training of dais in some basic minimum hygiene and safe delivery practices has therefore been a key element in the programme of improving maternal and child health, almost since the Second Five-Year Plan. But the available evidence suggests that not all untrained dais follow unhygienic practices and not all trained dais practice asceptic methods only. Also, several of our urban hospitals fail to ensure asceptic conditions even in operation theatres. Contamination and infections are also not unlikely because of overcrowding, inadequate maintenance, shortage of personnel, etc.

Yet, according to societal or cultural norms, almost all over India, the actual event of birth is considered ritually impure. With this concept of pollution are associated several rituals to cleanse the woman and her new born. Time is an important variable in this process. Since the event of birth is ritually impure, women who handle the placenta and the cleaning up subsequent to birth, generally hail form low caste (such as barber) or untouchable communities or from the ranks of minority groups. They are otherwise socially not acceptable by the higher castes and are called only when the labour begins. The role and functions of dais are largely confined to the intranatal phase of the delivery, which includes delivering the child, cutting and tying the umbilical cord, burying the placenta and cleaning the new born and the mother.

The available data from two studies, conducted in rural areas of Chandigarh and Madhya Pradesh presented in Table 14 point to significant differences between the trained and untrained attendants in the practice of proper hand washing, and the knowledge and practice of asceptic handling of the newborn. In Madhya Pradesh, the trained dais did not use readily available instruments such as kitchen knives or even sickles for cutting the cord, but in Chandigarh there was little difference between the trained and the untrained TBAs with respect to the instruments used for cord cutting. Both categories used domestic scissors. In Chandigarh, the extent and nature of umbilical cord care differed between the trained and the untrained TBAs, and the former reported much lower incidence of neglect (no care) or use of ash of cow dung than the untrained TBAs. (Unfortunately, similar data are not available from the Madhya Pradesh study.) Further, training imparted to the TBAs has made them aware of neonatal tetanus. A large majority of the untrained TBAs were ignorant of tetanus, an important cause of neonatal deaths.

The data on mortality rates among infants by the type of attendant—trained or untrained—are difficult to find because without any distribution between early neonatal, late neonatal and postneonatal periods or cause of death, the effect of the type of birth attendance cannot be identified clearly. However, the results of a retrospective study in the rural areas of Kanpur and Etawah districts of Uttar Pradesh presented in Table 15, indicated three times the level of tetanus mortality among babies delivered by untrained birth attendants relative to the corresponding figures for babies delivered by trained birth attendants. Another prospective study in Karnataka has shown relatively small differences in the IMR among babies delivered by untrained and trained birth attendants. The IMR was about 20 per cent lower among babies delivered by trained birth attendants than among the children born with the help of untrained birth attendants.

As indicated above, delivery practices are important because the newborn, unless protected by certain immunities, are susceptible to certain infections, such as neonatal tetanus. Information on the pathogenesis of tetanus provides good insight into its correlates. Neonatal tetanus is caused by a potent toxin produced by clostridium tetani spores. These organisms are found in the soil which is rich in organic matter and in the gastro-intestinal tracts of domestic animals and human beings. These bacili are found in heavy concentration in tropical climates (optimal condition for growth is 35-38°C temperature). The usual site of infection among the infants is the umbilical stump. The toxin of cl. tetani acts directly on the central nervous system and causes muscle spasms and seizures. The symptoms appear 2 to 14 days after birth and death follows rapidly. Even in hospitals, the case fetality rate is very high. However, if the pregnant mother had been administered two doses of tetanus toxoid at least one month apart, and at least one month prior of delivery, the immunity passed on to the newborn, offers nearly 100 per cent protection against neonatal tetanus.

Table 16 summarises some of the major findings of a few studies on tetanus. Most of them are based on the neonatal tetanus cases admitted to various hospitals and the sample size is rather small. However, it is evident that umbilical stump was the site of infection and in a majority of the cases, either the cord was cut with unsterilised instruments or substances like ash of cow dung, butter ghee, etc, were applied to the stump. In two studies (one hospital based and one based on retrospective village data—Bhakoo (1976), Smucker (1980)), where it was possible to study other correlates of neonatal tetanus deaths, socio-economic status of the family was not at all an important explanatory variable. In the Uttar Pradesh study, the presence of large animals appeared a major source of tetanus

TABLE 13: PERCENTAGE DISTRIBUTION OF SAMPLE BIRTHS BY TYPE OF MEDICAL ATTENTION OF BIRTH, 1970-72 AND 1976-78

| State | 1970-72 | | | | 1976-78 | | | |
|---|---|---|---|---|---|---|---|---|
| | Institutional | Trained | Untrained | Other | Institutional | Trained | Untrained | Other |
| | | | | **Rural Areas** | | | | |
| India | 6.4 | 10.3 | 57.1 | 26.2 | 7.1 | 9.4 | 63.6 | 19.9 |
| Andhra Pradesh | 4.7 | 7.4 | 66.5 | 21.3 | 5.8 | 11.0 | 63.8 | 19.4 |
| Assam | 2.8 | 5.0 | 26.6 | 65.6 | 5.3 | 5.3 | 16.7 | 72.7 |
| Gujarat | 5.5 | 5.0 | 55.7 | 33.8 | 5.6 | 5.1 | 69.8 | 19.5 |
| Haryana | 0.3 | 9.3 | 79.2 | 11.2 | 1.2 | 20.1 | 70.8 | 7.9 |
| Himachal Pradesh | 2.9 | 11.6 | 65.4 | 20.1 | 2.3 | 18.7 | 76.1 | 2.9 |
| Jammu and Kashmir* | 2.4 | 3.5 | 83.5 | 10.6 | 1.7 | 5.1 | 85.8 | 7.4 |
| Karnataka* | 5.5 | 13.9 | 24.9 | 55.7 | 8.3 | 13.8 | 31.7 | 46.2 |
| Kerala@ | 26.4 | 25.4 | 32.9 | 15.3 | 37.4 | 18.4 | 31.9 | 12.3 |
| Madhya Pradesh | 1.2 | 7.5 | 65.3 | 26.0 | 0.9 | 5.4 | 65.2 | 28.5 |
| Maharashtra | 6.1 | 5.5 | 37.0 | 51.4 | 8.6 | 6.7 | 42.2 | 42.5 |
| Orissa | 2.2 | 12.0 | 49.6 | 36.2 | 2.1 | 10.0 | 48.3 | 39.6 |
| Punjab | 1.9 | 18.3 | 78.7 | 1.6 | 1.7 | 27.6 | 66.0 | 4.6 |
| Rajasthan* | 2.0 | 11.7 | 75.9 | 10.4 | 0.7 | 3.7 | 79.6 | 16.0 |
| Tamil Nadu | 13.5 | 16.3 | 35.2 | 35.0 | 21.3 | 14.4 | 32.3 | 32.0 |
| Uttar Pradesh | 0.5 | 4.8 | 94.1 | 0.6 | 0.4 | 5.0 | 93.7 | 0.9 |
| | | | | **Urban Areas** | | | | |
| India | 30.5 | 23.4 | 33.8 | 12.3 | 43.1 | 23.1 | 24.8 | 9.0 |
| Andhra Pradesh | 36.1 | 23.5 | 31.5 | 8.9 | 45.6 | 21.1 | 29.2 | 4.1 |
| Assam | 16.1 | 15.5 | 25.5 | 42.9 | 33.4 | 16.3 | 23.3 | 27.0 |
| Gujarat | 37.6 | 12.3 | 36.6 | 13.5 | 45.8 | 16.8 | 30.3 | 7.1 |
| Haryana | 6.6 | 24.8 | 60.4 | 8.2 | 10.7 | 48.8 | 37.3 | 3.2 |
| Himachal Pradesh | 23.6 | 51.1 | 20.3 | 5.0 | 37.9 | 50.0 | 11.8 | 0.3 |
| Jammu and Kashmir* | 9.8 | 29.2 | 55.5 | 5.5 | 10.0 | 40.4 | 48.5 | 1.1 |
| Karnataka@ | 45.4 | 20.4 | 10.6 | 23.6 | 50.6 | 10.6 | 8.4 | 30.4 |
| Kerala@ | 51.2 | 23.0 | 16.5 | 9.3 | 63.8 | 20.6 | 11.9 | 3.7 |
| Madhya Pradesh | 33.3 | 15.7 | 41.2 | 9.0 | 39.8 | 6.0 | 47.1 | 7.1 |
| Maharashtra | 58.1 | 4.5 | 16.4 | 21.0 | 66.3 | 5.7 | 14.2 | 13.8 |
| Orissa | 19.3 | 19.1 | 36.6 | 25.0 | 16.5 | 25.4 | 25.0 | 29.1 |
| Punjab | 4.1 | 68.5 | 27.3 | 0.1 | 5.9 | 70.3 | 18.3 | 5.5 |
| Rajasthan* | 12.0 | 7.8 | 66.6 | 13.6 | 12.9 | 16.6 | 63.9 | 6.6 |
| Tamil Nadu | 47.3 | 24.0 | 11.9 | 16.8 | 59.0 | 22.0 | 7.9 | 11.1 |
| Uttar Pradesh | 10.8 | 33.7 | 54.9 | 0.6 | 13.2 | 45.6 | 40.7 | 0.5 |

*Notes*: Institutional attention meant delivery in an institution like a hospital or PHC. A delivery attended by a trained person occurred in the home but was attended by a doctor or a trained dai, nurse or midwife. An untrained attendant at delivery in the home was an untrained village dai or other untrained professional functionary. 'Other' deliveries were attended by some relations and others excluding those named earlier.

* For 1972 only.

@ For 1971 and 1972 only.

*Sources*: 1 Office of the Registrar General, "Sample Registration System 1960-75", New Delhi, 1983.
2 Office of the Registrar General, "Sample Registration System 1976-78", New Delhi, 1983.

spores contributing to high risk of tetanus which persisted from one birth to another in the family (Simons, *et al*, 1978).

The cause of death data are notoriously inadequate and the only effort at national coverage to estimate the level of neonatal tetanus mortality (as well as the incidence of poliomyelitis) was undertaken as a response to the WHO's Expanded Programme of Immunisation (EPI) in 1981-82. It has been estimated on the basis of this survey that in India between 0.23 and 0.25 million infants die due to neonatal tetanus every year, with significant inter-state differentials (Bhargava and Sokhey, eds, 1983). However, as shown in Table 17, the neonatal mortality rates based on this survey conducted in 1981-82 are so much lower than those based on the 1979 survey of the SRS blocks that one can hardly believe them as real. Even though the survey had a short recall period of upto four months and covered a very large sample (population of 250,000) its results seem questionable.

Yet, an interestingly high inverse correlation (−0.65) is observed between the per cent of neonatal deaths due to tetanus and the estimated per cent of pregnant women who have been immunised with tetanus toxoid. The percentage of pregnant women covered in the states of Bihar, Rajasthan and Uttar Pradesh is very low and consequently the proportions of deaths due to neonatal tetanus are quite high. If the EPI is effective and achieves its goals, many of these neonatal deaths can certainly be prevented, with a clear impact on the IMRs of these states as well as of the country.

Accepting the SRS estimate of the birth rate of 34 (including Bihar and West Bengal) and making a rough adjustment for fetal wastage during the last trimester of pregnancy, about 21.4 per cent of pregnant women were given anti-tetanus vaccination during 1981 (Table 18). This estimate is only slightly lower than the figure of 24 per cent estimated for 1982 by Henderson (Henderson, 1984).

A similar exercise of states shows that among the 15 major states, the percentage of pregnant women given anti-tetanus vaccination during 1981 varied between a low of 3.4 per cent in Bihar and 9-11 per cent in Rajasthan and Uttar Pradesh to a high of 41 per cent in Maharashtra and 48 per cent in Gujarat. (Kerala with the lowest IMR had a tetanus coverage of about 38 per cent, the third highest in the country.) Unfortunately, the SRS-based neonatal mortality rates are not available for years after 1978 and therefore, it is not possible to assess the impact of the programme on inter-state variations in neonatal mortality attributable to tetanus. However, insofar as the immunity against tetanus lasts longer than for a few months, the impact of the programme can be expected to be cumulative.

The government programmes of training dais have been accompanied by the distribution to the trainees of safe delivery kits. However, the replenishment and maintenance of these kits involve an organisational effort that has been proven beyond the capacity of our district and block-level administration. To overcome this limitation, some MCH programmes have introduced an innovation of supplying a disposable safe delivery kit to the pregnant woman herself, who has an interest in preserving it and ensuring its use. According to Banoo Coyaji of the KEM Hospital, Pune, such safe delivery kits cost no more than about Rs 1.50 (US $ 0.13 at the current exchange rate) per piece, even including the cost of irradiation and round-trip transport between Pune and Bombay (*Source*: an oral discussion). There is considerable scope for further experimentation with this promising idea, which can bring about a basic change in the level of cleanliness and hygiene around a delivery. Similarly, some research in Chandigarh has highlighted a widespread practice in Haryana of giving top priority to the burial of placenta, considered a pollutant, at the cost of the needs of the newborn, whose difficulties with respect to breathing, etc, get attended to only after the placenta has been disposed of (*Source:* an oral discussion with S K Bhargava). Presumably such practices can be modified through an educational programme.

It is often suggested that the training im-

TABLE 14: INTRANATAL PRACTICES BY TRAINED AND UNTRAINED TRADITIONAL BIRTH ATTENDANTS

| | Chandighar | | Madhya Pradesh | |
|---|---|---|---|---|
| | Trained° TBA | Untrained TBA | Trained TBA | Untrained TBA |
| 1 Hand Washing: | | | | |
| Number of respondents | 15 | 26 | 50 | 50 |
| a Not done | Nil | 1 | Nil | 1 |
| b Done, not satisfactorily | Nil | 3 | 17* | 31* |
| c Done and wiped with dirty cloth | 6 | 18 | — | — |
| d Done and wiped with clean cloth | 6 | 2 | 33 + | 18+ |
| e Done, not wiped | 3 | 2 | — | — |
| 2 Instruments used for cutting cord: | | | | |
| Number of respondents | 15 | 28@ | 50@ | 50@ |
| a Domestic scissors | 13 | 22 | 19 | Nil |
| b Kitchen knives | 1 | 1 | 2 | 19 |
| c Shaving blades | 1 | 5 | 40 | 42 |
| d Sickles | Nil | 1 | Nil | 6 |
| 3 Cord Care: | | | | |
| Number of respondents | 26 | 44@ | — | — |
| a No cord care | 5 | 14 | NA | NA |
| b Ash of cow dung | 2 | 7 | NA | NA |
| c Butter ghee with or without turmeric | 9 | 24 | NA | NA |
| d Talcum powder | 5 | 9 | NA | NA |
| e Antisceptic lotion | 5 | 8 | NA | NA |
| 4 Knowledge of Neonatal Tetanus: | | | | |
| Number of respondents | 14 | 28 | 50 | 50 |
| a Ignorant | 7 | 23 | 13 | 49 |
| b Wrong beliefs | 1 | 4 | | |
| c Unsatisfactory | 4 | 1 | | |
| d Satisfactory | 2 | 0 | 37 | 1 |

*Notes:* o Trained, partially trained and also those who are under supervision of trained midwives.
* Washed with water only.
+ Washed with soap and water.
@ The numbers do not add upto the sample size because some of the TBA use more than one instrument depending on the situation.

*Sources:* 1 The Chandigarh data are from: Bhakoo D N, S K Garg, K C Aggarwal and A N Gupta, 1976, 'Socio Epidemiological Study of Neonatal Tetanus', *Indian Pediatrics*, Vol 13, No 7 (July), 545-552.
2 Madhya Pradesh data pertain to the Rewa Division of the state and are from: Mathur N B, A K Gargye and V J Rajput, 1983, 'Knowledge, Attitude and Practice of Perinatal Care Amongst Traditional Birth attendants (Dais) Trained *Vs* Untrained", *Indian Pediatrics*, Vol 20, No 11, 837-842.

parted to the TBAs should enable them to identify difficult and complicated cases, so that they can refer these cases to the primary health centres or similar facilities near them. Such an extention of the role of TBAs is a new concept because usually the dais are not contacted prior to the onset of labour. Also, the available transport and communication facilities often make it virtually impossible for the complicated cases to be taken to a referral centre or for a trained ANM or a doctor to be called to handle a difficult delivery. The high density of population in a state like Kerala, with its excellent transport and communications network, facilitates attention by a trained person to a much higher proportion of deliveries than elsewhere in the country. Perhaps, an expanded role of the trained birth attendants is possible only in a framework of antenatal care including relevant health education, anti-tetanus vaccination and prophylaxis against both anaemia and malnutrition.

## BREAST-FEEDING AND OTHER PRACTICES

Apart from the anti-tetanus vaccine and a safe delivery, proper nursing of the newborn seems likely to have an important influence on its survival. As has been highlighted in the recent international literature, breast-feeding enhances child survival by transmitting to the infant, along with nutrients for growth, certain immunity-raising elements which can help fight the high infection load found in an environment, where the replacement foods are not ordinarily free from contamination. (Breast-feeding also tends to delay the resumption of menstruation and thereby elongates birth interval, which in turn enhances child survival.)

The mechanism through which breast-feeding affects child survival is quite well understood. But not many empirical and comparative studies are available to identify the distinct effect of breast-feeding on infant and child mortality, from among several simultaneously operating factors.

Medical research in India during the last 15 years has paid considerable attention to infant feeding and rearing practices. Several hospital or clinic based studies have ascertained the actual practices from the mothers of the infants or women attending the clinics as "out-patients". A few field studies have also been conducted both in rural and urban areas.

Most of the studies relate to small samples which may not be truly representative of the populations. However, taken together, these studies provide valuable insights into certain important beliefs and cultural practices related to the onset of breast-feeding after birth, the kinds of prelacteal feeds administered to the newborn, the age at which supplementary foods are introduced and their content, the general awareness about cleanliness, the duration of breast-feeding, the

**Rural Uttar Pradesh (1965-69)**

| Birth Attendant | Births Ending in Tetanus Deaths (Per Cent) | Births Ending in Non-Tetanus Deaths (Per Cent) | Survivors (Per Cent) | All Births (Per Cent) | Infant Mortality Rate Due to Tetanus |
|---|---|---|---|---|---|
| Trained | 2.3 | 4.1 | 6.8 | 6.5 | 19 |
| Untrained | 79.1 | 57.5 | 67.1 | 67.4 | 61 |
| Relatives | 18.6 | 38.4 | 26.1 | 26.1 | 37 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 52 |
| N | 129 | 73 | 2283 | 2485 | — |

**Rural Karnataka (1977-78)**

| Birth Attendant | Births Ending in Neonatal Deaths (Per Cent) | Births Ending in Post-neonatal Deaths (Per Cent) | Survivors (Per Cent) | All Births (Per Cent) | Infant Mortality Rate |
|---|---|---|---|---|---|
| Trained | 27.7 | 23.6 | 31.5 | 31.0 | 86 |
| Untrained and relatives | 72.3 | 76.4 | 68.5 | 69.0 | 109 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 102 |
| N | 112 | 72 | 1626 | 1810 | |

*Notes:* 1 Some of these percentages have been computed on the basis of the data given in the sources cited below.
2 The trained attendants in Karnataka include besides trained dais, doctors, ANMS and Village Health Volunteers.
3 The UP study is based on a retrospective survey conducted in 1972, and pertains to children born between 1965 and 1969.
4 The Karnataka study is based on a survey of pregnant women registered for antenatal care in 1977 and on a second survey on the type of pregnancy termination, etc, conducted in 1978.

*Sources:* 1 Smucker Celeste M, G B Simmons, S Bernstein and B D Misra, 1980, 'Non-natal Mortality in South Asia: The Special Role of Tetanus', *Population Studies*, Vol 34, No 2 (July), 321-335.
2 Reddy P H and M V Sholapurkar, n d, 'Type of Birth Attendant and Infant Mortality in Rural Karnataka, India', (mimeo).

TABLE 18: SOME TENTATIVE ESTIMATES OF THE PERCENTAGE OF EXPECTANT WOMEN RECEIVING ANTI-TETANUS VACCINATION IN DIFFERENT STATES, 1981

| Sr No<br>1 | States<br>2 | Expectant Women ('000)<br>3 | Expectant Women Immunised ('000)<br>4 | Per Cent of Women Immunised<br>5 |
|---|---|---|---|---|
| | India | 24,598 | 5,275 | 21.4 |
| 1 | Andhra Pradesh | 1,805 | 703 | 38.9 |
| 2 | Assam | 696 | 83 | 11.9 |
| 3 | Bihar | 2,874 | 98 | 3.4 |
| 4 | Gujarat | 1,244 | 603 | 48.5 |
| 5 | Haryana | 498 | 93 | 18.7 |
| 6 | Himachal Pradesh | 143 | 23 | 16.1 |
| 7 | Jammu and Kashmir | 201 | 36 | 17.9 |
| 8 | Karnataka | 1,125 | 376 | 33.4 |
| 9 | Kerala | 703 | 266 | 37.8 |
| 10 | Madhya Pradesh | 2,066 | 254 | 12.3 |
| 11 | Maharashtra | 1,915 | 787 | 41.1 |
| 12 | Orissa | 926 | 192 | 20.7 |
| 13 | Punjab | 542 | 150 | 27.7 |
| 14 | Rajasthan | 1,340 | 121 | 9.0 |
| 15 | Tamil Nadu | 1,452 | 421 | 29.0 |
| 16 | Uttar Pradesh | 4,612 | 509 | 11.0 |
| 17 | West Bengal | 1,921 | 397 | 20.7 |

*Note:* The number of expectant women is estimated on the basis of the average birth rate during 1981-82 reported by the SRS and an assumed foetal wastage during the third trimester of pregnancy of the order of 2 per 1,000 population. The validity of the latter assumption is still being assessed.

*Sources:* 1 Census of India, 1981, Series I, Part II B(i), Primary Census Abstract, General Population, pp 30-33.
2 Registrar General of India, *Sample Registration Bulletin*, Vol XVII, No 1, June 1983, pp 7-11.
3 Government of India, Ministry of Health and Family Welfare, Family Welfare Programme in India, "Year Book 1981-82", pp 94-95.

TABLE 16: SELECTED STUDIES RELATING TO TETANUS—A SUMMARY

| | Author | Year of Survey/ Study | Area | Sample Size | Major Findings Reported |
|---|---|---|---|---|---|
| 1 | Bhakoo | NA | Chandigarh | 44 infants with tetanus admitted to the hospital | 1 SES not important<br>2 Condition of the room (90 per cent in Katfha place) where delivered not important<br>3 Nearly equal number used (22, 20) ash, cowdung, butter ghee on the umbilical stump |
| 2 | Bhat | 1973-74 | Bombay | 100 admitted to hospital with tetanus | 1 82 per cent of babies were delivered at home<br>2 90 per cent infected umbilical stump, 10 per cent had infection on the vaccination site<br>3 Weight at admission important<br>4 Mortality 72 per cent |
| 3 | Griffith | 1971-72 | Ludhiana | 156 admitted to hospital with tetanus | 1 72 per cent admitted were males<br>2 90 per cent delivered by a dai at home, 7 per cent by auxiliary midwife<br>3 68 per cent died |
| 4 | Gupta | 1974-75 | Delhi | 247 admitted for tetanus | 1 193 males/54 females admitted<br>2 70 per cent had an infected umbilical stump<br>3 Mortality 72 per cent<br>4 52 per cent cases cord cut with unsertilised blades |
| 5 | Majumdar | 1967-70 | Goa | 51 babies admitted to hospital | 1 35 were males, 16 females<br>2 All had an infected umbilical stump<br>3 Mortality 57 per cent |
| 6 | Smucker | 1972 | Rural Uttar Pradesh | 3,267 births | 1 66 per cent of all neonatal deaths due to tetanus<br>2 SES variables (excluding landholding) unimportant<br>3 Previous tetanus death in the family and ownership of large animals major predictors of tetanus mortality |

*Sources:* 1 Bhakoo O N, *et al*, 1976, 'Socio Epidemiological Study of Neonatal Tetanus', *Indian Pediatrics*, Vol 13, No 7.
2 Bhat G J, *et al*, 1979, 'Neonatal Tetanus—A Clinical Study of 100 Cases', *Indian Pediatrics*, Vol 16, No 2 (February), 159-166.
3 Griffith Jeanne A and Sachs David, 1974, 'Tetanus Neonatorum: Social and Economic Dimensions for Teaching and Program Planning', *Indian Pediatrics*, Vol 11, No 6 (June), 409-415.
4 Gupta Anu, *et al*, 1977, 'Tetanus Neonatorum', *Indian Pediatrics*, Vol 14, No 3 (March), 211-218.
5 Majumdar Harish, and Kaur Satwant, 1971, 'Neonatal Tetanus', *Indian Pediatrics*, Vol 8, No 4 (April), 145-151.
6 Smuckler CM, *et al*, 1980, 'Neo-natal Mortality in South Asia: The Special Role of Tetanus', *Population Studies*, Vol 34, No 2 (July), 321-335.

TABLE 17: NEONATAL MORTALITY AND NEONATAL TETANUS MORTALITY RATES IN DIFFERENT STATES ACCORDING TO THE 1981 SURVEY

| State | Neonatal Mortality Rate | | Neonatal Tetanus Mortality Rate | | Neonatal Tetanus Mortality as Per Cent of Neonatal Mortality | |
|---|---|---|---|---|---|---|
| | Rural | Urban | Rural | Urban | Rural | Urban |
| Andhra Pradesh | 24.5 | 15.4 | 6.8 | 2.7 | 27.9 | 17.6 |
| Bihar | 29.6 | 8.1 | 11.3 | 5.3 | 38.0 | 64.7 |
| Delhi | — | 10.2 | — | 1.0 | — | 9.5 |
| Gujarat and D and N Haveli | 34.5 | 19.6 | 5.8 | 1.9 | 16.9 | 9.8 |
| Haryana, Punjab and Chandigarh | 28.5 | 12.0 | 8.4 | 3.1 | 29.5 | 25.9 |
| Karnataka and Goa | 21.9 | 10.0 | 5.1 | 1.5 | 23.8 | 13.6 |
| Kerala | 5.2 | 8.6 | 1.9 | 1.9 | 36.4 | 22.2 |
| Madhya Pradesh | 56.0 | 4.8 | 20.4 | 1.4 | 36.4 | 30.0 |
| Maharashtra | 29.4 | 13.3 | 4.8 | 4.9 | 16.4 | 37.0 |
| Orissa | 38.3 | 15.5 | 8.6 | 2.0 | 22.5 | 12.9 |
| Rajasthan | 31.9 | 15.2 | 13.5 | 3.4 | 42.3 | 22.2 |
| Tamil Nadu and Pondicherry | 16.0 | 11.1 | 4.9 | 0.0 | 30.6 | 0.0 |
| Uttar Pradesh | 93.0 | 25.8 | 66.7 | 15.3 | 71.7 | 59.3 |
| West Bengal | 30.0 | 8.1 | 11.9 | 0.5 | 39.7 | 5.9 |
| Total | 33.9 | 12.5 | 13.3 | 3.2 | 39.2 | 25.3 |

*Source:* Bhargava I and Sokhey J (eds), 1983, "The Control of Neonatal Tetanus in India", New Delhi, 28-29.

weaning practices, etc. They highlight the scope and/or the need for a health education programme that can make an important contribution to raising the survival of children. The Indian empirical studies of the subject show lower morbidity among breast-fed infants compared to those who were partially breast-fed or not breast-fed at all. This is particularly true of diarrhoea, the most common cause of illness among young infants (Idris, 1981, NIN, 1982).

Table 19 summarises the major findings of several studies. Apparently, although breast-feeding seems universal, in a majority of the community studies, it is initiated at least 24 hours after birth and often after 48 or 72 hours; valuable colostrum is discarded. Interestingly, however, in the three tribal groups in Himachal Pradesh, Madhya Pradesh and the Nilgiris (Tamil Nadu), the new born were breast-fed within 6 to 12 hours after birth.

Women continue to feed their children for upto 24-36 months, and do not introduce supplementary foods very systematically. After about six months, when breast-milk cannot be adequate for the growing child, children are given supplementary milk (generally diluted with water because undiluted milk is considered a "heavy" food), and other foods which are essentially carbohydrates. Staples such as rice are believed to be light and easily digestible by the infants. Further, although the available studies do not report it, at least in rural Gujarat, there seems to be no practice of mothers feeding semi-solid supplementary food to the babies. Children start eating solids more or less regularly, only when they can eat by themselves. Quite probably many of the rural mothers do not have the time available to the upper class urban women to feed each child, and instead find it easy to breast-feed the child. (It has even been reported that women prolong breast-feeding because it gives them much needed respite from the daily arduous chores.)

Since in a large proportion of population breast-feeding is not initiated upto 1 to 3

TABLE 19: PERCENTAGE DISTRIBUTION OF INFANTS ACCORDING TO THE AGE IN HOURS WHEN BREAST-FEEDING COMMENCED—A SUMMARY OF VARIOUS STUDIES

| Author | Area | Year of Study | Size of Sample | Age of Infant at the Time of Starting Breast-Feeding | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Less than 12 Hours | 13 to 24 Hours | 25 to 48 Hours | 48 to 72 Hours | 72 + Hours |
| Bahl | Rural Himachal Pradesh | NA | NA | 0.8 | 84.0 | 13.4 | 1.3 | — |
| Bahl and Singh | Rural Himachal Pradesh | 1981 | 388 | 85.6 | 1.5 | 2.6 | 2.6 | 7.7 |
| Belavady, *et al* | Madhya Pradesh | NA | NA | 60.0 | 40.0 | Per cent after more than 12 hours | | |
| Gurudeva | Rewa division of Madhya Pradesh | NA | | | | | | |
| | Hospital delivered | | 74 | — | 60.8 | 14.9 | 16.2 | 8.1 |
| | Home delivered | | 418 | — | 3.1 | 23.9 | 68.7 | 4.3 |
| Kalra and Dayal | Agra and surrounding rural areas | NA | | | | | | |
| | Urban | | 3245 | 3.0 | 9.0 | 16.2 | 61.8 | 10.0 |
| | Rural | | 1230 | — | 1.0 | 2.2 | 70.6 | 26.6 |
| Katiyar, Agarwal, *et al* | Varanasi district | NA | | | | | | |
| | Urban | | 273 | — | 18.3 | 28.6 | 54.2 | 7.0 |
| | Urban slum | | 284 | — | — | 6.3 | 74.7 | 19.0 |
| | Rural | | 336 | — | 1.2 | 7.1 | 71.4 | 20.2 |
| Madhavi, *et al* | Rural Andhra Pradesh | NA | 108 | | Mostly after 36 hours | | | |
| Mehta, Pawar and Betkerur | Urban Gujarat | NA | 400 | — | 98.0 | 2.0 | — | — |
| Mudgul, Rajput, *et al* | Rural Madhya Pradesh | 1975-76 | 1000 | 94.5 | 5.8 | 0.7 | — | — |
| Nalwa | New Delhi | 1978 | 195 | — | 18.5 | 31.8 | 31.8 | 17.9 |
| Prasad and Nath | New Delhi | NA | 328 | | 36 to 40 | | 60.0<br>64.0 | |
| Suvarnadevi and Behera | South Orissa | NA | 460 | — | 13.0 | 17.0 | 50.0 | 20.0 |

*Sources:* 1 Bahl Lalita, 1979, 'Some Aspects of Infant Rearing Practices and Beliefs in Tribal Inhabitants of Himachal Pradesh', *Indian Pediatrics*, Vol 16, No 4 (April), 337-341.

2 Bahl Lalita, Singh Lakshman, 1982, 'Some Aspects of Infant Rearing Practices and Beliefs in Rural Inhabitants of Himachal Pradesh', *Indian Pediatrics*, Vol 19, No 11, (November), 921-925.

3 Belavady B, Pasricha S and Shanker K, 1959, 'Studies of Lactation and Dietary Habit of Nilgiri Hill Tribes', *Indian Journal of Medical Research*', Vol 47, No 221.

4 Gurudeva R K, *et al*, 1982, 'Infant Feeding Patterns in Rewa', *The Indian Journal of Pediatrics*, Vol 49, No 401, 815-818.

5 Kalra Ajay, *et al*, 1982, 'Breast Feeding Practices in Different Residential, Economic and Educational Groups', *Indian Pediatrics*, Vol 19, No 5 (May), 419-426.

6 Katiyar G P, *et al*, 1981, 'Feeding Practices in Varanasi District', *Indian Pediatrics*, Vol 18, No 1 (January), 65-70.

7 Madhavi V, *et al*, 1972, 'A Survey of Infant Feeding and Weaning Practices in the Village Fathepur-Hyderabad', *Indian Pediatrics*, Vol 9, No 8 (August), 480-484.

8 Mehta M J, *et al*, 1972, 'Infant Feeding Habits in Surat City (South Gujarat)', *Indian Pediatrics*, Vol 9, No 5 (May), 291-293.

9 Mudgal S, *et al*, 1979, 'Tribals of Madhya Pradesh—A Knowledge, Attitudes and Practice Survey of Infant Feeding Practices' *Indian Pediatrics*, Vol 16, No 7 (July), 617-622.

10 Nalwa A S, 1981, 'Social Factors Operating in Feeding Practice and Dietary Pattern of Under-Threes', *Indian Pediatrics*, Vol 18, No 7 (July), 453-460.

11 Prasad K R and Nath L M, 1976, 'A Controlled Study of Socio-Culturally Determined Chief Feeding Habits in Relation to Protein-Calorie Malnutrition', *Indian Pediatrics*, Vol 13, No 3 (March), 169-176.

12 Suvarnadevi and Behera P L, 1980, 'A Study of Breast Feeding Practices in South Orissa', *Indian Pediatrics*, Vol 17, No 9 (September), 753-756.

TABLE 20: PERCENTAGE OF INFANT RECEIVING DIFFERENT PRELACTEAL FEEDS ACCORDING TO VARIOUS STUDIES

| Study | Area | Beverages Like Tea, Boiled Water | Honey, Sugar, Jaggery or Glucose with Plain Water | Herbal Concoctions Prepared with Water, Ghee or Castor Oil | Cow or Buffalo Milk Diluted with Water | Breast-Feed Only |
|---|---|---|---|---|---|---|
| 1 Bahl | Himachal Pradesh | — | 5.0 | — | — | 95.0 |
| 2 Bhandari | Bhopal, MP | 0.4 | 40.8 | 42.5 | 0.8 | 15.6 |
| 3 Jaiswal | Aligarh, UP | 5.0 | 33.0 | 34.0 | — | 28.0 |
| 4 Kalra | Agra, UP | | | | | |
| | Urban | 6.2 | 69.2 | 24.6 | — | — |
| | Rural | 1.2 | 87.2 | 11.6 | — | — |
| 5 Katiyar | Varanasi, UP | | | | | |
| | Urban | 16.1 | 49.8 | — | 34.1 | — |
| | Urban slum | 26.4 | 27.5 | — | 46.1 | — |
| | Rural | 29.2 | 27.4 | — | 43.5 | — |
| 6 Madhavi | Andhra Pradesh | — | — | Mostly | — | — |
| 7 Mehta | Surat, Gujarat | — | 83.3 | 3.2 | 4.5 | 9.0 |
| 8 Nalwa | Delhi | — | 41.0 | 26.7 | 19.0 | 13.3 |
| 9 Sharma* | Jammu | | | | | |
| | Urban | — | 72.0 | 4.0 | 7.0 | 4.0 |
| | Rural | — | 67.0 | — | 4.0 | 5.0 |

*Note:* * 13 per cent of urban and 22 per cent of rural respondents.

*Sources:* 1 Bahl Lalita, 1979, 'Some Aspects of Infant Rearing Practices and Beliefs in Tribal Inhabitants of Himachal Pradesh', *Indian Pediatrics*, Vol 16, No 4 (April), 337-341.

2 Bhandari N R and Patel G P, 1973, 'Dietary and Feeding Habits of Infants in Various Socio-Economic Groups', *Indian Pediatrics*, Vol 10, No 4 (April), 233-238.

3 Jaiswal D P, *et al*, 1981, 'Study of Feeding Practices and Morbidity Pattern during First Year of Life', *Indian Pediatrics*, Vol 18, No 10 (October), 735-741.

4 Kalra Ajay, Kalre K and Dayal R S, 1982, 'Breast Feeding Practices in Different Residential, Economic and Educational Groups', *Indian Pediatrics*, Vol 19, No 5 (May), 419-426.

5 Katiyar G P, *et al*, 1981, 'Feeding Practices in Varanasi District', *Indian Pediatrics*, Vol 18, No 1 (January), 65-70.

6 Madhavi V, *et al*, 1972, 'A Survey of Infant Feeding and Weaning Practices in the Village Fathepur-Hyderabad', *Indian Pediatrics*, Vol 9, No 8 (August), 480-484.

7 Mehta M J, *et al*, 1972, 'Infant Feeding Habits in Surat City (South Gujarat), *Indian Pediatrics*, Vol 9, No 5 (May), 290-293.

8 Nalwa A S, 1981, 'Social Factors Operating in Feeding Practice and Dietary Pattern of Under-Three', *Indian Pediatrics*, Vol 18, No 7 (July), 453-460.

9 Sharma Dharam B and Lahari U C, 1977, 'Some Aspects of Infant Rearing Practices and Beliefs in the Urban and Rural Areas of Jammu (Kashmir), *Indian Pediatrics*, Vol 14, No 6 (July), 511-518.

days, the newborn are given some prelacteal feeds. As indicated in Table 20 these prelacteal feeds consist of some herbal concoctions, called 'gutti' in several parts of the country, often mixed with ghee or honey or even castor oil. This feed is believed to cleanse the infant's system. Plain water with honey, sugar or jaggery and in urban areas with glucose is a normal prelacteal feed. Occasionally, before the flow of breast-milk is established, one part of cow or buffalo milk diluted with 2 to 3 parts of water is also given. Hardly any studies indicate whether water used to prepare these feeds is boiled or not. If the water is well boiled, these prelacteal feeds may be fairly innocent and not likely to cause any ill effects.

The problem, however, arises with the manner in which these feeds are given. Often a piece of cotton or a rag is reportedly dipped in the feed and drops are squeezed in the baby's mouth. The standard of cleanliness being minimal at best, one wonders that the infant mortality rates are not higher than reported. Presumably, the human infant has a tenacity to survive and it begins to develop the requisite immunities at an early age. Another important finding points to a higher proportion of anaemic, malnourished and low weight infants among the partially breast-fed and fully "top-fed" infants older than 6 months in rural and lower class urban children compared to fully breast-fed children of the same age group and belonging to the same socio-economic status groups. It reflects the fact that the supplementary food given to the children is neither sufficient in quantity nor nutritive enough in relation to the requirement of the children. Mothers lack the knowledge of child's requirements. This was indicated in some of the studies cited in Table 20. It is a part of the overall poverty syndrome, although mere knowledge will not provide the resources to secure the necessities of life for children.

**(To be concluded)**

## Bombay Paints and Allied Products

BOMBAY PAINTS AND ALLIED PRODUCTS, which showed satisfactory working results for 1984, has reported about a 23 per cent increase in sales for the first half of the current year as compared to the corresponding period last year, even though its business has been affected by the disturbed conditions in Gujarat and Punjab. According to the Chairman, R R Hattiangadi, payments to and provision for employees includes an additional liability of about Rs 11 lakh for 1983 and 1984 in accordance with a settlement arrived at with the employees' representatives in March last. In view of the increased licensed capacity during 1984 and the enhanced productivity now assured by the employees, the company can look forward to increased profitability in the coming years. Meanwhile, the directors are considering various schemes for rationalisation and expansion of the company's activities. This may necessitate more working capital and accordingly the board's borrowing powers have been increased to Rs 5 crore. The company is awaiting approval of the concerned authorities to its proposal for the issue of bonus shares in the proportion of three shares for every 10 shares held.

DISCUSSION

# 'Garibi Hatao': Elements of a Strategy

S Sarath

NILAKANTHA RATH (*EPW*, February 9) has made an interesting analysis of the 'garibi' issue and the relevance of IRDP to the 'solution' of the problem of poverty in rural areas. M L Dantwala (*EPW*, March 16) has made a set of central comments whereas Indira Hirway's comments (*EPW*, March 30) underscore the importance of total planning and a central agency for implementing the plan. This note seeks to provide cross-lighting of the basic issue from another standpoint. Part I of the note is on general concepts, Part II on an algebraic analysis which is intentionally simplistic and Part III on a numerical quantification of the algebra using either data presented by Rath and Hirway or information commonly available.

## I

It may be considered useful to start with terminology. What are the basics? Not only that poverty exists but that the only available measure of that poverty is money, i e, the difference between the notional monetary value of the total consumption at existing levels and the corresponding notional value of the desired levels of consumption. On the next logical question of what ought to be the unit for measuring consumption, the individual or the family, it is the latter that is more in accord with reality. Hirway has also made this point. Production and consumption are shared daily and regularly within the family without any formal tokens of exchange; rather, the family bounds are defined by this very statement. The primary consumption gap of the 'poverty' of the family is essentially consumption of food (nutrition). The poor family that starves (partially or fully) in a village with a good access road and dispensary is no different, on this basic requirement, from the family that starves in an inaccessible village with no medical facilities. The 'quality of life' or the total consumption in a village with good social infrastructure is certainly higher than in one without such infrastructure. But the quality of hunger is the same in both. Therefore consumption of food should be the first concern of relief of 'garibi'.

It is not clear whether the definitions of 'poverty line' in government documents or other literature provide any weightage for services relating to hygiene, education and health, but it does not appear that any consideration is given. Facilities such as roads which are commonly used are in almost all cases owned by the state, i e, financed and maintained out of taxation or by the issue of currency, and not out of 'dividend earning' savings or loans. Therefore these facilities do not impose any productivity norms for capital 're-formation' and for the growth of individual family incomes. While such facilities may be helpful in the efforts of a family to increase its income, these facilities in themselves cannot generate additional cash income for the family. This note therefore limits the term 'consumption' to food and the term 'income' to the income available for nutrition.

Accordingly, the first requirement for alleviation of poverty is an increase in the disposable cash income for the family to enable it to consume more food. The term 'cash' is preferred to 'wage' as the term 'wage' conjures up some other visions extraneous to the theme, e g, of the worker's organisational relationship, norms of work, output, etc.

On this understanding there cannot be disagreement with Rath when he says that cash income should be improved. Hirway suggests better co-ordination with NREP with the same objective in view. There need be no doubt whether food will be available if cash is available. The answer to this question today is 'yes', i e, the reduced nutrition of the poor is not the result of a physical shortage. The state of the godowns of the FCI is indirect proof of the quantitative margin of production over consumption.

It is evident that income-earning economic activity (employment) could be in the areas of production of goods or services. Employment would be sustained only if the goods or services produced could be 'sold' and the costs 'recovered'. In the writer's view the basic issue for relief is the feasibility of 'sale' in the simple sense of exchange of goods or services for cash. Employment in the creation or maintainance of community facilities in rural areas should in essence be treated as 'sale' to government agencies in any of their myriad forms. In the Indian context, wells, drains, roads, schools and health have necessarily to be provided free, i e, an increase in the level of consumption or 'sale' of final output at no cost. Therefore, as brought out by Hirway, these activities cannot be self-sustaining. In theory, assuming that funds are regularly forthcoming on a 'reasonable' scale, then 'free' services can grow at a corresponding reasonable rate. The extent of benefit in employment to the target groups will then be set by funds and efficiency of implementation (efficiency including sincerity or honesty or whatever) and local skills available.

This idea can be further expanded. If, for instance, a village in a block is selected for investment in a particular type of better living facilities it would be sensible to train most of the requisite local identified manpower in the group of skills needed. This training could be given as part of TRYSEM programmes. (The 'S' in TRYSEM will be superfluous in this case.) Import of labour could be kept down but cannot be eliminated. Even granting all this perfection in planning and implementation some fluctuations in manpower, particularly unskilled, will occur between the phases of construction and after completion of construction. Some of the higher skills may also become redundant. Continuing employment will call for continuing investment in upgradation of services. If, at the same time, equality of development over large geographical areas is also to be an objective, the programme is bound to falter, as in any realistic assessment, it is evident that the funding of such development will be done principally through deficit financing and not through a more direct route of agricultural tax on large holdings. The newly created assets would at best contribute indirectly to the growth of the economy and would not enable sustained additional 'nutrition' which is taken to be the first requirement. Employment programmes launched by the state for creation of community assets could at best serve as a specific short-term relief of poverty by a depreciation of currency in other hands, without providing sustained income for additional nutrition for the simple reason that such assets primarily improve the quality of life ('consumption' in a very general sense) and do not form the capital base for recurrent 'saleable' production.

This does not mean that creation of jobs in such activities should not be attempted. Certainly it has to be done but it should be seen as only one component in improving the incomes of the rural poor, with self-employment in the traditional pattern also playing a role. The two approaches are not mutually exclusive but complementary.

The unresolved issue is whether, and if so how, self-employment can be generated in a reasonable time on a large scale and in a manner that would ensure that the 'sale' value of goods or services so produced far outstrips the currency injection needed to initiate the programme.

As the local community cannot afford such goods or services, the end product or service selected should be 'saleable' to buyers who can afford them and are prepared to buy them—i e, in the towns and cities.

It is necessary to make a short digression here before coming back to the main theme. It is this writer's perception that, using metaphorical terms, the urban areas function as a mutually supportive network of nodes with trailing roots, floating on a sustaining broth of 'subsidised' food supplies, the subsidy being the poverty of the landless and other rural poor who are not paid wages that would be adequate for off-season nutrition. While the exchanges within the urban net take place at rates of proper commercial equivalence, the exchanges with the rural sector are distorted in favour of the urban areas and the large holdings. One may cite as illustration the benefit to urban areas from food subsidies with reference to procurement price and the benefit to large holdings from fertiliser-price subsidies.

Changes in the susidies of either commodity do not affect in any significant measure the rural poor, and they continue to be where they were. The situation in respect of energy is very similar. The 'urban' investments in irrigation, electricity, oil or fertilisers (all of which are energy forms—dams, canals being potential or kinetic energy, and fertilisers being chemical energy) enable higher production and the private benefits from such 'urban' investment decrease with the size of holding. The larger holdings have large benefits and the very small holdings have insignificant benefits and the landless draw no benefits (sometimes energy investments reduce the income of the landless). This situation has to be seen as a part of the problem of employment in rural areas.

In this view we then have three necessary elements of a projected 'solution': (i) production of saleable goods or services by the rural poor, (ii) organisation of the sale of such output in urban markets at 'commercially viable' prices, and (iii) facilitation of use by the rural poor of investments in energy. The appropriateness of appropriate technology should be measured by the effectiveness of the technology in meeting the three requirements simultaneously. On the premise that such technological devices ('black boxes') exist, some other linked factors of wage employment may be briefly examined. For example, should the 'black boxes' be private-owned or should they be set up by the state for free use by the poor? If employment has to be sustained, private ownership and sale have to be accepted. Otherwise, the much dreaded percolation losses will occur. The state subsidy, if any (less than 100 per cent), should be on the cost of the device to the point at which the individual device could become self-supporting to provide a profit to the owner and 'wages' to the 'employees' and also, if possible, provide for a pay-back of the subsidy.

The 'black box' or device should process either material which is locally available or add substantial value to 'imported' materials. Further, the varieties of products should be such as to permit adequate total volume of sales without saturation in the area within which transport is feasible. As such a system will continue to confer financial benefits to the existing power structure without depriving the poor, there is a good chance that the schemes if taken in hand will survive. On similar reasoning the energy requirements of the process or 'black box' should not demand high levels of power. Preferably, the requirement per unit should be of the order of 2,000 watts on thermal devices and about 500 watts on dynamic devices. Such a level enhances the need for human inputs, while eliminating most of the drudgery, and helps to keep the capital costs low. Further, if energy is the prime factor in production and solar devices could be developed, one basic input would be almost 'cost free'.

With this statement of the 'bounds for system design' one can see the need for major and fundamental revision of the technological and commercial objectives. Geographical advantages to competitors in towns if any will have to be offset by administrative controls, e g, by a mix of licensing and excise, in addition to capital subsidies through excise rebates for rural installations. Though it may be held that state intervention *per se* reduces economic efficiency, administrative intervention is the only recourse within the existing structure to alter the direction of the thrust of development.

And finally, a note of optimism before proceeding to algebra. No claim is made that products and devices exist which meet these conditions. But there is no doubt that these can be identified and developed. More of this in Part III.

## II

From the approach developed in Part I, it is possible to reformulate the discussion on the utility of IRDP/NREP, etc, in terms of the scope for utilisation of available funds for stepping up consumption at the level of a single family. Also, for the purposes of algebraic analysis no distinction is made between straight subsidy and 'wage-employment' on common-user works such as roads since in either case the continuity of income is dependent on continuity of external fund flow and not on the family's readiness to work on process equipment provided to the family.

*Symbols:*

(1) Total funds available (Rs): F
(2) 'Percolation loss' under subsidy schemes (ratio): k
(3) Net funds available (Rs): F(1−k)
(4) Number of families involved (no): N
(5) Subsidy per family (Rs) if all the available funds are used on subsidy: $\frac{F(1-k)}{N}$
(6) Desirable level of nutritional consumption per family (Rs): D
(7) Actual level of consumption per family (Rs): L
(8) Satisfaction factor through subsidy (ratio): $\dfrac{\frac{F}{N}(1-k)}{D-L}$

Now let us assume that some funds are transferred to provide technological assets.

(9) Fraction of funds transferred from subsidy to technological assets (ratio): p
(10) Percolation loss in creation of technological assets (ratio): q
(11) Reduction in subsidy per family (as pF has been transferred (Rs) $\left.\right\}$ $\frac{pF(1-k)}{N}$
(12) Installed cost of technological assets (Rs): pF(1−q)
(13) Cost of material, etc, before processing (includes inventory and marketing cost) (Rs): C
(14) Sale prices of materials process (Rs): S
(15) Added value at point of sale (Rs): A = S−C
(16) Income per family: $\frac{A}{N}$
(17) Ratio of added value to capital: $r = \frac{A}{pF(1-q)}$
(18) Ratio of added value to input cost: $g = \frac{A}{C}$

This income should preferably be more than or should at least offset the 'loss' in subsidy.

$$\text{i e, } \frac{A}{N} \geqslant \frac{pF(1-k)}{N}$$

$$\text{or} \quad A \geqslant pF(1-k)$$

This increase A in value of C should be achieved by use of technological assets of cost pF(1−q), i e, substituting for A from item 17.

$$rpF\,(1-q) \geqslant pF(1-k)$$

$$r(1-q) \geqslant 1-k$$

$$\text{or} \quad \frac{r(1-q)}{1-k} \geqslant 1 \qquad \text{(Equation 2)}$$

It should easily be possible to fulfil this condition. In almost all cases r will be much greater than one whereas both k and q will be less than one. The percolation loss q in creation of technological assets will in all probability be significantly less than k, i e, 1−q > (1−k). In the extreme ideal case where both q and k are zero, the added value is naturally equal to r times the capital.

The conclusion is that diversion of funds from subsidy to creation of productive assets is well worthwhile—a conclusion that does not require algebra!

The new satisfaction factor s′ may be expressed in terms of

$$s' = \frac{s\left(F(1-k)\,(1-p) + rpF(1-q)\right)}{N(D-L)}$$

$$= \frac{F(1-k) + 1 - p + rp(1-q)/(1-k)}{N(D-L)}$$

$$= s\left(1 + p(r(1-q)/(1-k) - 1)\right)$$

from Eq 1

$$= s\,(1 + px) \text{ where } x = r(1-q)/(1-k)$$

The essential condition for the validity of the scheme is that r(1 − q)/(1 − k) is $>$ 1. Therefore x is $>$ 1. Hence s′ is greater than s, or, the satisfaction under the new scheme will be higher. (As an extreme ideal case where percolation losses are zero (k = q = 0) and the entire sum is diverted to technological assets, i e, p = 1, satisfaction s′ ideal becomes r times s ideal.)

This simple equation (2) is a ready measure of the degree of appropriateness of various technological devices so that the choice could be made on the extent of fund diversion from subsidy.

### III

(1) Total funds (Rs) crore: 260 app/annum subsidy + 561 app/annum bank advance 821 crore app/annum.

*Source:* Table 1 of Rath: Averages per annum Funds F (portion as subsidy) = Rs 260 crore

(2) Percolation loss (k): 0.2
*Source:* Rath. NABARD survey shows an overall leakage of 20 per cent. State Bank of Hyderabad reports 32 per cent leakage.

(3) Net funds available in subsidy: Rs 208 crore.

(4) Number of beneficiary families (N): 27.27 lakh

(5) Subsidy per family: $\frac{26000}{27.27} \times 0.8$ = Rs 762/annum

(6) Desirable level of consumption (by definition of poverty line): Rs 3,500

(7) Actual level of consumption: Established by deriving the percentage of persons going above poverty line *vis-a-vis* subsidy. Refer Rath's paper for details.

Rs 900 per beneficiary lifts approximately 6.6 per cent or 1/15th of the target above poverty line of Rs 3,500, i e, 1/15th of the population is at a level of Rs 2,600 pa. Taking some as close to total destitution, the class groups of population by income are approximately 0-175/176-350/351-525/etc, and the average is about Rs 1,312 and the average shortfall is then Rs 3,500-1,312 = Rs 2,288, say, Rs 2,300. This is a very gross approximation in the absence of other data.

(8) Satisfaction level = $\frac{762}{2300} = 0.34$

(Explanation: This does not mean that 34 per cent are satisfied. It only states—subject to the assumption that the unbridged shortfall for the entire 27.27 lakh of identified rural poor is about 2/3 or Rs 1,518 per head—if the entire shortfall for 27.27 lakh is to be met by subsidy the requirement is about Rs 414 crore every year, i e, about 150 per cent more than the IRDP programme. If the entire 42.5 million are considered, the figure moves to near to Rs 6,450 crore per year.)

(Caution: These figures are derived from the assumptions already stated and only give a broad perspective of the size of the problem and not its dimensions.)

(9) Fraction of funds transferred to creation of productive assets for making 'saleable' goods (p): say 0.3 or 30 per cent

(10) Percolation loss 'q' is say 0.15 or 15 per cent. A lower figure than loss in subsidy as potential for monitoring is better.

(11) Reduction in subsidy per family: 762 × 0.3 = Rs 228.6

(12) Installed cost of assets: 260 × 0.3 × 0.85 = Rs 66.3 crore

(13) Required generation of added value for distribution to the beneficiaries of the subsidy: 228.6 × 27.27 = 62.34 crore

(14) 'r' (ratio of added value to capital): $\frac{62.34}{66.3} = 0.94$

i e, the required ratio of added value to capital is less than 1. In practice this value would exceed 1.

(Caution: This ratio relates to capital and does not include cost of materials.)

Let us say that families be grouped in units of 7, i e, each family gets the use of the device for one day in the week. For 27.27 lakh families roughly 4 lakh (27.27/7) groups are to be considered. Each family has to generate Rs 228 per annum in let us say 45 working days instead of 52 days available. Amount to be generated per day is 228.6/45, say Rs 5. The cost available per device is Rs $\frac{66.3 \text{ crore}}{4 \text{ lakh}}$, i e, approximately Rs 1650.

Can we or can we not develop a device for Rs 1,650 which will enable a family to add sale realisation of Rs 5.00 to any material available to them after working for a whole day? Or taking that the unit works for 8 hours a day and there are larger groups of 50 families, cannot we develop a device costing Rs 13,000 approximately which adds Rs 5.00 of value per hour? As a technologist, I find no difficulty in this.

To validate this with reference to the cost of material one has to consider some typical cases of possible application.

The point sought to be made is that technological requirements are to be defined in terms of economic objectives required to be achieved under the stipulated constraints.

## Indo-Gulf Explosives

INDO-GULF EXPLOSIVES is coming to the capital market on August 20 with an issue of 10.50 lakh equity shares of Rs 10 each to raise a part of the finance required for its Rs 6 crore industrial explosive project being set up in a backward area near Jhansi in UP. Out of the issue, 2.50 lakh shares are reserved for preferential allotment to non-resident Indians. The issue for NRIs opened on August 12. The company has got an industrial licence for annual manufacture of 10,000 tonnes of slurry explosives and 35,000 tonnes of NCN and ANFO blasting agents. These explosives are widely used by the mining sector, that is, coal, copper, iron, zinc, phosphate, manganese, limestone, lignite. Besides, these are also used in the construction of roads, dams, bridges, deepening of rivers/wells and demolishing of buildings. The company has been promoted in the assisted sector by two qualified and experienced entrepreneurs, S K Garg and B K Agrawal with UP State Industrial Development Corporation (UPSIDC) and Pradeshiya Industrial and Investment Corporation of UP (PICUP). Both Garg and Agrawal, had held senior positions with leading research and management organisations in Canada and USA over a number of years before promoting this company. The project has been set up in technical collaboration with Transocean Gulf Oil Company, USA, a division of Gulf Oil Corporation (Gulf Oil). Gulf Oil is one of the ten largest corporations in the world and has about 30 per cent share of the explosives market in USA. The Government of UP has provided land to the company at a nominal cost. The plant has been erected and commissioned and is undergoing trial production. According to Garg, Chairman and Managing Director, the demand for explosives has been growing and there has been a demand-supply gap of about 17,000 tonnes per annum of slurry explosives and blasting agents. The gap would continue to widen further in the coming years as the demand for coal is expected to grow double-fold to meet the needs of the large sized super thermal power plants to be set up during the Seventh Plan. The company does not foresee any problem in marketing of its products. Another feature of this project is that it has the largest licensed capacity of explosives in the country. The break-even point is estimated at 30 per cent. The company has set up one plant for the manufacture of 10,000 tonnes per annum slurry explosives near Jhansi and is in the process of setting up several satellite plants of a total capacity of 35,000 tonnes of explosives located at large sized consuming centres of the coalfields/mines. The company is confident of achieving 40 per cent capacity utilisation at its Jhansi plant in the first year itself, which would ensure a substantial revenue in its operations. The capacity utilisation of the order of 60 and 70 per cent is expected to be achieved in the second and third year of operations, respectively, which would ensure high profitability and growth of the company. Investors in the company's equity shares will be eligible for tax benefits under Section 80 CC of Income-Tax Act. The shares of the company will be listed on Delhi, Ahmedabad and Bombay stock exchanges. The issue is being managed jointly by Industrial Credit and Investment Corporation of India (ICICI) and Citi Bank, N A.

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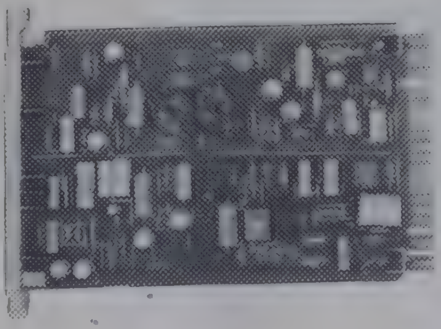

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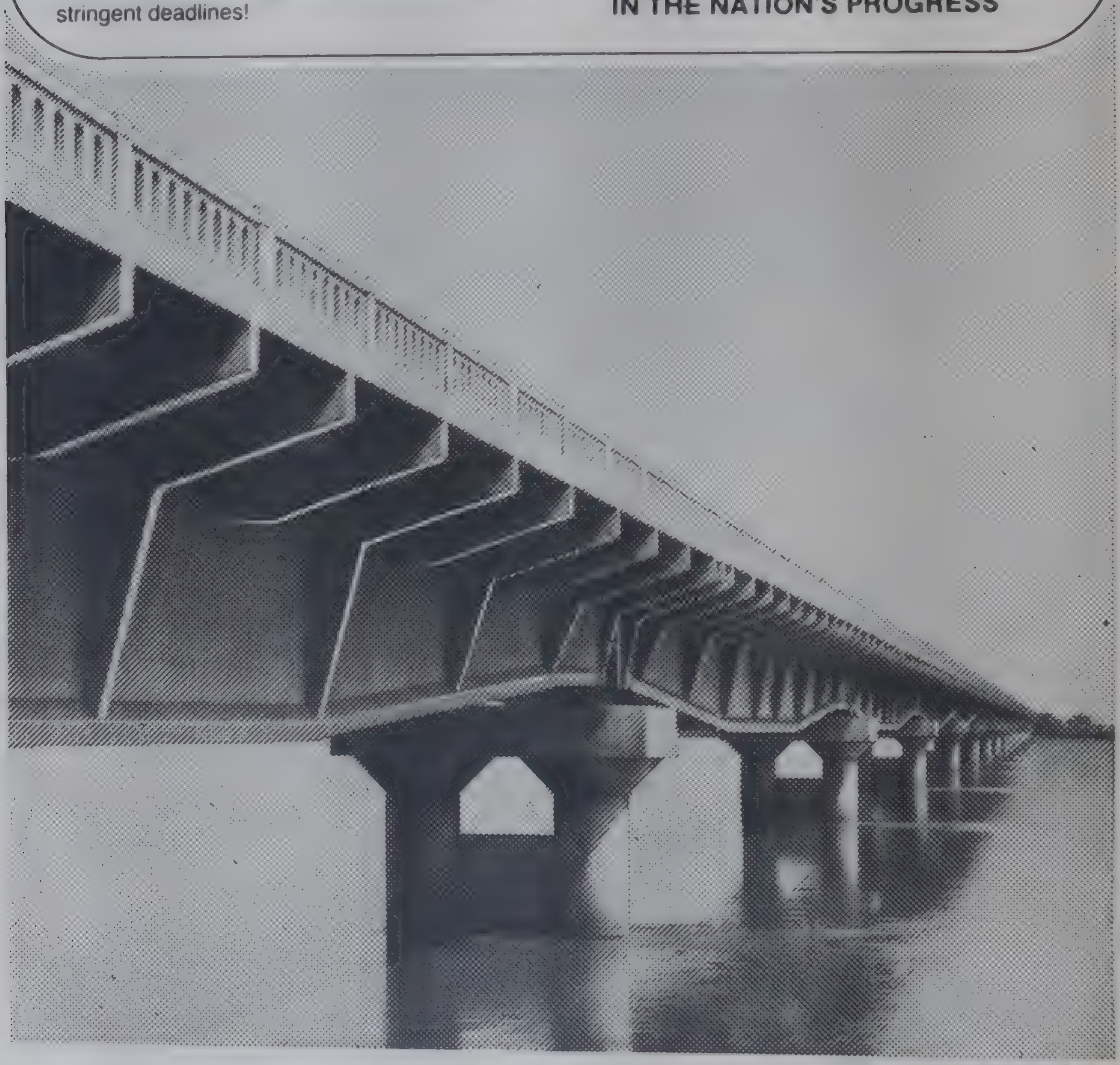

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# Uneasy Portent in Punjab

THE assassination of Sant Harchand Singh Longowal on August 20 is undoubtedly a major setback for the process of restoration of normalcy in Punjab initiated with the signing of the Memorandum of Settlement by the Government of India and the Shiromani Akali Dal on July 24. But it cannot be taken as indicating that the signing of the agreement itself was an infructuous act from which no useful results could be expected. It is true that Longowal had been unable initially to secure the support of prominent Akali leaders like SGPC president Gurcharan Singh Tohra and former Chief Minister of Punjab Prakash Singh Badal for the agreement. However, in retrospect it would appear that these leaders withheld their support not so much because they found the terms of the agreement unacceptable as because they were unsure how the agreement would be received by the Sikhs in Punjab. Against the background of the deep revulsion among the Sikhs over Operation Bluestar, the indiscriminate arrest, torture and imprisonment of Sikh youth all over Punjab by the security forces and the mass massacre of Sikhs in Delhi and other places which followed the assassination of Indira Gandhi, they had perhaps calculated that the whole process of holding negotiations with the government and coming to an agreement with it would not be approved of by large sections of Sikhs. This, it would appear, proved a miscalculation. Available reports during the brief period of less than a month between the signing of the agreement and the killing of Sant Longowal definitely indicated that the agreement had been welcomed all over Punjab or at the very least greeted with relief. The United Akali Dal of Baba Joginder Singh, despite being bitterly critical of the agreement, failed to mobilise any popular opposition to it. It was perhaps a reassessment of the people's response to the agreement which led to the reconciliation of Tohra and Badal with Longowal, said to have been achieved just hours before the latter's assassination.

While the government-Akali Dal agreement, even without Sant Longowal to guide the Akali Dal, constitutes a viable basis for the restoration of normalcy and peace in Punjab, it is difficult to be as certain about the government's wisdom in rushing through with the elections in the state. Despite the known reservations of the Akali Dal, the government fixed the elections for September 22 and Longowal's assassination has now persuaded it to postpone them by just three days to September 25. More worrisome is the government's possible reason for hastening with the elections. If it is true, as has been suggested, that the government's objective was to spring the elections on an unprepared Akali Dal riven with differences over the settlement with the government and with disputes over leadership, then clearly the portent is ominous. This is so because the last thing Punjab needs just now is an acrimonious election campaign with the Congress(I) and the Akali Dal going hell for leather for votes and seats. Such a campaign will run every risk of becoming communal and reopening still raw wounds and thus giving the terrorists, who seem right now to be relatively isolated, just the opportunity they are waiting for. The sense of responsibility which the leaderships of the Congress(I) and the Akali Dal exhibit will thus be crucial, as will be their ability to enforce codes of conduct on their respective cadres during the electioneering. On both counts there will be grave doubts.

The other factor which will determine whether next month's elections will consolidate or disrupt the basis for peace laid by the government-Akali Dal agreement is the government's success in containing the terrorists. Longowal's assassination exemplifies the potential for havoc of a relatively small number of hard core terrorists who precisely because of the drying up of popular sympathy and support for them will be increasingly driven to desperate actions. It is amply clear by now that the so-called combing operations of the army and the rest of the security forces after Operation Bluestar were as counterproductive as they were brutal and actually succeeded in driving Sikh youth in sizeable numbers into the ranks of the terrorists. It is to be seen whether the government can now mount a far more selective and far more professional effort to keep the terrorists in check during the coming month or so before the elections.

## *Languages*

### Neglect of Urdu

THE memorandum of understanding on Punjab signed by the late Harchand Singh Longowal and the Prime Minister provides for the Central government to "take some steps for the promotion of the Punjabi language". Accordingly, the Central government is said to have addressed letters to the concerned state governments urging them to encourage Punjabi. This is to be welcomed. Some similar action is called for in respect of Urdu. Admittedly, the position of Urdu is somewhat peculiar. Apart from the fact that Urdu and Hindi are closely allied, there are practical difficulties since Urdu is not a language spoken by a majority of the people in any particular state or a large enough region within a state. The popular view of Urdu as the language of the Muslims (much as Punjabi has come to be regarded as that of the Sikhs) is another complicating factor.

The Government of India had issued a statement on Urdu in July 1958 which said, *inter alia*: "Urdu and Hindi are very closely allied and may be considered as basically the same language. But it is true that Urdu has certain distinctive features, apart from the script . . . and differs not only in literary style but to some extent in its vocabulary from Hindi. Urdu has grown up in India as a variation of Hindi, being influenced by various cultural currents that came to India from other countries. But it is essentially a language of our country, and its homeland is India. The Constitution has recognised this basic fact by including Urdu among the national languages mentioned in the Eighth Schedule of the Constitution . . ." And yet, despite repeated assurances and promises, Urdu has lagged behind. Some states, such as Andhra Pradesh and Bihar, have made some efforts at promoting Urdu. However, it is UP which has the largest Urdu-speaking population in the country and there the state government has failed to provide the necessary encouragement to the language. This is brought out by the recent controversy over the UP Official Language (Amendment) Bill, 1984.

The state government had promulgated a number of ordinances according Urdu the status of second language, but it could not muster enough votes to get the bill passed in the legislature in the face of opposition from within the ruling Congress(I). Significantly it was a cabinet minister in the state government, Vasudev Singh, who spearheaded the opposition to the bill in the legislature. Opposing the bill, Vasudev Singh alleged that "by according Urdu the status of the second official language in the state, politicians would be indirectly encouraging separatist tendencies". He also questioned the secularism of those who wanted Urdu to be given second language status. The Congress(I), however, chose not to take any action against Vasudev Singh for his open defiance of the party's policy on this question.

The UP government's indifference to Urdu is reflected in the fact that there is now not a single Urdu medium school in the whole of UP at the secondary level. The UP High School and Intermediate Board decided as far back as in the early fifties not to grant permission for teaching of Urdu beyond the intermediate level. Despite this, Urdu could be learnt as a subject till 1983-84. But the new school syllabus in the state now does away with even this possibility since those who choose Urdu forefeit the opportunity to learn English or another national language. The new syllabus makes either Hindi or Sanskrit the first language and one of the languages included in the Eighth Schedule of the Constitution (which includes Urdu) or any European language (in effect English) can be chosen as the second language. Over the years, the number of Urdu teachers had declined from 30,000 in 1959-60 to only 5,000 in 1970-71 and has no doubt come down further since then.

Urdu has suffered as a result of the view that as a language it is closely akin to Hindi. In fact, however, the progressive sanskritisation of Hindi has enlarged the difference between the two. The impulse for this sanskritisation is, interestingly enough, provided in Article 351 of the Constitution which states: "It shall be the duty of the Union to promote the spread of Hindi language, to develop it so that it may serve as a medium of expression for all elements of the composite culture of India and to secure its enrichment assimilating . . . the forms, styles and expressions used in Hindustani and other languages of India specified in the Eighth Schedule and by drawing whenever necessary or desirable for its vocabulary *primarily* on Sanskrit and *secondarily* on other languages" (emphasis added).

The supporters of Urdu do the language a disservice by associating it with Muslims. However, the responsibility for this association rests primarily on those who are opposed to Urdu and who have carried on a vicious campaign characterising every demand on behalf of Urdu as communal or as pandering to the minorities. It is this opposition that has succeeded in associating Urdu with the minorities, so much so that a wide section of the Muslim population has accepted that the demand for Urdu is their demand and that the neglect of Urdu by the government has been partly responsible for their own backwardness. The only way in which the issue can be de-communalised is by according Urdu the status that is legitimately its.

## *Industrial Research*

### US Feels the Pinch

FUNDING of research by private companies in various autonomous institutions devoted to education and research has been the done thing in the United States. In fact, most major US universities and research institutions are private institutions and financed out of resources privately raised.

In recent years, however, research institutions in the US are beginning to attract funds from foreign companies, and this is raising eyebrows. Funding from foreign companies usually takes the form of project finance. Typically, a company, foreign or domestic, provides project finance in return for licence to market the results. The company may also get the right to put its own workers in the university or its research laboratory alongside the academic/research staff. Of course, each deal is separately negotiated and no two deals are necessarily similar.

The emergence of foreign companies as a major new source of project funds for US universities and research institutions is raising questions. Aren't they gaining access to American technology and that too at 'bargain basement prices' as a *New York Times* correspondent puts it? Although a business firm may provide for the equipment and staff directly required for a research project, it is very often the research support provided free by the institution through the faculty and vast infrastructure that is crucial to the success of the project and yet such support is hardly paid for by the firm. Of course, this is as true of a domestic firm as of a foreign firm. But in the former case the fruits of research remain, and are availed of, at least initially, within the US.

The universities, however, complain that without foreign funding it would not be possible to take up several projects. In fact, the support of foreign funds has become so important that the universities are prepared to agree to almost any terms that the foreign firms ask for. Even patent rights to the fruits of research are being given away.

That foreign funding has assumed quite sizeable proportions can be seen from the fact that MIT maintains an office in Tokyo to keep contact with firms interested in 'sponsoring research'. Almost a quarter of the $ 32.5 million that business firms contribute to MIT's sponsored research comes from foreign sources.

Companies find it simpler and cheaper to underwrite university research. For a fraction of the cost they themselves would incur, they can own the results of research. Foreign companies go to the US for research in areas where the US is most advanced. As an executive of a major computer company is said to have remarked, "The Japanese can thus take our technology and ship it back to us in the form of low cost products". With the trade deficit with Japan likely to approach $ 50 billion in 1985 and US computer firms facing hard times, thanks largely to Japanese competition, this mounting concern about technology transfer through sponsored research is understandable.

## *Communal Riots*

### Crimes without Punishment

FORTY persons accused in the Ansaribaugh communal massacre case were acquitted by the Kalyan Special Court (Riots) Judge K D Kochargaonkar on August 20. At least 26 persons had been burnt alive on May 19, 1984 in Ansaribaugh in what was the most gruesome episode of the communal riots in Bhiwandi near Bombay last year. The acquittal of those charged with the crime once again confirms that conviction and punishment are exceptions in respect of those indulging communal rioting and killing.

The Ansaribaugh case has also brought out why this is so. While recalling that the Ansaribaugh massacre had been "most gruesome and heartrending", the special court judge was constrained to say that "evidence is totally lacking and insufficient. There is in fact no iota of evidence to drive home the guilt of the accused." Against 30 of the accused, the judge pointed out, the prosecution had not "uttered a single word". Four of the accused had been nabbed on the spot and six others had been identified as having indulged in violence and arson. Despite this and the fact that the prosecution had more than a year to prepare its case, it failed to produce an "iota of evidence".

This is not, however, surprising if past practice is any guide. The Justice D P Madon Commission of Enquiry that had inquired into the earlier communal riots in Bhiwandi, Jalgaon and Mahad in Maharashtra had passed severe strictures against the special investigation squads set up to investigate the riots. It charged them with acting in a partial and biased manner against the minority community and with being indifferent to prosecuting Hindus accused of having been involved in the riots. Similarly, the Report of the National Police Commission (1981) made a study of prosecution and disposal of cases registered in connection with serious communal riots at three places in 1967 and 1970. It found that of the 211 cases reported, in only 56 cases were the accused chargesheeted and of these again only 16 resulted in convictions. An analysis of the convicted cases showed, according to the report, that "these were all simple cases in which the accused were actually caught red-handed on the scene of the riot". The Union Home Minister informed Parliament in December 1983 that out of 71 cases relating to communal rioting decided in 1982 only 11 had ended in convictions. In 1982, it is worth mentioning, there had been 474 incidents of communal violence in which 238 persons had lost their lives and 3,025 had been injured, according to the same ministry.

In the immediate aftermath of every communal riot, government spokesmen, from the Prime Minister down, condemn those responsible in the strongest language and proclaim their determination to see that the most deterrent punishment is meted out to them. There is much talk of the guilty being brought to book speedily and summarily and about setting up special courts for the purpose. However, what actually happens, once the immediate political pressures generated by communal violence has abated, is exemplified by the Ansaribaugh massacre case.

## *Sri Lanka*

### Putting Pressure on Tamils

*M S S Pandian writes:*

THE Eelam militants are apparently no more wanted in India. The Union government wants them to accept whatever Sri Lanka is prepared to offer and pack off from here. The portends have been there for some time. The responsibility for dealing with the Sri Lanka Tamils issue has been taken away from G Parthasarathy, who was apparently not acceptable to Colombo, and entrusted to the Foreign Secretary, Romesh Bhandari; under the ceasefire agreement the guns of the Tamil militants were forced to go silent, while the Sri Lanka government expanded its armed forces in the Tamil areas; the Indian government put pressure on the Tamil militants first to participate in the Thimpu talks and, then despite the Sri Lanka government's violation of the ceasefire agreement, to continue with the negotiations.

The decision to deport A S Balasingam, the chief spokesman of the Liberation Tigers of the Tamil Eelam, and S C Chandrahasan, convenor of the Organisation for the Protection of Tamils of Eelam from genocide, is a logical culmination of this trend. The government has let it be known that the leaders are being deported because of their reluctance to respond to Rajiv Gandhi's call to the militants to meet him, but that does not seem to be the whole story. The deportation of the Tamil leaders has been naturally welcomed by Colombo.

Even as the second round of negotiations was on in Thimpu, the Sri Lankan army and armed Sinhala civilians are reported to have butchered in cold blood more than 300 Tamils in Trincomalee district. And in Thimpu itself, the proposals offered by the Sri Lanka government in the second round of the talks were little more than what the Tamils had rejected earlier—limited autonomy at the district level without bringing the Tamil-dominated northern and eastern provinces together. The package of 'additional powers' offered to the Tamils by Hector Jayawardene consists essentially of the authority to issue licences to open beef stalls, shoot stray dogs, castrate bulls, vaccinate cattle and construct public lavatories. The militants' reluctance to meet Rajiv Gandhi has to be seen against this background. However, a few hours before Balasingam was detained for deportation, it was decided at a meeting of the Eelam National Liberation Front presided over by Balasingam himself that the Tamil leaders would meet the Indian Prime Minister.

If Delhi seeks to impose an agreement on the Tamils or deprives the Tamil militants of a foothold in India, the immediate possibility is that Sri Lanka will be plunged in a civil war. Following the deportation of the Tamil leaders from India, the Sri Lankan President J R Jayawardene has already declared that he is prepared for a war with the Tamils. A civil war will be a tragedy for Sri Lanka which is already battered by recurrent communal violence. It will also make the already pro-US Sri Lanka government more dependent on Washington. The Tamil militants are conscious of the international ramifications of their struggle. In a recent publication of the Eelam People's Revolutionary Liberation Front entitled 'Ceasefire and Negotiations', it is reiterated that the resolution of the Tamil question in Sri Lanka and peace in the Indian Ocean are inseparable.

Any delay in finding a lasting solution to the Tamil question in Sri Lanka will also have its repercussions in Tamil Nadu. It will give teeth to the Tamil chauvinist forces in

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|---|---|
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|---|---|
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the state. Hand-written posters that have appeared on walls in Madras following the order to deport the Tamil leaders read: "If Tamil Tigers are sent back, Tamil Nadu will secede from Indian Union". In a reaction to the deportation, students in different parts of the state abstained from classes and detained trains, which has led to indefinite closure of the educational institutions in the state.

## BUSINESS

# Floating in Imported Oil

THE vegetable oils market scene presents an interesting study and throws up issues which merit serious consideration. The behaviour of oilseeds/oils prices contrasts sharply with the overall behaviour of commodity prices. The official wholesale prices index for 'all commodities' shows an increase of 5.5 per cent during the 12-month period ended August 3 but the index for oilseeds is down by 14.2 per cent, for edible oils by 17.9 per cent and for inedible oils by 20.7 per cent. Going by spot quotations in Bombay on August 22 and a year ago, castor oil is down by 33.5 per cent, mahuva oil by 18.9 per cent, cottonseed oil by 14 per cent, kardi oil by 14.5 per cent, linseed oil by 12.5 per cent, groundnut oil by 7.4 per cent, sesame oil by 6.3 per cent and rice bran oil by 4.5 per cent.

The market has not experienced anything like a seasonal rise this year. official pronouncements hinting at a cut in edible oil imports have had no noticeable impact on market sentiment though oil prices did harden a little about the middle of August. Inquiries with knowledgeable market men reveal an interesting contra-seasonal phenomenon. The pressure of supplies has seldom been so large at this time of the year and nor has trade/consumer offtake ever been so poor.

The vanaspati industry is said to be having a particularly tough time. Despite the fact that 55 per cent of its oil requirements are being met by STC at the highly subsidised price of Rs 9,500 a tonne which really works out to Rs 8,500 after allowing for freight and sales tax refund, most manufacturers complain that their operations have been rendered uneconomic as they are unable to market their product at the stipulated prices. A tin of vanaspati is said to be available at Rs 16 to Rs 18 below the permissible retail price of Rs 264 (15 kg). Because of the slack offtake, several units have been obliged to curtail their production. From a high of 81,000 tonnes in March, vanaspati production has gradually come down and the figure for August is mentioned around 58,000 tonnes.

Talking to a cross-section of informed persons intimately connected with the oilseeds trade and industry has been quite a stimulating exercise. All kinds of explanations have been offered for the continuing weakness in vegetable oil prices. Increased indigenous production during 1983-84 and 1984-85 and massive imports of edible oils during these two-years have resulted in abundant supply which has made a profound impact on the general market psychology. Indigenous production of edible oils during 1983-84 and 1984-85 is placed at 30 lakh tonnes and 32.5 lakh tonnes respectively. Edible oil imports during 1983-84 (crop year) totalled 16.34 lakh tonnes and the figure for 1984-85 is mentioned around 16 lakh tonnes.

The record supply of imported oils and increased production of rabi oilseeds—rape/mustard seed and summer groundnut—have minimised the impact of the seasonality factor. Hoarding of stocks has ceased to be profitable and it has also become very risky because of the scare caused by official pronouncements to deal effectively with the menace of black money. The marked decline in offtake, especially of vanaspati, is attributed mainly to the fact that stocks normally carried in the trade pipeline have shrunk to negligible proportions of late. Another factor contributing to the decline in offtake of vanaspati is the relative cheapness of refined oils inducing bulk consumers —hoteliers and halwais—to switch over from vanaspati to refined oils. Last year, vanaspati was much cheaper than refined oils—Rs 10 to Rs 15 a tin (15 kg); currently, refined oil is cheaper by over Rs 40 a tin at the wholesale level.

The point has also been made that while the per capita availability of 6 to 6.5 kg of fats per annum appears very low in terms of the generally accepted nutritional standards, the general behaviour of edible oil prices suggests that the supply of 46 lakh tonnes of edible oils a year is quite adequate to satisfy effective demand in the conditions obtaining at present. This is an indication of acute poverty among the masses.

While bemoaning the fact that vegetable oils in India have long been quoted well above international prices and that the Indian consumer has to pay more for edible oils/fats than his far more affluent counterpart abroad, many knowledgeable observers of the oilseeds economy think that viewed in the context of other commodity prices, oilseeds prices are on the low side. It is argued that going by the index numbers of wholesale prices (1970-71 = 100) the index for oilseeds stood at 295.3 during the week ended August 3 whereas the 'all commodities' index stood at 365.2, the indices for other items being primary articles 345.9, food articles 334.1, pulses 465 and manufactured products 347.3. It is said that the relative movements in prices are not conducive to greater effort at increasing the production of oilseeds. This, of course, assumes that prices are a major constraint on production which is questionable. It is however significant to note that cottonseed oil which is currently quoted around Rs 12,800 a tonne fetched about the same price in August 1981 while the vlaue of the rupee has depreciated quite considerably over the years.

There is a general agreement among informed observers of the oilseeds economy that no major breakthrough in the production of oilseeds is likely unless the government reduces drastically imports of edible oils to a level which is just adequate to meet the requirements of the public distribution system, imports only those oils which are the cheapest and which are not produced indigenously, stops supply of imported oil to the vanaspati industry and removes all curbs on the use of indigenous oils as well as on vanaspati prices. It is also considered necessary to generate adequate surplus from the sale of imported oils to finance programmes for stepping up domestic production of oilseeds to minimise/eliminate dependence on imported oils.

The south-west monsoon has by no means been very favourable for oilseeds. Prospects of kharif oilseeds production reaching last year's level are rated rather low. Much would depend on the weather conditions in the weeks ahead. Production is likely to register a sizeable decline if the monsoon withdraws by about the third week of September.

## *Paper Industry*

### Capacity without Output

THE paper industry has been passing through a prolonged period of crisis on account of declining capacity utilisation and rising capital and operating costs. A few large and some 35 small paper mills have downed their shutters. Many units are in the sick list with a precarious financial position.

Till 1979-80, the paper industry in India was in good shape and whatever it produced was sold at remunerative prices. Thereafter, its fortunes have witnessed a steady decline. The main reason for the crisis facing the industry at present appears to be the haste with which the Union government encouraged the creation of new capacities through the setting up of a large number of small paper mills by import of second hand machines at a concessional rate of import duty.

The objectives of encouraging the setting up of mini-paper units were no doubt laudable, namely, (1) dispersal of industrial units, and (2) utilisation of non-conventional raw materials for producing paper, such as bagasse and other agricultural residues, to overcome the shortage of conventional raw materials. Between 1978 and 1984 over 170 small paper mills were set up all over the country. However, most of these mini-paper mills were bedevilled by technical snags right from the beginning which neither the government nor the financial institutions could foresee. In their enthusiasm to import second hand machinery at 50 per cent of the prevailing rate of import duty, most entrepreneurs ended up importing obsolete machines which was little better than junk.

To add to the problems of these entrepreneurs, the optimistic estimates of the Agriculture Ministry regarding the supplies of agricultural residues turned out to be unrealistic. With a large number of small paper units competing for the available raw materials, the prices of straw and other residues have jumped by 200 to 300 per cent over the last few years.

Not surprisingly, while there has been an impressive growth in the installed capacity of the industry during the Sixth Plan period (1980-85), the growth in output of paper and paper board has been much slower. The Planning Commission had fixed the capacity target for the year 1984-85 at 20.5 lakh tonnes and the production target at 15 lakh tonnes. However, while the installed capacity of the industry increased by 85 per cent from 12.65 lakh tonnes to 23.49 lakh tonnes over the Plan period, production increased by only 27 per cent from 10.60 lakh tonnes to 13.50 lakh tonnes over the same period.

The Planning Commission had estimated the demand for paper and paper board at 15.40 lakh tonnes for the year 1984-85. Though the actual growth in demand was a little less than this, mainly on account of rising paper prices, demand exceeded domestic production necessitating imports worth around Rs 20 crore per annum during the past few years. These imports could have been avoided with better capacity utilisation. While the installed capacity registered an impressive increase, the capacity utilisation of the industry declined from about 80 per cent in 1978 to 60 per cent in 1984. The small non-integrated paper mills have done much worse than the large integrated mills in respect of capacity utilisation.

A study conducted towards the end of the last fiscal year by the Central financial institutions clearly revealed that the units which have been set up in the past decade based primarily on agricultural residues and recycled waste paper with investment ranging from Rs 5 crore to Rs 8 crore and production capacity of around 30 tonnes per day have not been doing well. Barring a few of these, the rest have not been able to service their borrowings and have been forced to repeatedly seek moratoria for repayment of principal and interest. In many cases, the institutions had to provide a wide range of reliefs to keep the units alive.

The Industrial Development Bank of India (IDBI) which conducted a study of the performance of small paper mills has identified the causes of their poor performance. These include poor utilisation of installed capacities on account of equipment bottlenecks, high costs of coal, power shortage and problems connected with procurement of raw materials.

It must be admitted, however, that the setting up of a large number of small paper units based on agro residues has helped in increasing the capacity and production of paper in the country significantly without increasing the pressure on scarce forest resources, though this has been achieved at a high cost. The share of large integrated mills in the production of paper which was around 80 per cent in 1973-74 has gone down to about 54 per cent in 1984. In absolute terms, while the annual production of integrated mills has increased from about 6 lakh tonnes to 8 lakh tonnes per annum over the last decade, that of small paper mills has gone up from 1.6 lakh tonnes to 7 lakh tonnes per annum over the same period.

The role played by the small paper mills is evident from the fact that even the existing large integrated paper units have been facing scarcity of forest raw materials. To make available the basic raw materials at reasonable prices and to relieve pressure on depleting domestic sources, the Finance Ministry has totally exempted from customs duty import of wood chips for making pulp required for manufacture of paper and paper board. The duty on wood pulp has been reduced to 30 per cent. Even with all this, the raw material supply position of the industry is far from satisfactory.

This, coupled with technological obsolescence, has brought down the capacity utilisation of integrated paper mills as well. Of the total installed capacity of 23.49 lakh tonnes, about 11.73 lakh tonnes is accounted for by the large units. Of this, a capacity of 9.73 lakh tonnes is, on an average, 50 years old and badly in need of modernisation. The industry maintains that the sharp fall in profitability does not allow the units to generate the surpluses required for modernisation. Because of their precarious financial position, most of the units have been pleading for exemption from the government's Paper Control Order under which they are required to supply 25 per cent of their output in the form of white printing paper to the educational sector at controlled prices. The burden of supplying about 1.4 lakh tonnes of white printing paper for the educational sector now falls on less than half the large units since quite a few units have stopped supplying this paper by obtaining stay orders from High Courts and some others have obtained exemption from the government as they are in the sick list. They have pointed out that the current controlled price of Rs 6,400 per tonne paid by the government is about Rs 2,000 per tonne less than the cost of production estimated at Rs 8,400 a tonne.

To overcome the twin problem of shortage of white printing paper and growing sickness among paper mills, K L Chugh, the Chairman of the Indian Paper Makers' Association has suggested that the present Paper Control Order be scrapped. Instead an additional excise duty be levied on all producers to subsidise supplies to the educational sector. This will give the mills freedom to choose the product-mix best suited to them. This will also help in ensuring better capacity utilisation and improved performance.

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## LETTER TO EDITOR

# West Bengal and Multinationals

ASHOK RUDRA's article 'Jyoti Basu and Multinationals' (July 27) highlights succinctly the inward looking, non-participative stance of the leftist intelligentsia of West Bengal. Sadly for the state, these diehards dearly hold on to the outdated precepts of a dogma rendered sterile by the efflux of time and economic realities.

Unlike the Rudras (and let's add the Mitras as well), Jyoti Basu is an elected representative of the people and is answerable to them. I don't believe that the swelling ranks of the educated unemployed in West Bengal can any longer put their faith in a doctrine which has signally failed in creating jobs for them. People like Ashok Rudra and Ashok Mitra represent the pre-World War I brand of communism, which is difficult to come by in the land of its birth, the Soviet Union, or the China of Mao Tse Tung. Gorbachov and Deng Xiaoping will have nobody but themselves to blame if things go wrong, but in West Bengal in India, the last bastion of Marxist anachronism, we have the Centre to blame for the state's economic negativism and its sheer lack of initiative.

The point that people like Jyoti Basu have to face is what can be done, given the tremendous growth that is taking place elsewhere in the country, in order to set right the state's power houses, its factories and jute mills and revive the climate of production and investment in West Bengal to generate incomes and employment. How did Ashok Mitra desert his post to undertake a lecture assignment from Western capitals and not from Moscow? Quite obviously on his own terms. I wonder why Ashok Rudra should find it wrong for Jyoti Basu to invite multinationals to seek investment in the state on his own terms.

The days of cashing in on past history are over. If the Bangalis do not help themselves, West Bengal will continue to be a laggard.

I also went through the text of Jyoti Basu's speech referred to by Rudra. Among other things what came through was Jyoti Basu's concern for the deprived people of the neighbouring states seeking shelter in West Bengal and his remarkable concern for the unity of the country. Basu runs the government of West Bengal without forsaking the principles of modern Marxist philosophy of distribution of wealth and alleviation of poverty. I do not know what Rudra does. Does he have any responsibility whatsoever? More people of the state must rise to support the Jyoti Basus of the CPI(M) to neutralise the Rudras and Mitras who seem to be transfixed in a dogma that has outlived its utility. West Bengal must launch a crusade to save itself from such men and not from the MNCs. Do the MNCs lack avenues for investment so much that they are dying to come to West Bengal?

SAMARENDRA NATH SOM

Calcutta

# STATISTICS

### Index Numbers of Wholesale Prices
(1970-71 = 100)

| | | | Variation (Per Cent) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Weights | Latest Week (3-8-85) | Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85++ | In 83-84 | In 82-83 | In 81-82 |
| All Commodities | 1000 | 365.3 | 1.8 | 5.5 | 5.8 | 7.0 | 9.5 | 2.6 | 9.3 |
| Primary Articles | 417 | 345.9 | 2.3 | 2.1 | 7.4 | 4.8 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 334.1 | 3.3 | 6.6 | 12.3 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 301.5 | 0.3 | −8.8 | − 3.0 | 2.3 | 15.1 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 567.0 | 2.0 | 9.9 | 2.2 | 2.6 | 7.6 | 7.5 | 20.7 |
| Manufactured Products | 499 | 347.3 | 1.8 | 7.3 | 5.4 | 6.0 | 8.7 | 0.6 | 5.2 |

### Cost of Living Index

| | | | Variation (Per Cent) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Base | Latest Month | Over Last Month | Over Last Year | Over March 1985 | In 84-85 | In 83-84 | In 82-83 | In 81-82 |
| For Industrial Workers | 1960 = 100 | $606^6$ | 1.0 | 5.6 | 3.4 | 6.4 | 12.6 | 7.8 | 12.5 |
| For Urban Non-Manual Employees | 1960 = 100 | $552^5$ | 1.1 | 7.4 | 2.2 | 8.1 | 10.3 | 8.0 | 11.9 |
| For Agricultural Labourers | July 60 to June 61 = 100 | $530^6$ | 1.1 | 3.7 | 2.5 | 0.2 | 11.4 | 5.2 | 12.4 |

### Money and Banking

| | | | Variation Rs Crore (Per Cent in Brackets) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Unit | Latest Week (2-8-85) | Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85++ | In 83-84++ | In 82-83 | In 81-82 |
| Money Supply ($M_3$) | Rs Crore | 1,06,809 | −434<br>(−0.4) | 15,460<br>(16.9) | 5,096<br>(5.0) | 15,443<br>(18.0) | 13,031<br>(17.9) | 10,115<br>(16.1) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 53,769 | −446 | 8,303 | 4,798 | 8,460 | 5,757 | 4,748 | 4,965 |
| Bank Credit to Commercial Sector | Rs Crore | 72,581 | 9 | 10,435 | 2,491 | 9,447 | 8,830 | 8,247 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 2,530 | −117 | 646 | −469 | 1,419 | −104 | −977 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 76,986 | 850<br>(1.1) | 12,696<br>(19.0) | 5,800<br>(8.1) | 10,590<br>(17.5) | 8,550<br>(16.4) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets** | Rs Crore | 6,426 | −118 | 445 | 928 | 1,463<br>(26.6) | 943<br>(20.7) | 911<br>(27.2) | −1,468<br>(−30.4) |

### Index Numbers of Industrial Production
(1970 = 100)

| | | | Average of Months* | | Variation (Per Cent) | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Weights | Latest Month | 1985 | 1984 | In 1985++ | In 1984++ | In 1983 | In 1982 | In 1981 |
| General Index | 100.00 | $193.1^5$ | 202.2 | 193.2 | 4.7 | 6.6 | 4.5 | 4.5 | 9.3 |
| Basic Industries | 32.28 | $280.9^3$ | 265.4 | 248.5 | 6.8 | 11.7 | 5.5 | 8.0 | 14.5 |
| Capital Goods Industries | 15.25 | $244.2^3$ | 222.9 | 232.8 | −1.8 | 9.2 | 4.3 | −0.9 | 8.1 |
| Intermediate Goods Industries | 20.95 | $168.5^3$ | 167.5 | 155.9 | 7.4 | 1.7 | 7.9 | 1.9 | 3.7 |
| Consumer Goods Industries | 31.52 | $174.8^3$ | 170.4 | 170.4 | — | 1.3 | 0.4 | 5.8 | 8.2 |
| Durable Goods | 3.41 | $213.3^3$ | 210.9 | 187.1 | 12.7 | 13.0 | 0.1 | 3.6 | −0.1 |
| Non-Durable Goods | 28.11 | $170.1^3$ | 165.5 | 168.4 | −1.7 | 0.5 | 0.5 | 6.5 | 9.3 |

### Foreign Trade

| | | | Cumulative for* | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Unit | Latest Month (April 85) | 1985-86+ | 1984-85+ | 1984-85 | 1983-84 | 1982-83 | 1981-82 | 1980-81 |
| Exports | Rs Crore | 783 | 783 | 525 | 11,297<br>(14.4) | 9,872<br>(10.8) | 8,908<br>(14.2) | 7,803<br>(16.3) | 6,711<br>( 3.9) |
| Imports | Rs Crore | 1,344 | 1,344 | 956 | 16,485<br>(4.6) | 15,763<br>( 9.8) | 14,356<br>(5.0) | 13,671<br>( 9.2) | 12,524<br>(40.6) |
| Balances of Trade | Rs Crore | −561 | −561 | −431 | −5,188 | −5,891 | −5,448 | −5,868 | −5,813 |

### Employment Exchange Statistics

| | | | Cumulative for* | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Unit | Latest Month (March 85) | 1985 | 1984 | 1984 | 1983 | 1982 | 1981 | 1980 |
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,744 | 23,744 | 22,603 | 23,547<br>(7.3) | 21,954<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) |
| Number of Registrations | Thousand | 454 | 1,362 | 1,681 | 6,220<br>(−6.5) | 6,655<br>(13.5) | 5,862<br>(−6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) |
| Number of Vacancies Notified | Thousand | 49 | 150 | 180 | 707<br>(−15.5) | 827<br>(0.9) | 820<br>(−8.4) | 895<br>(6.6) | 840<br>(−4.1) |
| Number of Placements | Thousand | 29 | 86 | 111 | 407<br>(−16.3) | 486<br>(2.5) | 474<br>(−6.1) | 505<br>(5.2) | 480<br>(2.6) |

* For current year upto latest month for which data are available and for corresponding period of last year.

** Excluding gold and SDRs.

+ Variation in current year upto latest month for which data are available over corresponding period of last year.

+ + Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript$^1$ indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

# Which India Concerns Them?

### Romesh Thapar

VARIOUS visiting foreigners, described in Indian English as VIPs and VVIPs, who in their persons still represent a kind of splintered viceroyalty for India—Clausen of the World Bank, for instance—should attempt a more realistic exposure to conditions over here before they start passing instant compliments on the performance of the economy. Otherwise, I am afraid, they are merely repeating parrot-like the statistical concoctions served up by their fawning report-writers. In fact, better still, they should keep their mouths shut in public like good bureaucrats.

No picture of India finds a proper focus unless one is queued up for anything upto an hour at the airport as clue-less policemen check passports (they hate the job because there is no 'over and above' earning). Thank goodness the health check has at last disappeared for entry into this land of escalating pollution. Then, the long wait and the rushing around for baggage which starts appearing on two separate moving belts. And the walk through the green channel where almost everyone's bags are opened. Our continental chaos is captured here in microcosm.

A glance at the red channel would reveal a host of poorly-clad and terribly harassed labourers from the Sheikhdoms in the Persian Gulf trying to get their large cassette-recorders and rubber mattresses(status symbols in our villages) through with the minimum of penalties—yes, the same labourers who send home something like Rs 2,000 crore every year in foreign exchange to maintain the solvency of India. No Finance Secretary has attended to their very visible plight.

By now, Clausen of the World Bank would at least have shed his euphoric diplomatic postures. He would be touching the inefficiencies which reduce us to a capacity utilisation of under fifty per cent. A drive through our messy traffic, and may be over annually rain-damaged arterial roads around the proud capital (built by corrupt Congress contractors) would shatter his peace of mind and puncture his notions about the revolutionary role of automobiles or what we call 'people's cars'.

Socialism in action. A five-starred suite in a five-starred marbled hotel with a flunkey for every wish. Conferences in the sprawling secretariats of the Government of India where officers are seldom 'in their seats', always in conference, and where files move only if you have the necessary suction—which, incidentally, the World Bank has because of the over-paid jobs, assignments and consultancies it has to offer to those who matter. And receptions in the evening where anyone who is anything in the hierarchy parades before this bit of continuing viceroyalty. Cost per head? Worth probing.

I have it on the most reliable authority that by the time the local satrap of the World Bank has completed his term, and is packing up for the next fruitful challenge, all members of the senior bureaucratic hierarchy, almost without exception, have lobbied for a job or assignment, even a de-briefing! We are for ever being lectured to about the 'foreign linkages' of every dissenting group in this country, from social work to civil liberties, and usually the background papers are prepared by these same supplicants to the World Bank, to the IMF, to the United Nations and its agencies etc, etc. Ironic, isn't it?

We haven't sophisticated this business of misleading foreign visitors, VIPs or VVIPs, like the Chinese. There, the routes of visitation are demarcated, even to the toilets specially equipped and deodorised for foreigners. Here, Clausen of the World Bank should take a trip unannounced to some of our power-stations. When a Japanese study team did this a few years ago, they left marvelling that any power was produced in the chaos they saw.

I will not ask anyone to taste the 'culture' of our telephone and electricity offices, of our numerous networks of government harassment, of our crowded lower courts, of our uncaring hospitals, and of the office-boys without whom no work would be done. But the World Bank should get a 'feel' of the Reserve Bank where with a certain studied nonchalance you can be asked 'to sign legibly' and then have a magistrate attest the signature. It is babuism run riot. We survive because our patience is infinite. Hinduism has done this to us.

This is not a plea to give visiting dignitaries 'the real treatment' in the sprawling slums of India—where, you know, poverty programmes never reach—but an attempt to curb the stupid public relations exercises which mark these occasions. We have to grow up and face the squalor and trauma to which we have condemned ourselves by our lack of social consciousness. And we have to educate these dignitaries about the gut problems of growth, about which, incidentally, they know next to nothing.

If we are into an economic correction, then this aspect is very much a part of it. The breakdown of minimum norms and disciplines is the direct result of the management system refusing to assert itself. I use the word 'management' deliberately because this is how the ruling coterie thinks. Everything is management. If that is so, let's see some interventions across the board—and sackings for those who do not perform, *a la* the Supreme Court judgment which has caused such alarm in the corridors of the secretariats.

Clausen of the World Bank should acclaim our very belated decision to cancel the open general licence on automobiles because we need mini-buses for this country, not cars. And he should urge the re-definition of these licences to support rapid transit systems. He should hold up as a model the decision to introduce an air taxi service and urge, in the interests of efficiency and productivity, competition *within* the public sector airlines, banks, insurance companies, steel units and similar monoliths. And he should warn against an amoral, free-wheeling private sector with its embedded corruptions.

This is unrealistic, of course. The World Bank would be 'cut off' by Reaganomics. What is sought is stability for foreign investment and markets for discarded technologies, mostly junk. There is no one around in any strength in the global network of economists and such like to crack this old frame of thinking, and to show how the attitudes popularised in the developed world are actually heightening the crises in countries like India—and, for that matter, even China. If there were, they would soon get the signals to remove themselves.

The handling of the Indian economy demands tough commitments to alternative models not favoured by the givers of loans, aid and assistance. We will have to tread warily to build the sovereignties which once marked our effort to lift this country out of the petrified conditions in which colonialism left us. We do have the skills and resources. We are wanting in a management sense—yes, whether it is politics or economics, productivity or punctuality, lavatory order or traffic control, clean environments or maintenance norms, or quiet disciplines.

At some point, probably when the ruling coterie faces the crucial test of decentralising decision-making and implementation, a lot of persons will have to be put on an official, non-violent 'hit-list', if I may use this rather overworked expression. And no status-building gunmen will be provided for protection. We are saddled with too many non-performers, baggage that governance and management can certainly do without. But, alas, they are the servitors of those other non-performers, the politicians in power, the corrupters pretending to fight corruption, black money *et al*. Who will 'hit' them?

*August 16*

# Ban on Information

### A G Noorani

"COULD the government deny the press access to all public institutions and prohibit interviews by all government employees? Could it find constitutional footing by expanding the ban to deny access to everyone?" Justice William Douglas's questions were obviously rhetorical. He was emphatically denying the state's right to impose a ban on information by simply asking public servants not to give any information to their masters, the public, through their surrogates, the press. He was well aware of this possibility though he considered it most unlikely in the United States. The possibility remained: "A state might decide that criticism of its affairs could be reduced by prohibiting all its employees from discussing governmental operations in interviews with the media, leaving criticism of the state to those with the time, energy, ability and inclination to communicate through the mails."

This was said over a decade ago and the proposition seems utterly unexceptionable. But what Justice Douglas thought unlikely in the United States is now becoming common in India. Now is the time to stop this nefarious practice—forbidding public officials from talking to the press. Such a ban is unconstitutional.

But such bans are coming into vogue. Tamil Nadu imposed one in 1981 and Gujarat followed suit recently without much protest by the press. The *Indian Express* of June 16 reported the Gujarat government's ban in details:

> Firstly, the government instructed the city police control room not to give any information to the press. Since April 22, when the city police revolted and indulged in an orgy of violence, the control room has become 'silent'.
>
> The police control room advises newsmen to talk to the public relations officer for any information. Secondly, instructions were given to all the police stations and senior police officers not to talk to reporters.
>
> Then the government opened a control room at the Circuit House annexe manned by the personnel of the Information Department. It was from this control room that the government doles out information to the press about the daily law and order situation.
>
> Since the information given out to the press at these official briefings was found too inadequate, the reporters used to get details about incidents of violence and arson from hospital and civic sources.

Even a person like Vasant P Sathe, no lover of press freedom, was moved to criticise Tamil Nadu's ban. On November 14, 1981 at Madras, he gently criticised the Tamil Nadu government's order restraining its officials and employees from furnishing any information to the press, AIR, and Doordarshan. The Minister for Information and Broadcasting said that the Central government believed that officials must share information fully with the press so that there is no misunderstanding on any issue. However, he had not studied the state government's order as yet, he said, and would convey the Centre's views on it to the state government after he had done so. But he could not understand the need for the order. The context in which it had been issued was not known. "I believe that information must be shared fully. Holding back information leads to greater complications than sharing it. Information must be shared at the highest level and fully so that there is no misunderstanding", he said in reply to persistent questions from pressmen. It is, of course, entirely a matter of opinion whether the government he was then serving and is serving today practises the principles Sathe formulated.

What is not a matter of opinion is the citizen's right to know. Information is not a gift in the bounty of the state. It is in fulfilment of the duty which the regime of the day owes to the people.

The right to know is an integral, indispensable part of the fundamental right to freedom of speech and expression which is the very basis of democratic government. Of what avail is the right to speak if information is withheld or suppressed? The US Supreme Court has at various times used various phrases to describe this right—'right of access', 'right to gather information', etc. It has ruled that "without some protection for seeking out the news, freedom of the press could be eviscerated".

But, let alone 'protection for seeking out the news', what we have come up against is deliberate obstruction in the quest for news culminating finally in the closure of the sources of news—the officials. As Justice Stevens put it, "an arbitrary interference with access to important information is an abridgement of the freedoms of speech and of the press protected by the First Amendment", which embodies the constitutional guarantee of that freedom.

These observations were made in 1980 in the Richmond Newspapers case where the US Supreme Court ruled that the right of the public and the press to attend criminal trials is *inter alia* protected by the First Amendment. This ruling is of great persuasive authority in India. On July 29, a Division Bench of the Calcutta High Court upheld the right of press reporters and press photographers to cover the mayoral election. A reporter and photographer each of 18 leading newspapers, news agencies and periodicals were permitted to cover the event from the balcony of the municipal building. The court made this order on a writ petition filed by *Ananda Bazar Patrika* challenging the ban imposed by Prasanta Sur, the Minister for Urban Development.

The ruling applies also to Parliament and to state legislatures. The Speaker's authority regarding accreditation of press correspondents is subject to fundamental rights. It is not a privilege but a regulatory power and its exercise is open to judicial review.

APPOINTMENTS

**Centre for Studies in Social Sciences**

CALCUTTA

Invites applications for temporary Fellows, initially for a period of 2 years, in the pay scale of Rs. 700-40-1100-50-1300-60-1900/- plus other admissible allowances. An applicant must have a good Post-graduate degree in any of the disciplines of Economics, Geography, History, Political Science, Literature, Sociology, Social Anthropology. Selected scholars would be expected to conduct their research in one of the following broad areas: Problems of the Indian economy; Political economy of underdevelopment; Women's studies; Modern Indian History (political, social, economic and history of ideas); Economic and social geography; Urban studies; Political theory; Indian politics; Social and cultural structure in Eastern India; Problems of ethnicity in India; Social bases of culture in Modern Bengal.

Applications with detailed curriculum vitae, comprising academic qualifications, research and teaching experience and list of publications with names of three referees and a short research proposal may be sent to the Registrar, Centre for Studies in Social Sciences, Calcutta, 10 Lake Terrace, Calcutta - 700 029, by September 20, 1985.

# Whom Will Union Carbide Blame Now?

### ISG

AFTER the disaster in its pesticides plant in Bhopal, Union Carbide, the American multinational which owns the plant, closed its methyl isocyanate (MIC) operations in the United States for several months. MIL is the gas that leaked in Bhopal early last December, killing at least 2,500 persons and causing severe, long-term, injuries to an estimated 200,000 and more.

At a place called Institute, near Charleston, West Virginia, in the US is located one of the Union Carbide plants that processes MIC. On August 11, a small cloud of toxic gas escaped from this plant, causing injuries to 135 residents who had to be treated for eye, throat and lung irritation. The gas that leaked however was not MIC but aldicarb, which, though listed in some industry reports as a carcinogen—a substance that can cause cancer—is said to be far less toxic than MIC.

Several questions have been raised, and the debate in the US is bound to build up. Whether it would ultimately result in more effective protection of the people and environment than the reviews undertaken after Bhopal is for future to tell. But some of the facts that have come up in the immediate wake of this gas leak should not go unnoticed in India, for Bhopal was blamed by Union Carbide on Indians, workers or saboteurs.

Firstly, the company claimed to have spent something like $ 5 million on installing improved safety measures in this particular plant and gave repeated assurances, on resuming the plant's operations after a five-month shut down after Bhopal, that the plant was safe. Among the safety measures newly installed were a computerised system to track the flow of toxic chemicals through the plant and a siren that would warn residents in the neighbourhood whenever gas was about to leak.

Secondly, while before the plant was reopened in May 1985, it was supposed to have been examined by a team from the Federal Environmental Protection Agency (EPA), it now turns out that the team went largely by what impressions the company scientists and engineers fed them with. According to the manufacturer of the computer system which was installed to monitor the leaks in this plant, the system was not even programmed to predict the path of the particular toxic gas, i e, aldicarb, which leaked on August 11. The computer manufacturer alleges that Union Carbide never provided the critical data or indicated that "they wanted aldicarb oxime programmed into the computer". Only three chemicals, MIC, the Bhopal killer, phosgene and chlorine were programmed into the computer system.

The shocking part of the disclosure by the computer manufacturer is that the computer system installed in the plant depends critically on human inputs on such basic questions as what kind of chemical is leaking when the leak began and what kind of equipment is involved. Only then does the system tell you whether or not the leaked gas is going to spread out or be localised. Essentially, the system consists of a microcomputer hooked to a meteorological tower with three or four sensors to detect temperature and wind direction. The manufacturer describes it as the 'basic model' costing just about $ 80,000. A more sophisticated version would have cost Union Carbide "several hundred thousand dollars", as the *Wall Street Journal* quotes the computer manufacturer. So clearly, even for an MIC leak, were that to occur in the plant, the computer system would get activated only after it is told manually that the leak had occurred. It would not get triggered off automatically by the leak.

So questions are bound to arise about the genuineness of the safety system that was installed during the course of the five-month shut-down of the plant. Evidently, the sum of $ 5 million purported to have been spent on the improved safety system is a dishonest public relations gimmick. But how was it that the officials of the federal agency could so easily be duped into saying they were satisfied with the safety system that they actually saw in place? Was it sheer ignorance on their part or something more which led them to ignore (a) that a gas like aldicarb was not even covered by the computer system, and (b) that the computer system was not geared to the automatic detection of leaks?

Thirdly, Union Carbide's own officials are now being quoted as blaming both the design of the processing system and its operating problems as the causes of the leak. They are cited by the *New York Times* as saying that "the size of pipes and valves was a key ingredient of the Bhopal disaster". As chemical experts put it, many pipes and valves are not designed to handle chemicals where, as in major accidents, temperatures and pressures rise rapidly. "A lot of sizing has been more or less by the seat of the pants", one expert is quoted as saying. This raises major questions about the basic design of the processing plant itself. It would appear that in the design of the plant sufficient attention was not paid to safety factors. And there is no evidence that in the alleged outlay of $ 5 million on improved safety measures, the company paid much attention to rectifying the weaknesses in the plant design. But if outside experts, i e, those outside of Union Carbide, knew of the tendency on the part of the chemicals companies not to provide adequately for the safety factors in plant design, why were these doubts not raised after the Bhopal disaster? The only explanation can be the feeling that it could not happen in the US. Now it has happened—though not on as grim a scale as in India.

In Bhopal, Union Carbide's defence has been that everything was perfect with its plant and safety devices. If anything went wrong, the fault lay with the men operating the plant. Either there was human error or sabotage. It was a case of giving the dog a bad name and kicking it. Indian workers had erred, if one of them had not actually indulged in sabotage. Whom will Union Carbide blame for the gas leak, less deadly no doubt, in its plant in West Virginia?

These questions and many others are bound to be raised as the matter of the gas leak is fully investigated. Will the enquiries lead to appropriate action? Can a major multinational like Union Carbide, which has demonstrated utter insensitivity to the human costs of inadequate safety measures, be made to abide effectively by safety requirements and not get away with subterfuges like the ones it concocted for its plant in West Virginia? We, in India, ought to be watching with interest.

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## Bharat Strips

BHARAT STRIPS is setting up a Rs 14 crore project for the manufacture of thin non-ferrous strips in a backward area of Medak in AP with a licensed capacity of 2,000 tonnes per annum, with the latest technical know-how from Sundwiger Eisenhutte and Technica-Guss of West Germany. The company will turn out precision strips of international standard for the first time in India. These strips are used in industries like automobiles, defence components, communication and other ancillary industries. For decades, there has been a gap of 8,000 tonnes between demand and supply, which has been further widened with the entry of new automobile companies like Hero Honda, DCM Toyota, Allwyn Nissan, Swaraj Mazda, Maruti, Ind Suzuki, Kinetic Honda, etc. The company does not envisage any difficulty in marketing its products. The company has been promoted by R C Gupta in association with APIDC and APEDC. It expects to achieve 60 per cent of the capacity in the very first year and declare a reasonable dividend. The break-even point is estimated at 45 per cent of capacity. The production is expected to go up to 75 per cent in the second year and to 90 per cent in the third. The company will come to the capital market with a public issue of 24.60 lakh equity shares of Rs 10 each at par in September this year to raise a part of the finance required for the project.

# The Unwanted of Assam

### GPD

RAJIV GANDHI is surely going at problems in a manner befitting the twentyfirst century. He is also going at them in a computer-like manner. Press the button and the necessary accord will flash itself on the screen. The Assam accord is in keeping with that style. There was high drama and tension in the capital throughout the night of the 14th and 15th of August. Those who frequent that charming near-European looking city tell us this. We have it on good authority. It is not as though some stories were made out for the Press, these friends tell us. The details of the accord were, in fact, being thrashed out till the early hours of the morning. Which were these details which needed such a last-minute sorting out we wondered, but these friends declined to enlighten us on that score. Anyway, as all of us heard the dynamic, young Prime Minister telling us, the accord on Assam has been reached. One more problem has been got out of the way.

The agitators in Assam have got what they wanted. It would have been surprising had they not. The national Press was sympathetic to them. Everybody from Atal Behari Vajpayee to various kinds of ultra-left intellectuals had decided that the AASU and AAGSP were right. How and why were then redundant questions. Rajiv Gandhi and his advisors knew this and decided to go along. You want some poor (yes, they are incredibly poor) Bengalis, specially peasants, to be thrown out or, at any rate, disenfranchised? OK, so be it. The human rights people are with him on this. Some of our radicals thought that all this was the rising question of nationalities. Let an Assamese-speaking peasant get at a Bengali-speaking one and you will have a rise in nationality-consciousness! Religious bigotry and chauvinism were being dubbed as nationality aspirations. Rajiv Gandhi has merely tread the path made ready for him by his every 'revolutionary' and the 'human-rights' opponents. It is difficult to see what he or his party could have done when the entire media, all sworn enemies of the Congress, some secular opponents of 'the Hindu backlash' which was seen by them in the Congress electoral victory, had given blatant chauvinism and communalism such authority and respectability. Rajiv Gandhi merely decided to go along. He had no choice. But what Assam-champions do not realise is the fact that in so doing he has called the bluff of those who thought that the Congress was behaving communally or that politics in only Punjab was being communalised. Readers of *EPW* are particularly familiar with some of these positions. Anyway, the Assam chicken have come home. The Congress(I) naturally hopes that they will come to its Banyan tree to roost; not an altogether unrealistic expectation, one must say.

What is this accord? By what law of the land do you disenfranchise people? And why should a bureaucrat sign an accord involving disenfranchisement of the people? What happens to the children born to people who have come here after 1971? Will they be thrown into the Bay of Bengal as well, assuming that is our secular, liberal view of the Assam problem? Can I be disenfranchised even after I have voted in two elections or more because an agreement has been reached between some leaders of an agitation and a secretary to the government? What is the moral or political or even cultural basis of this agreement? How is it democratic or, more fundamentally, how is it human?

A host of such questions remain and will remain unanswered. But the overwhelming impact of the Assam accord is that it is essentially anti-minorities. The tribals and the Muslims are going to be its victims. Let us remember also that this time it is the opposition parties and the liberal intellectuals who have pleaded for such a gruesome assault on the minorities. Unfortunately these minorities do not have spokesmen in Canada or the United States. Had they had that privilege, many of our liberals would sing a different tune. Perhaps for the neo-Brahmins of the liberal establishment short, dark minorities do not matter. What is worse is that they do not even have any 'independent' left supporters. The result is that they do not even get a word of sympathy in our media and the people who get beaten defending them do not figure among the one hundred and eight or whatever number of leftists who matter according to the various glossy magazines Bombay seems to specialise in producing.

Nevertheless the question remains. Where will these people go? It is idle to believe that they would return to Bangla Desh. General Ershad has no more sympathy with them than, shall we say, Rajendra Singh, the general secretary of the RSS. This means that they will be uprooted from the land and made to wander the whole of India in search of food and shelter. Rajiv Gandhi will have to be ready to go to war with Bangla Desh if he seriously wants to send them back to Bangla Desh. He does not and cannot.

What will the accord then have achieved? It would have established the principle which Bhrigu Phukan and Mohanta and others have been struggling for: that Assam can have only as many non-Assamese Muslims as the caste-Hindus of Assam deem fit. It should be obvious even to the meanest intelligence that, but for a token number whom Rajiv Gandhi might persuade Ershad to take back, they are going to stay here in India. So why can't they be there, in Assam that is? The reason is not only the future of the Assamese language and culture; there is also the fact that the immigrants happen to be Muslims (and not just Bengalis). So the Assamese culture is threatened. Its Hindu character is threatened.

It is sad but true that Bal Thackeray's argument in Bombay-Thana-Bhiwandi is not very different. Consciously or otherwise we have seen an accord which implicitly accepts that migration into a province from outside can and should be controlled. There would have been really no quarrel with Bhrigu Phukan and his comrades if it were possible to send the immigrants back, lock, stock and barrel, into Bangla Desh without threatening and, if need be, resorting to military operations against Bangla Desh. So in actual practice what Phukan and his comrades have achieved is that the Assamese shall decide (through the AASU that is) who will live in Assam. The argument can extend itself to other parts of India and, thanks to our liberals, revolutionaries will be a saleable proposition as well. This is the net result of this accord. This accord, for no fault this time of the Congress(I), is a step (small or big one will have to wait and see) towards communalisation of Indian politics. Bangla Deshis must be already worried about the accord. It was time some others here were worried too.

## Suvarna Cements

SUVARNA CEMENTS, promoted by technocrats V C Brahmanna and associates with the equity participation of APIDC, is setting up a mini-cement plant to manufacture 66,000 metric tonnes per annum of ordinary portland cement. The plant is located at Mellacheruvu village in district Nalgonda of Andhra Pradesh. The total cost of the project is Rs 865 lakh. The plant is expected to be installed and commissioned for trial production by September 1985. The company is coming to the market with a public issue of 15 lakh equity shares of Rs 10 each at par. Out of the total issue, 6 lakh shares are reserved for preferential allotment to non-resident Indians/persons of Indian origin resident abroad, with full repatriation rights. Under the present policy of the Government of India, mini-cement units are allowed to market their entire production free from price and distribution controls. The board is headed by retired Chief Justice of AP High Court, Challa Kondaiah. The company's shares will be listed on Hyderabad and Bombay Stock Exchanges. The investors are eligible for tax benefits under Sections 80 CC, 80 L and also wealth tax benefits. The issue is managed by Canara Bank's Merchant Banking Division.

# Competition Getting Keener

**Hansavivek**

*TATA OIL MILLS COMPANY's* Chairman, D S Seth, has announced his intention to step down, after the annual general meeting on August 29, as the Chairman and Director of the company "to be able to cope with numerous tasks and situations and to reduce some of my increasing burdens and responsibilities". It was in early 1973, recollects Seth, when J R D Tata was still the Chairman that he was called upon to get more actively involved in the affairs of Tomco and, as Vice-Chairman, take over the leadership of the company. This was at a time when crippling losses, which threatened the very survival of Tomco, were seriously apprehended and the company's joint venture project in Malaysia, Unitata, was on the verge of being aborted. Later, in June 1982, when Tata insisted on stepping down as the Chairman, the board did Seth the honour of appointing him as the Chairman of the company in succession to Tata. Looking back, Seth derives some personal satisfaction as not only the adverse trends were quickly arrested but the company registered record post-tax profits in four years and Unitata emerged as perhaps the country's most successful joint venture abroad. But for the strike in 1979 the company's progress would have been even more satisfying.

During the year ended March 1985, the company increased its sales from previous year's Rs 155.02 crore to Rs 177.85 crore and earned a gross profit of Rs 9.89 crore against Rs 7.70 crore. The profit, however, includes long-term capital gains of Rs 2.77 crore on sale of investments. The company's profit arising from its operations was thus actually lower at Rs 7.12 crore compared to previous year's Rs 7.70 crore. Net profit was Rs 5.02 crore (Rs 2.28 crore). The unchanged dividend of 20 per cent was covered 3.76 times against 1.70 times previously. The decline in the company's operating profit was accounted for by higher wage bill largely due to increases in dearness allowance, increase in interest burden because of sluggish sales, higher fuel costs and, for a major part of the year, very high prices of non-edible oils used in soap making. Moreover, the soap industry witnessed fiercely competitive conditions. Widespread shortage of power and molasses, particularly in Tamil Nadu, restricted the growth of the animal feeds business. The company's trawling operations continued to be in the red. Attention is being focused on shrimp acqua culture in which the company has gained some experience. The management hopes that this business can gradually build up into a commercial operation. Since, for want of export orders, the soap plant in the KFTZ is idle, the company finally succeeded, after prolonged delay, in obtaining government permission for bringing in the raw materials from Kandla into the domestic tariff area for use in the company's factories. This will help in liquidating the funds that had remained locked up in the inventory of raw materials at Kandla.

Unitata recovered the ground that it had temporarily lost and is once again doing extremely well. The business of this company is being re-organised and re-structured without adversely affecting or dislocating the present working and the necessary approvals of the Malaysian authorities are still awaited. Tomco has brought down its holding in Lakme to below 25 per cent of the share capital to facilitate its deregistration as an MRTP company. Industrial Perfumes, in which the company holds 32.6 per cent equity, has earned a post-tax profit of Rs 42 lakh in 1984 against Rs 35 lakh in the previous year. F A Mehta resigned as a Director of Tomco with effect from May 28, 1985. The directors have appointed H N Sethna as a Director and Deputy Chairman of the company from May 30, 1985. Sethna, who retired as the Chairman of Atomic Energy Commission, is widely known as an eminent scientist and administrator.

*J K SYNTHETICS (JKS)* is further expanding its activities. It has entered into an agreement with Bihar State Industrial Development Corporation(BSIDC) for putting up a joint sector project for the manufacture of nylon-6 filament yarn with an annual capacity of 6,000 tonnes per annum. The total cost of the project is estimated at around Rs 60 crore. The project will be implemented by a new company. BSIDC will own 26 per cnt of its share capital and JKS 25 per cent. Financial institutions and the investing public will be able to subscribe for the remaining 49 per cent. JKS's own polyester filament yarn project is being implemented in two phases. The first phase commenced trial production in March last and the second one is expected to be implemented during the current financial year. The polyester staple fibre project is also expected to be operational during the current year. The government has taken on record

## The Week's Companies

*(Rs Lakh)*

| | | TOMCO | | J K Synthetics | | Indian Organic | |
|---|---|---|---|---|---|---|---|
| | | Latest Year 31-3-85 | Last Year 31-3-84 | Latest Year 31-3-85 | Last Year 31-3-84* | Latest Year 31-3-85 | Last Year 31-3-84 |
| Paid-up Capital | | 749 | 749 | 2735 | 2810 | 815 | 815 |
| Reserves | | 1760 | 1487 | 5878 | 5668 | 1967 | 1326 |
| Borrowings | | 3434 | 3199 | 16152 | 14359 | 2319 | 2859 |
| *of which* Term borrowings | | 1273 | 803 | 7595 | 5245 | 1407 | 787 |
| Gross fixed assets | | 3503 | 3250 | 30448 | 22316 | 3812 | 3733 |
| Net fixed assets | | 1690 | 1905 | 23119 | 22600 | 1955 | 2156 |
| Investments | | 436 | 254 | 1298 | 1298 | 273 | 32 |
| Current liabilities | | 3059 | 2939 | 8297 | 7533 | 1053 | 961 |
| Current assets | | 6875 | 6214 | 12776 | 11840 | 3925 | 3773 |
| Stocks | | 3530 | 3582 | 6063 | 6117 | 1276 | 1700 |
| Book debts | | 2402 | 1836 | 3249 | 2560 | 1608 | 1776 |
| Net sales | | 17785 | 15502 | 26904 | 17783 | 8093 | 5045 |
| Other income | | 1159 | 809 | 408 | 873 | 222 | 126 |
| Raw material costs | | 12367 | 10624 | 9553 | 5884 | 4157 | 2693 |
| Wages | | 1753 | 1644 | 1825 | 2081 | 467 | 394 |
| Interest | | 629 | 513 | 1703 | 1526 | 449 | 364 |
| Gross profit (+)/loss (−) | | 989+ | 770 | 3407 | 1647 | 1488 | 523 |
| Depreciation provision | | 257 | 237 | 2423 | 1644 | 326 | 292 |
| Tax provision | | 230 | 305 | 300 | — | 376 | 12 |
| Net profit (+)/loss (−) | | 502 | 228 | 684 | 3 | 786 | 219 |
| Investment allowance reserve | | 15 | 32 | 301 | 626 | 246 | 55 |
| Transfer to reserves | | 347 | 56 | — | — | 393 | 42 |
| Dividend | | | | | | | |
| Amount | P | 13 | 13 | 34 | 33 | — | — |
| | E | 127 | 127 | 379 | 253 | 147 | 122 |
| Rate (per cent) | P | 11 | 11 | 9.1 to 15 | 9.1 to 13.5 | — | — |
| | E | 20 | 20 | 15 | 10 | 18 | 15 |
| Cover (times) | | 3.76 | 1.70 | 1.71 | — | 5.35 | 1.80 |
| *Ratios* (per cent) | | | | | | | |
| Gross profit/sales | | 5.56 | 4.97 | 12.66 | 8.58 | 18.38 | 10.36 |
| Net profit/capital employed | | 20.01 | 10.19 | 7.94 | 0.03 | 28.25 | 10.22 |
| Inventories/sales | | 19.90 | 23.10 | 22.53 | 34.40 | 15.76 | 33.69 |
| Wages/sales | | 9.85 | 10.60 | 6.78 | 11.72 | 5.77 | 7.81 |

* 15 months. + Includes capital gains realised on the sale of investments amounting to Rs 2.77 crore.

the company's technical collaboration agreements in respect of acrylic fibre project. The company is making arrangements for raising external resources from financial institutions, commercial banks and the public. The project may go on stream by March 1987. The prospecting work for the proposed cement plant at Shambhupura in Rajasthan has been taken in hand and the leased limestone area is being developed. Further land is being acquired. The project may fructify by the end of 1987. The one million tonne cement project at Sidhi in MP may commence production during 1988. The company has got a letter of intent for expanding the capacity of nylon tyrecord by 2,000 tonnes per annum. Steps have already been initiated for implementing the project which is likely to be on stream by March 1987. The company has also secured a letter of intent for production of polyester industrial yarn with an installed capacity of 2,000 tonnes per annum. The management is scouting for appropriate foreign collaboration and intends to implement the project expeditiously.

During 1984, the company substituted Suppliers Credit for import of plant and machinery for the polyester filament yarn project by a foreign currency loan from a consortium of banks syndicated by the State Bank of India, Singapore, for DM 31.47 million (equivalent to approximately Indian rupees 12.80 crore). The changeover has resulted in a substantially lower incidence of interest. The company issued 15 per cent secured (Sixth Series) non-convertible debentures of Rs 12 crore, which were allotted on April 1, 1985. It proposes to issue 15 per cent secured redeemable debentures of Rs 12 crore to meet part of the capital cost of installation of waste recovery, energy conservation, balancing equipment, etc, at the company's synthetic fibre and yarn plants at Kota and 15 per cent secured redeemable debentures of Rs 75 crore for financing a part of the capital cost of the company's new projects for manufacture of acrylic staple fibre and nylon tyrecord and of modernisation and installation of balancing equipment for its cement activities. The company also proposes to raise foreign exchange loans equivalent to approximately Rs 37 crore from financial institutions and by way of external commercial borrowings for financing a part of the cost of the new acrylic staple fibre and tyrecord projects and captive power generation projects. The company has produced good working results for the year ended March 1985 with a gross profit of Rs 34.07 crore against Rs 16.47 crore in the preceding 15 months following a turnover of Rs 269.04 crore against Rs 177.83 crore. These figures show significant widening of margins. With depreciation claiming more and also tax liability Rs 3 crore against nil, net profit is Rs 684 lakh compared to a mere Rs 3 lakh previously. Dividend has been stepped up from 10 per cent to 15 per cent, which is covered 1.71 times by earnings while last year's distribution was made entirely from past reserves.

*INDIAN ORGANIC CHEMICALS* is widening its horizons. It has received recently three letters of intent for (1) increasing the capacity of its polyester fibre plant at Manali in Tamil Nadu from 12,200 tonnes to 30,000 tonnes per annum, (2) undertaking manufacture of 3,500 tonnes per annum of polyester filament yarn also at Manali, and (3) manufacture of 2,500 tonnes of french fries and allied products in Raigad district of Maharashtra. All these projects are estimated to cost Rs 55 crore and are intended to be financed partly by issue of 15 per cent non-convertible debenture of Rs 25 crore. The company intends to further diversify into the electronics and electricals industry, particularly the computer field.

The company has turned in impressive working results for the 25th year ended March last. Gross profit has expanded from the previous year's Rs 5.23 crore to Rs 14.88 crore following increase in turnover from Rs 50.45 crore to Rs 80.93 crore. These figures reflect a substantial widening of margins. Although provisions for both depreciation and taxation have taken away more, net profit is Rs 7.86 crore compared to Rs 2.19 crore. The board has stepped up dividend by three points to 18 per cent which is covered 5.35 times by earnings against 1.80 times previously. Besides, shareholders are being offered free shares on a one-for-two basis by capitalising Rs 4.16 crore out of the reserves. A major contribution to these good results has come from the Manali unit which registered encouraging growth in output, sales and profits. With the commissioning of the new plant in March 1984, production of polyester fibre reached a level of 12,153 tonnes with the new plant adding 5,274 tonnes. The increased import duty on foreign manufactured fibre and the excise concessions provided to polyester blended yarn had the desired effect on offtake of indigenously manufactured fibre. The company sold 12,437 tonnes of fibre and achieved the distinction of producing and selling more fibre than any other unit in the country. The management is continuing efforts to optimise the productivity of the new plant as well as the old one. A modern energy-efficient system, developed through own R and D efforts, for continuous drying of polyester chips has been commissioned in one section of the plant.

The company has planned to put up a plant for the production of polyester filament yarn. The company's capital cost would be lower compared to any of the grassroot plants which may come up, because the process know-how is its own and it has established polymerisation capacity to manufacture adequate quantity of chips for filament yarn. The plant is likely to be ready by 1987-88. The Khopoli unit had to operate for another year under difficult conditions, as shortage of alcohol affected production and sale of most of the alcohol based chemical products. The sale of plasticisers was affected to some extent on account of disruption in economic activity in the Northern region. The production and sale of benzyl products remained normal. The profits of this unit were marginally better than those of the previous year. During the year, a benzyl alcohol continuous hydrolysis plant was commissioned. Its initial start up problems are being attended to. A plant with a capacity to produce 400 tonnes per annum of benzyldehyde is under erection and commercial production is likely to commence by the end of September 1985. The R and D department at Khopoli is engaged in developing the processes for manufacture of drug intermediates and various other chemical products.

*NODURON FOUNDERS MAHARASHTRA (NFM)* is coming to the market with an issue of 12.25 lakh equity shares of Rs 10 each at par. The company has been promoted by V B Ghate and his associates in the joint sector with SICOM and WMDC for setting up a plant for the manufacture of 7,200 tonnes per annum of sophisticated ductile iron castings and semis. The company has entered into technical collaboration agreement with SKET-GISAG, Leipzig, one of the largest foundries and foundry equipment manufacturing organisations in Europe. The project has been set up at village Bebedohal in Pune district of Maharashtra at an outlay of Rs 730 lakh, NFM will be one of the most modern foundries incorporating technological excellence in equipment such as pressure chamber technology for nodularisation from SKET-GISAG, Autopour, most modern pouring technique from Sweden in a non-captive foundry and horizontal continuous caster for profiles from Germany. The board of directors includes eminent industrialists like N A Kalyani of Bharat Forge as Chairman and H K Firodia of Bajaj Tempo. According to Ghate, Managing Director, with the advent of a boom in the automobile industry, the demand for quality ductile iron castings is expected to grow at a much greater rate. The company does not anticipate any problems in selling its products. The size of the project, excellence of equipment and technical collaboration have also given great export potential to the project. Substantial firm export enquiries covering over 30 per cent of its production are likely to materialise. Substantial orders have been confirmed by the indigenous industry also. The break-even point for the project is 40 per cent of production capacity. Investors will be entitled to 80 CC and Wealth-Tax benefits. The issue is being managed by the Merchant Banking Divisions of the Industrial Credit and Investment Corporation of India and Bank of India.

## NEW DELHI

# Empty Talk of Poverty Programmes

**BM**

THERE has been an abrupt revival of concern with poverty alleviation on the part of the Prime Minister. This is quite a contrast to the earlier exclusive trumpeting by him of grandiose plans for high-tech modernisation. The change in tune is traced by some to the feeling inside the Prime Minister's own entourage and the ruling party as a whole that populist gestures were necessary and should not be dispensed with if erosion of the mass base of the party is to be avoided. The lip-service to socialism at the first meeting of the AICC a few months ago over which Rajiv Gandhi presided was widely believed to have been prompted by the establishment becoming aware of this feeling inside the party. It is now being advertised that the week-end visits of the Prime Minister to tribal areas have really stirred him to face the reality of grinding poverty in the country and awakened him to the need to do something to alleviate the condition of the poorest of the poor. But before he embarked on his inspection tours of tribal areas, Rajiv Gandhi had begun already to talk of revising the poverty alleviation programmes of the government in order to make them more effective.

The interest shown by the Prime Minister in poverty alleviation programmes received wide publicity when he adressed a meeting of the consultative committee of MPs attached to the Planning Ministry where he reiterated the widely disputed official claim that already at the end of the Sixth Plan the number those below the poverty line had been brought down to 37 per cent of the population and that the percentage would be brought down to 10 per cent by 1994-95. The Prime Minister began his tours of the tribal areas after this meeting. It is also reported that the Prime Minister has disapproved of the draft of the Seventh Five-Year Plan prepared by the Planning Commission because it does not put adequate emphasis on poverty alleviation programmes and the planners have been asked to make suitable changes in the draft. The climax to all these reports came with the Prime Minister's address on the solemn occasion of the Independence Day in which he proclaimed that the government's policy and plans would be geared to benefit the poorest sections of the people and that the framework of the Seventh Plan would be modified to make poverty alleviation its major plank.

All that is being said about poverty alleviation and modifications of the Plan to that end sounds very impressive. But it may be easy enough for the political leaders to talk glibly as may suit their whims and fancies about modifying development programmes and imparting to them novel features and qualities. The professional planners, on their part, are bound to find themselves in a very awkward position when they are called upon to produce a credible and feasible plan on that basis and fit it into the overall policy-frame handed down to them by the political leadership. The official planners in Yojana Bhavan have already produced the draft of the Rs 180,000 crore Seventh Plan. The sectoral allocations have been made in the draft Plan after elaborate consultations with the Union ministries and the state governments. As it always happens, the planners were in no position to entertain all the demands of the Union ministries and the state governments for financial allocations and they had to apply drastic cuts. The sharpest cuts have been in outlays for industrial infrastructure in the public sector and for poverty alleviation schemes.

### A MYSTERY

In their plan-making exercises the planners had to reckon with the resources in sight for the Plan and the additional resource mobilisation effort which the Union and state governments would be able and willing to undertake. The position in this respect is admittedly not comfortable, The Union Finance Minister, meanwhile, has been going about promising with gay abandon a fiscal policy which would, in his words, be growth-oriented rather than geared to revenue collection. It is also fatalistically accepted that severe limits on resources available for investment to strengthen industrial infrastructure in the public sector and for expenditure on the expansion of social consumption and mass welfare programmes have to be taken for granted. There is no hesitation in the Finance Ministry about the need for the private sector to enlarge its resource base and role in the growth process. The Budget for the current year, the first year of the Seventh Plan, made outright cuts in financial allocations for poverty alleviation programmes even while generous fiscal concessions were given to those in high income brackets and the corporate sector. This was justified with commendable conviction. Subsequently, however, additional allocations on a sizable scale have been made for industrial infrastructure in the public sector. There is talk now of providing more money for poverty alleviation. How exactly additional resources will be found for all this remains a mystery.

There is no indication from any reliable quarter about the steps that are proposed to be taken for mobilisation of more resources for either the Plan in the public sector as a whole or for the poverty alleviation programmes particularly. The Prime Minister only made a general remark in his Independence Day address that the government would take steps to reduce administrative expanditure and spend more for the benefit of the poor. But this is easier said than done. The facts contradict the Prime Minister's proclaimed intention. Improvements have been made and more are proposed to be made in salaries and emoluments of government employees, especially in the upper echelons of the administrative hierarchy. Cuts in subsidies have been ruled out. Interest charges and rentier incomes are swelling in response to the Union government's fiscal policy of raising revenue in the market by paying interest instead of taxing incremental income and wealth of the rich. Increases in expenditure on the law and order machinery and the armed forces are regarded as not only inevitable but even desirable. The relentless increases in non-plan, not development expenditure of the government are similarly taken for granted.

The question of poverty alleviation cannot, of course, be viewed as a problem merely of financial allocations. Poverty alleviation, if it is adopted honestly and seriously as an objective, requires structural changes and an integrated design of economic growth and social change. The Prime Minister, it seems, has yet to grasp the implications of his promise of poverty alleviation, especially in the rural areas. But even if structural changes in the development process are ruled out as being not within the realm of the possible given the entrenched socio-economic and power system and poverty alleviation programme remain a matter of juggling financial allocations, there seems to be no prospects of anything worthwhile being done in the face of what is called the resources crunch. This is only emphasised by the modifications proposed in the Integrated Rural Development Programme. The emphasis is on more strict selection and larger subsidies to selected beneficiaries by reducing the coverage of the programme so that there would be no increases in the total expenditure on the programme.

### STARVATION AMIDST PLENTY

But what is most glaring is the utter inability and unwillingness of the government to use the available surplus foodgrains as a real resource for development through a massive food-for-work programme, not even in those areas where starvation deaths are taking place. During his visits to tribal areas in Orissa and Madhya Pradesh, the Prime Minister could simply not have missed the desperate condition of the people, in spite of the most cynical attempts to cover up the ugly reality.

It is standard official policy never to admit starvation deaths. The Orissa Chief Minister, therefore, did the usual thing when he refuted reports about starvation deaths in the wake of the Prime Minister's visit to Orissa. He admitted with customary cynicism deaths in the drought-stricken areas from gastro-enteritis, a stomach ailment. He was not bothered that hungry people trying desperately to hang on to life by eating whatever might be available, including poisonous leaves and wild flowers, fall victim to many diseases before they die. The Prime Minister too had to observe the same rule on starvation deaths. Though he is very proud of saying that he does not care for conventions, he had to fall in line and go so far as even to write a formal letter to the Congress(I) Chief Minister in Orissa to express his appreciation of the efforts of the state administration to stave off "extreme hunger" through public distribution and feeding programmes in the tribal districts. He called for intensification of these efforts and streamlining of arrangement for more regular supplies by improving the administrative machinery.

But the public distribution system with its coverage essentially limited to the urban areas and industrial centres is relevant only for those who can purchase their food needs at fixed issue prices. The system is certainly of help in protecting consumers from the ravages of the black market in conditions of scarcity, provided they have enough purchasing power to purchase the grains. That is why the public distribution system works well only in the metropolitan and industrial areas and its functioning in remote rural and more particularly tribal areas is not and cannot be effective or efficient. As regards feeding programmes which Rajiv Gandhi has mentioned in his letter to the Orissa Chief Minister, the reference evidently was to stray relief kitchens, presumably set up in a hurry for feeding hungry people in some places at the time of the visit of the Prime Minister. There is no mention anywhere of large-scale food-for-work programmes in the drought stricken areas on the required scale. The performance of the Janata government on this score was far more imaginative and meaningful. But the Prime Minister has been making only passing references to the willingness of the Central government to consider releasing wheat to enable wages in kind to be paid to the rural poor and to members of the Scheduled Castes and Tribes employed on work such as forestry and soil conservation, etc. But there is still no plan to use the available large food surpluses held by the Centre at a high cost as a real resource for a well-planned expansion of the food-for-work programmes to boost socio-economic development by building real assets in the economy and generating employment and incomes in society. The Prime Minister has merely offered to consider releasing some of the food held in stock by the Centre for relief purposes to a limited extent.

This state of affairs would appear to be extraordinary when incerases in production and productivity of foodgrains in the last two years have generated a large marketable surplus over and above the requirements of the buffer stock needed for security and stability in lean years. It is not fortuitous, however, that exports from the foodgrain stock have been thought of as the preferred way to bring down the stocks to economically manageable levels. It is not fortuitous either that there is considerable gratification in government circles and the Food Ministry in particular that with successive bumper crops and a large buffer stock the commitment to public distribution is shrinking. There is no intention to widen the coverage of public distribution. On the contrary, the present condition is considered very appropriate for enlarging the share of private trade in the foodgrains market. Not the public distribution system but private trade is to be relied upon to more efficiently arranged supplies in scarcity and high income areas. The move to sell wheat from the buffer stock to private trade testifies to this. The thinking seems to be that if large sections of poor people, especially in the countryside, find it impossible to get foodgrains from either the open market or the public distribution system because of lack of purchasing power, so much the worse for them. The government seems to hold that its responsibility ends with those who can make purchases at the present level of issue prices of foodgrains from the public distribution system as it is operating in the area of its coverage. The prime responsibility of the government, it is taken as axiomatic, is to ensure that the producer secures the right remunerative price for that part of his produce which he wants to sell. The machinery for procurement of all grain offered at the fixed procurement price is, therefore, kept in trim and in full working order at all times and a huge subsidy from the exchequer is provided for this purpose. This has led the government to purchase all grain offered at what is called the 'remunerative procurement price' even if the stocks have swelled to 30 million tonnes and may grow bigger still.

### FOLLOWING THE MARKET PRINCIPLE

The reason for the reluctance to launch a massive food-for-work programme and expand the public distribution system in foodgrains stems from the anxiety to ensure a profitable domestic market for the surplus producer. This is considered very important from the point of view of the commercial principle, as much in the case of agriculture as industry. The food-for-work programme and public distribution of foodgrains can disturb the captive market of the surplus farmers and improve the bargaining position of the agricultural workers in particular and the rural poor in general. The ability of the surplus farmer to exploit the open market during the lean season and depress wages of farm workers is threatened when an efficient food-for-work programme is underway.

A new quality has indeed emerged in the conception and framing of foodgrain production, pricing, procurement and public distribution policies. This flows logically from the operation of the new agricultural strategy and falls neatly into the overall economic policy and approach. The question of domestic consumption is, therefore, being tackled strictly in terms of market criteria and effective demand. The public distribution system must function on a viable basis for the viable sections who have purchasing power. The producer of the marketed surplus must be assured of a remunerative price and his surplus secured on that basis for meeting effective demand in the domestic market and for export to the extent it is feasible and necessary. The principles governing commercial agriculture which is being promoted with so much diligence for the last 15 years under the banner of the new agriculture strategy are at last beginning to assert themselves in the wider context of a liberalised, market-oriented economy. Relief measures when urgently required may, therefore, be considered in order. But using foodgrains or other surpluses as a real resource for development in which the mass of the poor and the unemployed can be involved has to be frowned upon as upsetting the commercial and market principle.

Way back during the Great Depression in the early thirties, reports that oranges had been thrown into the sea because there was no market for them were interpreted as the signal that a system of production which could be so starkly in conflict with the well being of the people had played itself out and could not last and must indeed not be allowed to last. The situation at present in India is becoming even more untenable and unacceptable when in the midst of the drum beating about the green revolution and burgeoning foodstocks, foodgrains have to be stored at a great cost and some of the stock may even be allowed to rot in the midst of starvation deaths. The hectic search for export outlets for the surplus grains even at a loss only adds poignancy to the situation. The empty talk of special poverty alleviation programmes in these conditions is indeed sickening.

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# Romance and Reality of Traditional Agriculture

**Bharat Dogra**

WHILE the government's agricultural development efforts continue to be based on propagation of high-yielding varieties (HYVs) grown with large doses of chemical fertilisers, there has nevertheless been a revival of interest in traditional agricultural systems and methods. The wisdom, specially avoidance of waste, of the traditional agricultural practices has been upheld on the basis of records of such practices going back to the last century, if not earlier. Side by side or within this trend, the virtues of natural farming against the chemical and machinery based farming of the green revolution type have been stressed. Indeed some writers have gone a step further and stressed natural farming to the extent of there being no tillage. In this context Masanobu Fokuoka's work (and his book "One Straw Revolution") and smaller experiments in India have been much discussed. Needless to add, after the Bhopal tragedy, the questioning of the necessity of agri-chemicals, and more specifically chemical pesticides, has received an additional impetus, although again this does not seem to be reflected in official thinking.

This emphasis on the wisdom of traditional agricultural practices has been welcomed for at least two reasons. Firstly, an alternative, successfully practised in earlier years, to the green revolution technology brought from Western countries has been presented at a time when dominant thinking on agricultural development is to regard the green revolution technology as the only line on which progress can be made. To establish that this is not so and that alternatives more compatible with our resource-base exist is itself an achievement. Secondly, instead of emphasising merely the wisdom of specific farming practices, the concept of the traditional farming system as a harmonious system in which agriculture, animal husbandry, tree growth, etc, are very well integrated, avoiding all waste and in fact feeding on each other's waste, has also been presented. This is contrasted with the Western model where these various farming activities are separately developed, necessitating a lot of expensive cash inputs and causing a lot of unnecessary wastage which countries like India can ill afford.

At the same time as recognising the importance of recent attempts to throw light on neglected aspects of traditional agriculture, it is important also to point out some shortcomings of these afforts. Generally, while drawing attention to the various painstaking and effective traditional agricultural practices, it has somehow not been found necessary to describe also the social relations within which these practices flourished. Where these practices followed by small peasants cultivating their own land, or by tenants cultivating the land of other landowners, or by hired workers receiving a daily wage, or by bonded labourers, or else was there collective ownership of land? In some writings, not only are these aspects neglected but instead there is so much concern for even the small details of traditional farming practices and so much effort is spent on establishing some not-so-crucial aspects of natural farming, that these writings invite the allegation of considering these issues as the ultimate, the final, the most important issues of agricultural development. This, of course, is totally wrong. The main issue in agricultural development in India, and indeed in most other countries, is the pattern of land ownership and operation and it is basically in this area that the battle against poverty and hunger has to be fought.

While considering this most important issue, several questions are thrown up. If we are convinced that the existing landownership and operation pattern has to be changed, then what are the alternatives to it? Do we want a land of small peasant proprietors, or do we want collective agriculture? What criteria will be followed at the time of redistribution of land? Answer to these important questions will have to be searched, and probably different answers will be food for geographically different areas like the fertile plains, the desert areas, the hilly areas, etc.

The question of technology will be closely related to these choices. It is here that the re-discovery of the wisdom of traditional agricultural practices may prove important because at least a path different from the green revolution technology (which apart from being expensive and ecologically unsound makes us dependent on imperialist interests) is shown to exist. But then the relationship of various agricultural practices with the land and labour relations within which these will be implemented has to be kept in mind.

Their suitability has to be examined not in isolation but in the context of the particular type of the egalitarian land ownership system that one has in mind as being the most suitable. When this is done, the exercise of re-discovering traditional methods to suit future needs becomes at once more

Chains of Servitude
bondage and slavery in india
Utsa Patnaik
Manjari-Dingwaney (eds.)

'No other society in the world is perhaps as burdened by the memories and material survivals of its ancient past, as is the Indian; anachronistic precapitalist social relations and ideology form an incubus on the new society painfully attempting to chart a capitalist path of development.'
— from the Introduction by Utsa Patnaik

The essays in this volume bring together diverse aspects of bondedness and exploitative employer-labourer relations, particularly among the rural population.
The first section traces the historical roots of slavery and bondage through ancient, medieval and colonial India.
The second section is an overview of some contemporary aspects of bondage and includes five case studies in contemporary Indian agriculture and crafts—all five reveal the inextricable link between bondage and destitution.
The third section examines the law in the pre and post-independence period, and its limitations in dealing with the problem of bonded labour. An exhaustive bibliography of material on slavery, indentured labour and bonded labour supplements the research and analysis of leading social scientists; and the experience of political activists

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exciting meaningful.

Researchers working on appropriate technology in agriculture, animal husbandry soil-conservation, etc, will do well to specify whether they keep in mind a highly unequal society while making their recommendation or whether their devotion is to finding technological answers for an egalitarian society which they hope will come into existence one day. If nothing else, research carried on with this perspective will at least keep in focus the real issues, and emphasise also that technological solutions are no substitutes for political ones.

# How the Other Half Dies in Bombay

**Malini Karkal**

ACCIDENTS are defined as unplanned and unintended events. However, the incidence of accidents is definitely indicative of the social, psychological and physical environment they occur in. Besides, the attitude and reaction of those in whose surroundings the accidents occur are dependent on the value or importance that is given to the victims of the accidents.

Data on medically certified causes of deaths of women show that at the national level 8.1 per cent of the deaths are by 'accidents and injuries'. In urban areas of Maharashtra the percentage is 9.5, and for the Greater Bombay it is 6.6.

Details available for urban Maharashtra in general and for Greater Bombay in particular provide the shocking detail that 34.2 per cent of accidental deaths in urban Maharashtra and 64.9 per cent of those in Greater Bombay were due to 'burns'.

Data from rural Maharashtra are available for a smaller sample and detailed analysis is not possible. Even then these too show that 6.5 per cent of the deaths were by accidents. Burns constituted a comparatively small percentage (1.7 per cent). However 'drowning' was reported as a cause for 2.3 per cent of the deaths.

Further revealing are the data on the age distribution of victims of accidental deaths in urban areas. These are presented in Table 1. The Table shows that the highest (80.3 per cent) percentage of deaths by 'accidents' are in ages 15 to 44. Considering only those women who were in age groups 15 to 44 it is seen that 24.7 per cent of the total deaths in urban Maharashtra and 24.6 per cent in Greater Bombay were by 'accidents'. Those by 'burns' were 18.9 per cent in urban Maharashtra and 19.3 per cent in Greater Bombay.

It is therefore seen that in urban Maharashtra and in Greater Bombay almost every fourth woman who dies in ages of 15 to 44 dies by 'accidents' and one in five dies by 'burns'. For younger age groups of 15 to 19 and 20 to 24 these proportions are one in three by 'accidents' and more than one in four by 'burns'.

Details available for Greater Bombay on marital status of the women who died by 'burns' are given in Table 2. As seen from these data 61.3 per cent of the women in ages 15 to 19 were 'never married'. Thus problems with in-laws cannot be the only cause of these deaths due to 'burns'. The environment in the parents' homes is also unwholesome for women to feel happy and secure.

All the dead bodies of the victims of accidents were subjected to post-mortem and the certificates were issued by the Coroner. It is however a pity that not a single of these certificates gives a cause that can provide even a minimum of a hint of how these accidents were caused. The certificates invariably mentions vague causes such as 'fractured skull, 'toxemia of burns', '80 per cent burns', etc.

This pattern of high incidents of deaths due to accidents has been seen for the past several years. It is a pity that no notice of this colossal waste of human life is taken by any forum. What makes the situation gruesome is the large numbers of those who met with accidents, had been burnt, but did not die. Many of them must have been disfigured or maimed and left to face the social and psychological consequences.

It will be inhuman if the high incidence of deaths due to burns is brushed off by saying that they must have been caused by kerosene stoves and nylon sarees. First, girls in ages 15 to 19 today wear dresses rather than sarees and mostly of cotton. Cost of nylon dresses is much higher than that of cotton ones, unlike in the case of sarees, since the thickness that is required for dress material makes nylon more expensive. Secondly, accidents taking a heavy toll of life and yet going unnoticed can only happen when the victims are women. If even one-tenth of this figure were reported for workers in any industry, the situation would have attracted far greater attention and there would have been immediate search for corrective measures.

Maharashtra, a state where women are said to be having a better status, and Greater Bombay, a metropolitan area where otherwise women are known for their leadership in social and welfare activities, present a picture which should disturb any sane individual. One wonders what must be the kind of life that is led by women and how anyone can expect these women to contribute to programmes that are meant to be for their own welfare or for the welfare of their children.

Table 2: Per Cent Distribution of Deaths by Burns by Age Groups and by the Marital Status of the Women—Greater Bombay, 1984

| Age Group | Never Married | Married | Other | All |
|---|---|---|---|---|
| 15-19 | 61.3 | 38.7 | — | 100.0 |
| 20-24 | 12.7 | 87.3 | — | 100.0 |
| 25-29 | 7.6 | 92.4 | — | 100.0 |
| 30-34 | 2.9 | 97.1 | — | 100.0 |
| 35-39 | 7.0 | 93.0 | — | 100.0 |
| 40-44 | 9.1 | 84.9 | 6.0 | 100.0 |
| 15-44 | 18.7 | 81.7 | 0.2 | 100.0 |

Table 1: Per Cent of Total Deaths of Women Caused by Accidents and by Burns

| | Age Group | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | <1 | 1-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30-34 | 35-39 | 40-44 | 45-49 | 50-54 | 55 + |
| Urban Maharashtra | | | | | | | | | | | | | |
| Accidents | 0.3 | 4.8 | 11.6 | 12.4 | 36.4 | 31.5 | 28.5 | 21.7 | 16.5 | 12.2 | 8.8 | 7.5 | 3.8 |
| Burns | 0.2 | 2.2 | 4.0 | 5.7 | 29.0 | 26.9 | 22.8 | 14.7 | 10.8 | 7.6 | 4.1 | 3.0 | 1.3 |
| Greater Bombay | | | | | | | | | | | | | |
| Accidents | 0.6 | 3.6 | 10.9 | 21.0 | 34.4 | 34.3 | 28.3 | 21.0 | 15.7 | 10.3 | 7.9 | 5.2 | 2.2 |
| Burns | 0.3 | 1.5 | 3.2 | 11.9 | 28.4 | 28.5 | 24.1 | 16.5 | 9.7 | 5.0 | 4.0 | 2.3 | 0.7 |

# Knowledge in Search of Mammon

## Higher Education in Britain

**George Joseph**

**Burjor Jal Avari**

IN few areas of public policy is the petty bourgeois (or poujadist) mentality of Margaret Thatcher's government so marked as in higher education. In this area too the ethos of the shopkeeper has taken over: its products are to be valued in terms of pounds and pence. At a time when higher educational institutions are still reeling from the blow that depleted their numbers and placed stringent financial constraints on their activities, they are being increasingly pressurised to take their wares into the market place. A new brand of salesmen is emerging, for whom quality of scholarship and consideration of needs of students are less important than the marketability of their products and the excess capacity to be filled. The Third World is a particularly convenient hunting ground for these salesmen. Their main interest is in attracting students in those disciplines where domestic recruitment has been curtailed by government diktat or by falling demand among those who have an eye on the shrinking job market.

Since 1975, first under the Labour government, and, after 1979, under the iron monetarism of Margaret Thatcher, universities and colleges have suffered massive cuts. At the same time their room for manoeuvre has been restricted by the increasingly onerous burden of overmanning, a legacy of the Robbins-induced expansionist policies thrust upon them in the sixties, and the debt charges incurred by an ambitious building programme during that period. A personnel stripping exercise initiated about five years ago provided a temporary relief to a number of universities, but those who remained found that their normal parameters of operation were drastically curtailed by the financial pressures. It is against this background that British universities and colleges, long renowned throughout the world as centres of knowledge and learning, are now encouraged to go out into the market place in search of funds and students.

Some of the products on offer, especially those aimed at the innocent and the gullible in the Third World, are of uncertain value. Courses in English as a second language are offered by private institutions to wealthy Arab students, charging exorbitant rates; high technology and expensive chemical or fuel based courses are on offer to students from economies where food production is of paramount importance; and Africans and Latin Americans are invited to register for postgraduate courses in Development Studies. It is the last of these courses which raises certain issues of concern. A ragbag of sociology, anthropology and economics, they have attracted wide interest among many who are in search of satisfactory answers to questions regarding poverty, inequality and oppression endemic in many poor countries. But what is not immediately evident is that, contained in this amorphous area of study, there is a Eurocentric bias born out of Western-oriented cultural value systems and frames of reference, taught in many cases by people who have never set foot anywhere beyond Europe and its cultural dependencies of the USA, Canada, Australia, etc. Those who receive this form of education will in many instances return to their countries of origin even less competent to tackle the real nuts and bolts of development and burdened with the intellectual and cultural baggage which offers them strong vested interests in maintaining the privileged status of 'foreign-returned or foreign-recruited' development experts.

But then the welfare and well-being of the sending country is unlikely to figure prominently in the consciousness of those who are trafficking in this type of education. Deals are struck in hotel rooms, promises are made which cannot be kept, and standards lowered to allow entry into certain courses, with little compunction about the ethics of the matter. For behind this blatant commercialism lies a conviction that the recruiting nation has an overwhelming superiority in the production, evaluation and dissemination of all kinds of knowledge. This unique form of Western ethnocentrism is often applied to people whose historical and material circumstances have been different and who, if they at all need help, need something different.

It is possible that a few countries in the Third World may have seen through this form of unequal exchange, but hardly any have even begun to take effective steps to counter this tendency, since the vast majority of the countries are governed by people who are hostages to values and prejudices generated by a Western-oriented education. Often the ruling elite lacks that basic confidence necessary to view problems of poverty and malnutrition as requiring home remedies and not foreign expertise of an unknown quantity. The colonial mentality still runs deep through the ruling classes of societies that were once part of the European imperial fabric; and one particular aspect of this mentality is a sad chase after paper qualifications for their own sake. British universities and colleges are not unwilling to capitalise on this desire, and sales talk about the courses offered is pitched towards accessibility rather than quality.

There are two major dimensions to the acquisition of skills and training which all Third World countries need to confront. First, they have to repair the great damage to their economy that population pressures on existing resources, deterioration of the quality of agricultural land and the pattern of inequalities generated by the present world economic order, have brought about. This means in most part restoring the balance between the rural and the urban, between cultivation of food and non-food crops, and between individual enterprise and bureaucratic direction. Second, they have to seek answers on the type of education that would promote the restoration of the balance. It is unlikely, however, that the answers will be found from an education based on artificially-imposed European cultural values which ignore the strengths and potentialities of the indigenous cultural traditions. In this connection, the examples of Russia and Japan may contain some useful lessons.

Today both these countries have reached a level of development which, if not wholly on a par with that of the West, is approaching the Western scale. They have both consciously adopted or copied particular Western models of modernisation in order to accelerate their rate of development, but they have done it on their own terms. They have made discreet and conscious choices, and only that which has suited their particular needs and environments has been accepted. When Peter the Great sent Russian students to France and Britain in the early 18th century, his intention was that they should learn specific skills, in such areas as naval construction. There was never any question of duplicating the Western industrial model 'in toto'. This policy was followed all through the pre-revolutionary period of industrialism and development under the Tsars. The Revolution of 1917 set into motion a vast number of ambitious development projects, but foreign involvement was deliberately kept minimal. In the early 1930s Stalin acknowledged that Russia was a hundred years behind the West, but his remedy did not include the sending of Russian students abroad. A limited number of foreign engineers were allowed into the country to work on the Five-Year Plan projects, but they were strictly supervised and were not allowed to set themselves up as 'development experts'.

Japan's modernisation began with the opening of the Meiji Era in 1868. The Emperor Meiji was keen to get his countrymen involved in learning about the West and its skills. He started an ambitious secular education programme, one component of which was the training abroad of scientific and technical personnel in specific skills like textile technology or marine engineering. Thousands of Japanese students were sent to Britain, France, Germany and USA all through the late 19th century and early 20th century, and they returned with valuable knowledge gained. In spite of the unfortunate aspects of later Japanese history, particularly between 1931 and 1945, Japan emerged at the end of the day with its identity intact, its genius fortified, and its culture not at the mercy of foreigners. Japan retained control over its own destiny. It did not allow the West to dictate the intellectual terms for its modernisation trauma.

Before Third World countries accept any more offers of courses of study from British universities and colleges, even if aided by British government finance, they must first ask themselves the following questions:

(1) What are the skills needed at their present level of development? Are these skills absolutely vital to acquire?

(2) Can these skills be acquired at home or not? Has enough note been taken of people at home whose expertise may have gone unrecognised?

(3) If there is no facility at home, which country abroad would offer training which represents value for money. Would another Third World country be a better place for such training?

(4) Once the skills are acquired, can one assure sufficient job satisfaction to withstand the attractions of work in the economically developed countries?

Upon the answers to these questions should depend the decision to respond to the high-pressure educational salesmanship now emanating from Britain.

## BANGLADESH

# House of Cards

### Badruddin Umar

SHUFFLING and re-shuffling the Presidential cabinet has now become almost a daily exercise in the Peoples Republic of Bangladesh. During the course of this shuffling political commodities desert the opposition alliances and join Janadal under the thin cover of a would-be pro-government united front, ambassadors are drafted as ministers and ministers are sent out as ambassadors, portfolios frequently change hands to suit the needs of political machinations and good-for-nothing new advisors are taken in for the sake of expediency. The Presidential cabinet thus appears like a pack of cards on the palm of an individual with whom rests all political initiative and who stands as the most effective dispenser of favour to political riff-raff of all descriptions.

This 'success story' of the martial law government would not have been possible without the practice of wide-ranging corruption and without a deep-rooted crisis in the bourgeois opposition. The electoral alliances of the opposition political parties demonstrated their bankruptcy quite conclusively when they failed to realise the extent to which they were able to carry on their bargain with the marital law administration and transgressed their political limits as electoral alliances by boycotting the general election proposed by President Ershad. That precious nothing would really have been achieved by the people through such an election is true and cannot be disputed. But what is not true and what can be disputed is that it was possible for the bourgeois opposition alliances to achieve anything more through the kind of general election which they were asking for. Moreover, the hollowness and bankruptcy of the said opposition became quite clear when, after boycotting the proposed general election, they could not provide any alternative programme for a resistence movement and lay low. In the meantime, the hands of Ershad held out the carrot and the stick and these started dangling before the bourgeois opposition leaders with great possibilities. The carrot led to desertions from the camp of the bourgeois opposition and the stick made it impossible for the 'militant' election boycotters to launch any kind of movement on the basis of a political programme.

The 21-point programme which the 15-party alliance announced on October 14, 1984, and the nine-point programme which was announced by the seven-party alliance on the same day remained paper documents from the very beginning and nothing was done by the opposition alliances to organise the people on the basis of such programmes. On the other hand, they were all the time madly shouting for the acceptance of the five points which were described by them as the quintessence of any democratic programme in the country. It is, therefore, no matter of surprise that the raising of the stick worked on them and they lapsed into a kind of political imbecility. And in this state of imbecility the only 'political' activity of the leaders of the glorious bourgeois opposition parties has consisted in making acrimonious charges and counter-charges against one another leading to actual and possible splits and multiplying the number of the political parties of no consequence.

Apparently this has created a very favourable situation for the martial law administration. By now the political party of the present martial law administration, Janadal, has started taking shape and by the time the proposed general election is held at the end of this year or at the beginning of next year, this party will be able to deliver goods for the present administration much more effectively than it could do if elections had been held as earlier proposed by President Ershad.

On the other hand, the bourgeois opposition parties to the martial law will have to participate in the election which is now being proposed by the administration and they will have to do so this time on the terms of the latter. The facts of the political developments are such that if the said political parties, particularly the more important ones, try to boycott the next election then they will split further and face virtual liquidation.

Can these developments be regarded as lasting achievements of the powers that be and can it be said that in the ultimate analysis these achievements are not self-defeating? This point will be quite clear if we consider the fact that the decay and disintegration of the bourgeois opposition is indicative of the decay and disintegration of the entire bourgeois economic and political process. In other words, these developments hold out no real promise and bright future for the existing system itself.

Those who are now deserting the opposition alliances in order to join President Ershad's cabinet are not the best and the ablest of them. On the contrary, the 'magnetic attraction' of the carrot is drawing just the other variety who are now being charged with the responsibility of running the present administration. President Ershad is building his house with these cards and it cannot have a future any different from that of the proverbial house of cards.

NOTICE

1. It is hereby notified for the information of the public that Reliance Industries Limited proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi under sub-section (2) of Section 22 of the Monopolies and Restrictive Trade Practices Act, 1969 for approval for the establishment of a new undertaking for the production, supply distribution or control of 1.5 million Nos Glass Shells for TV tubes and 5 lac Nos. of Colour TV Picture Tubes. In the first instance with an estimated annual turnover of Rs. 1150 Million Other particulars of the proposed new undertaking are as under:

A) Name of the proposed undertaking · The proposed undertaking will be a unit of Reliance Industries Limited

B) Name(s) of person(s) or authority/authorities proposing to establish the new undertaking Where it is a body corporate furnish details of its management structure together with those of proposed undertaking Reliance Industries Limited a body corporate managed by the board of Directors consisting of · a) Shri Dhirubhai H Ambani–*Chairman & Managing Director* b) Shri Ramniklal H. Ambani–*Joint Managing Director* c) Shri K Gopal Rao d) Shri Jayantilal R Shah e) Shri Mansingh L. Bhakta f) Shri R V Madhava Rao–*Nominee Director of G I C* g) Shri Ramesh U. Pai h) Shri Natvarlal H. Ambani–*Executive Director* i) Shri Rasiklal L Meswani–*Executive Director* j) Shri Mukesh D Ambani–*Executive Director* k) Shri Anil D Ambani–*Executive Director*. The proposed undertaking will be a unit of the applicant body corporate and will be managed by the same

C) Capital Structure of the applicant person or authority and of the proposed undertaking as on 31st December, 1984 a) Authorised Capital–Rs 850 million b) Issued and Subscribed Capital–Rs 519.7 million The proposed undertaking will be a unit of the applicant body corporate and therefore will not have a separate capital structure

D) Proposed location of the undertaking In Uttar Pradesh.

E) Brief outline of the cost of Project, the Scheme and Source of Finance The Project Cost of new undertaking is estimated at Rs 2010 million, including the cost of land civil works plant, machinery equipments etc This is proposed to be financed through own resources loans issue of debentures, shares etc

2 Any person interested in the matter may make a representation to the Secretary, Department of Company Affairs, Government of India Shastri Bhavan New Delhi within 14 days from the date of publication of this notice, intimating his view of the proposal and indicating the nature of his interest therein

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# The Tripura Riots, 1980

## Problems of Marxist Strategy

**Ranajay Karlekar**

**[Born in 1942 Ranajay Karlekar died prematurely in April 1983.**

**Ranajay had written this piece for *Economic and Political Weekly*, but it had never been sent to the editor. The manuscript was discovered among his papers and has been prepared for publication by his wife.**

**A brilliant teacher of English literature at Jadhavpur University, Ranajay was a charismatic figure in the classroom and outside. His interests ranged widely from sophisticated speculation on ideology, literature and politics to concrete details of politics and society at the grassroots level. JB.]**

TRIPURA has vanished from the headlines; to journalism it has lost its topicality. The time for a mere narration of facts and events is gone; but the need for analysis is still urgent. For the roots of the problem still remain; for, the diffusion of a generalised consciousness of blood, fear, sinister and irrational forces, serves ruling class ideology, and reinforces passivity and bureaucratic manipulation. And to the extent that the left evades rigorous analysis and self-criticism, based on concepts of class and class struggle, it compromises with ruling class ideology, and restricts itself to short-term, ad hoc, opportunist adjustments.

That is why this analysis is not concerned with a massive accumulation of data, nor with lurid tales of conspiracy. Reaction and imperialism will always seek to exploit any linguistic, communal or ethnic division, to subvert class struggle. This is to be expected, so there is no point in whining or ranting about it. Besides, such large scale, bloody mass convulsions are not generated out of thin air. There is always an objective social and historical basis. And that is what revolutionary science must understand, must clarify. And since this objective social and historical basis is not something external to the communist movement, the primary practical-critical question is: What went wrong with communist and democratic strategy?

In Tripura, this question acquires special emphasis. For unlike in Assam, Mizoram, or Meghalaya, Communists in Tripura had their main base within Pahari society, for more than two decades. For unlike Assam Tripura, till very recently, had no record of direct communal violence.

The basic realisation informing this analysis is simple: the blurring of clear, bold, class-perspective, and evasion of class struggle, is bound to endorse the channelisation of spontaneous social-economic-cultural discontent into revivalist, chauvinist, reactionary and primitive forms of expression. There is today widespread criticism of the mechanistic opposition of class struggle to struggles based on nationality, or even caste. But underlying this criticism there is often a loss of confidence in classical Marxist-Leninist premises regarding class struggle. This forgets, and is itself conditioned by, the fact that the mechanistic application of class concepts is itself a product and symptom of either revisionism or left deviation, i e, of the absence of a ruthlessly objective, scientific class strategy, of the subjection of revolutionary class-consciousness and organisation to domination or infiltration by bourgeois or petit-bourgeois ideology. To the extent that this happens, the objective tendency of the ideology of left and communist movements will inevitably be—irrespective of personal intentions—either towards compromise and convergence with ruling-class ideology, or towards abstract utopian positions.

I do not at all wish to obliterate the very real differences between revisionism and reaction. There is no doubt about the historical fact that almost thirty years of Congress rule allowed and connived at the most ruthless exploitation and expropriation of the Pahari people. And amongst the poor masses of Tripura, it is also reasonably clear that a section of the Tripura Upajati Juba Samity, the Amra Bangali, and rowdies associated with the Congress(I) were the worst exploiters and organisers of communal sentiment and violence. But, as stated, my focus is on the problems and failures of Marxist strategy. This analysis will therefore work its way through a critique of the objective ideological character and tendency underlying left and communist assumptions; reactions and attitudes that inhibit the growth of a revolutionary scientific perspective, and self-conscious dynamic class initiative within mass movements. In doing so, this analysis will do an extent reflect the point of view of the Provincial Committee of the CPI(M-L); because, though its strength is still inadequate and unevenly developed, wherever it *is* strong, riots either did not take place, or were curbed, diverted, defeated, through active political struggle.

In this struggle, in Dakshin Maharani, Asharambari, Kashipur, Reshambagan, Ishanpur, Shabajpur, Machhima, Bagmara, Durlabhnarayan, Khaschoumohoni, Morabari, Charilam ... the entire local leadership, and a large part of the strategic leadership, came from day labourers and poor peasants, both Bengali and Pahari. More, this struggle did not stop at the organisation of class-popular resistance, but in many areas developed into a mass movement against hoarding and black marketing; and in one place at least (Dakshin Maharani) into a programme for cultural exchange between Bengalis and Paharis, initiated by the local peasantry. And all this was accomplished before the government machinery had regained any semblance of control.

At the root of this achievement is the fact that the work of the CPI(M-L) has shaped a group of revolutionary intellectuals and organisers, mostly day labourers, some poor peasants, whose creativity, maturity, and capacity for self-reliance within the most complex and various situations, this observer has not seen equalled, at least in Tripura. The CPI(M-L) has many problems to solve; but already in Tripura it represents the highest development of class consciousness and organisation, and therefore provides the most advanced vantage point for a critical analysis of the left and communist movement in that state.

### IDEOLOGICAL LOGIC OF CPI(M)'S RESPONSES

If we look at the ideological logic of the CPI(M)'s responses to the Tripura situation, both at the immediate topical level of statements and interviews, and at the level of more considered formulations of objectives and strategies, certain definite tendencies are clear: (1) An unwillingness to recognise the fact that the riots had an objective, internal basis and achieved a mass character. (2) An unwillingness to see Pahari society in its specificity, in terms of its internal dynamic and differentiation. (3) A complicity with the passive, uncritical, stereotyped aspects of mass consciousness—those aspects most conditioned by the hegemonic influence of the ruling classes. Let us work through a few representative examples.

Take Nripen Chakravarty's statement: "... It will return to normal. There was no mass participation in the riots, which involved only the youth with support of students" (Interview, *Contour*, June 22, 1980). This embodies a reaction which is already a partial psychological compromise with the kind of self-deception, half-truth, evasion and fantasy that allows communalism to survive. A revolutionary strategy seeks to mobilise the active, self-critical, rational forces in mass consciousness; it stands to gain everything by an uncompromising confrontation with facts, with objective reality. Instead, Chakravarty sanctifies smugness and passivity. The ideological impulse of his statement is to divert attention away from internal structural causes of the crisis. In fact, it pre-empts a total critique of the social basis of communalism. All responsibility is transferred to a handful of scapegoats; and this is ultimately an act of class compromise and evasion of a revolutionary class-view of a social crisis.

In Tripura, communal sentiment achieved for a while a spontaneous mass basis and and support; and it still poisons mass consciousness. The government was impotent, paralysed, unable to mobilise popular initiative. Progressive political leaders either hid or fled their areas; fled not only from rioters, but from the anger and clamour of the masses, from the cries of the victims. At places, peasants associated with left parties were swept into the riots. Political workers of left parties were left helpless, bewildered, without any real leadership. The police force was split along communal lines. Many Pahari policemen joined the rioters and militants with their arms, and a substantial number of Bengali policemen either let the rioters have their way, or actively incited and encouraged communal violence.

All this has to be faced with complete clarity; all this the masses, especially the rural poor, know as experience. And lies will only deepen apathy and confusion. Why, even at the end of September, known rioters were strutting through the streets of Udaipur, though their complicity with the police was common knowledge. And many Pahari families were unable to return to the city out of fear. In Maharani, a large group of policemen, led by Ratan Daroga (OC) of Tainani Thana, ran amuck setting fire to huts, beating up peasants. Later in an effort to break the growing strength of popular resistance to the riots, the same officer led a bayonet charge on a local peace committee meeting, killing a CPI(M) worker, Gobinda Jamatiya, on the spot, and severely wounding others, one of whom died later. The riots did involve people other than the "youth and a few students" and Chakravarty's self-deception is itself the symptom of a disease.

Next, take a critical look at Chakravarty's appeal to the people of Tripura, available as a Bengali pamphlet printed by the Provincial Committee of the CPI(M) and entitled "No More Blood: Isolate the Rioters from the Masses": " . . . hundreds and hundreds dead, wounded and hospitalised, thousands and thousands uprooted, destitute; how the killers have been born on 'Tripura's sacred earth', how they have 'become strong' and how they have succeeded in dealing democracy a great blow, need to be illuminated." Illumination follows. The riots, says Chakravarty, are a conspiracy to restore 'Zamindar-Mahajan Raj'; they constitute a massive attack on democracy, on the CPI(M), its leaders, workers, sympathisers.

The assumption that Zamindar-Mahajan Raj had been overthrown is interesting. It also explains how the social content and meaning of the riots can be reduced to a conspiracy against a party, the CPI(M). Throughout the appeal, democracy is in effect equated with the CPI(M). The whole emphasis is on what the CPI(M) had done for the people; the speech does not record a single instance of people's initiative or resistance.

To see the riots as primarily an attack on the CPI(M), its workers and sympathisers is a heartless simplification. True, CPI(M) workers were attacked; but the majority of the victims were simply poor, ordinary Paharis and Bengalis. As stated earlier, persons associated with left parties were swept into the riots at places; and the ranks of the Tripura Upajati Juba Samity include many who once gave their loyalty to the CPI(M). In fact the TUJS had grown mainly at the cost of the CPI(M), by taking away large sections of not only the youth but also the poor in general from the CPI(M).

Chakravarty next asks why, in spite of a massive and continuous influx of Bengali refugees, were there no communal riots in Tripura? Because, he says, the red flag flew in the hills and jungles among Upajati brothers and sisters, carrying the promise of class unity, communal unity, class struggle; because the Upajati masses have 'received education from the red flag'; as a result, no one could ever generate any ruptures in Pahari-Bengali, Hindu-Muslim, solidarity.

What follows is a tale of conspiracy that amounts to a total explanation of the riots—how the Congress tried to set up in the late fifties, the Adivasi Congress under Sneha Kumar Chakma, with its call for eviction of Bengalis, how the CPI(M) fought for the just rehabilitation of Bengalis, how during and after the Indo-Chinese war, with communist leaders in jail, the Congress aggravated Pahari-Bengali tensions, how the TUJS was born at this moment, how the TUJS was given a lakh of rupees by the Central leadership of the Congress to defeat Comrade Dasrath Deb Barma, how the king and the Congress are the main patrons of the TUJS, how the Congress allowed it an arena for political development, how its leaders conspired to procure 'foreign help', how it won two seats in the 1977 elections with Congress help, how it is involved in intimate political collaboration at every level with the Congress and the Amra Bangali, how it and the Amra Bangali are 'twin brothers', etc, etc.

Well, the facts about the Adivasi Congress and the period of the Indo-Chinese war are historically true. Chakma later joined the Congress. What I would like to emphasise is that it becomes clear from the second page, if one reads carefully, that the appeal is not primarily to class consciousness and class unity, but to the separate self-interests of two communities, two electorates; and this appeal is kept adroitly compartmentalised. The red flag among Paharis assured communal peace, and when the Adivasi Congress called for eviction of Bengalis, the CPI(M) fought for 'just rehabilitation'.

Things become clearer on p 6 where we have an apologia addressed clearly to Bengali sentiment: Those who now blame the CPI(M) and Dasrath Deb Barma for generating trouble by demanding the Autonomous District Council Bill, have they forgotten that the Debar Commission and other Congress leaders were for the 'formation of a still more powerful committee? That the most urgent pressure for the stoppage of land transfers and for the return of transferred land came from the Congress government at the Centre? Why? Because there are such special provisions in the Constitution for Upajatis. Both Morarji Desai and Indira Gandhi had expressed acceptance of the logic of the District Council Bill.

We see a whole tangle of opportunist, ambivalent insinuations here. Bengalis are given a quick look at the threat that the Congress might have given a more powerful body. The CPI(M)'s Bill has the authority of the Constitution plus the support of both Indira Gandhi and Morarji Desai behind it; and even the Centre's concern is traced to Constitutional scrupulousness. But the same Congress is also the cunning conspirator for the return of Mahajan-Landlord Raj, and the ruthless expropriators of the Pahari people as well as the major patron of the TUJS. But all this is subordinate to the manoeuvres of real politik.

Immediately after this parade of Constitutional solidarity, the TUJS is quickly positioned at the other 'secessionist' pole. They had accepted the ADCB as a trick to hide their 'anti-Constitutional' activities; as soon as Assam, Meghalaya, Manipur, Mizoram, raised the 'kick out foreigners' demand, the TUJS immediately fell into line. This complicity with Bengali sentiment and the opportunist balancing of the electorate reaches forms more degrading to class consciousness and unity on pp 4 and 5: Some people say that if the CPI(M) and Comrade Dasrath Deb Barma had not 'bothered their heads' about the 4-point charter of demands of the Upajatis, this heart-rending riot would not have occurred; this notion is false. For who will deny that the Upajatis were becoming destitute, not even getting enough work breaking stones for roads? If the CPI(M) and the Gana Mukti Parishad had not adopted any programme to 'save' them, the Upajati masses would have moved faster into the influence of the TUJS. Comment is really superfluous. This is the opposite of any clear stand based on a nationality's self-respect and rights. At best it is an appeal to the enlightened self-interest of charity. Objective reality forces its way into that give-away phrase about the *Upajati masses* and once more brings us to the glaring contradictions at the heart of this text. If the TUJS is throughout a manipulated puppet, there is no real recognition of its indigenous basis. If Tripura had been kept free of communalism because of the massive strength of the red flag and the 'red forts' among the Pahari masses, and because of the strength of the class unity built on this basis. How then could a conspiracy by puppets, without any mass basis, wrench the whole social fabric? No one, we are told, had ever been able to generate fissures in this strength and unity. But there is nothing in Chakravarty's historical analysis that explains why the Adivasi Congress failed to divide the Pahari masses or to stir communalism, and why the TUJS succeeded, at least partially, on both counts. Why, with communists in jail and with state power at every level helping the earlier conspiracy, it failed; while the present conspiracy succeeded, with communists at least in partial control of state machinery. Why, in fact, the Adivasi Congress was more of a puppet and had less substantial indigenous basis than the TUJS.

Obviously we have to look for historical and social differences arising out of the internal development of Pahari society and of the communist movement within that society. We have to look for objective conditions, for failures in class strategy within a nationality, that intensifed and activated, however temporarily and partially, the influence over the masses of a chauvinist section of the indigenous elite. But there is nothing in Chakravarty's perspective that even recognises such questions; and since a proletarian strategy needs the sharpest, most specific recognition of every force and institution working within a society, the simplification and evasion of history and society in this perspective is far from proletarian. Let me bring the ideological character of Chakravarty's view of Pahari society into sharper focus. He asks: How do you explain the same slogans—independent Tripura, independent Mizoram, independent Nagaland, independent Manipur? Where has this slogan come from? Who raises this slogan? There has to be a common centre. (In reply to questions about 'foreign hand', 'agencies fomenting trouble', Interview, *Contour*, June 22, 1980). Again, on June 14, Chakravarty showed newsmen ten-inch long incendiary sticks of obvious foreign manufacture which had been tied to arrows fired at Bengali houses. He read excerpts from documents listing 'extremists' and said that money from abroad had been channelled into Tripura through New Zeland—Rs 7,00,000 during 1978 and Rs 1,40,00,000 during 1979. (Report on a press conference, New Delhi, June 23-July 6, 1980.) At least some of the money referred to is that of the Baptist Church. I will add to this a quote from Chakravarty's appeal 'No More Blood': "The Upajati Juba Samity's propaganda was extremely Bengali hating: The Bengalis are Hindus, therefore quickly Christianise the tribals. Don't wear dhotis and sarees like the Bengalis. Don't use the Bengali script. Don't get your pujas done by Bengali priests. Don't go to Bengali Durga pujas . . . " (Incidentally, his attack on Amra Bangali's communalism though loud and clear, does not pay the same detailed attention to language, texture, attitude.) Anyway, let me analyse these 'samples' together, isolating anyone for special attention when necessary.

### MANIPULATION OF STEREOTYPES

The approach is familiar, familiar because its emphases, weapons, techniques share a common character with ruling class manipulation of stereotypes. They play on vague yet strong fears, fantasies, suspicions, preconceptions. They drew upon a stock imagery of faceless, lurking agents; alien, sinister missionaries. Insinuations, and apparently 'hard' facts, are theatrically, rhetorically juxtaposed, while clear definition and identification is avoided. In spite of differences of context, I do not find any qualitative difference between the insinuations of the first statement and the reactionary 'common sense' which says: Look, so many communal riots at the same time, therefore, obviously a common centre and a foreign hand; but we will leave you to draw your own conclusions. The area of compromise that defines itself here, between ruling class and petit-bourgeois ideology, is complex and cuts across much apparent differences. Chauvinism, national parochialism and communalism thrive on a suspension of critical thinking and fidelity to fact; they dissolve and flatten out all sense of structure and concrete discrimination simplifying reality and reducing real people, real societies, concrete contradictory situations, into a kind of luridly highlighted amorphousness. How are the implications of the 'Marxist' thinking we are looking at fundamentally different? There is no effort to sharpen consciousness of concrete history. Extend the logic of such attitudes a little further, and the objective tendency is towards convergence with the kind of view that sees the Naga, Mizo and other movements as emanations from a single malevolent source.

It may be said that the focus here is on the TUJS and the Church; and that after all, there is some evidence of links between various movements in the North East. This will not do. The first concern of revolutionary science is to precisely relate such phenomena as the Church and TUJS to the structure and history of Pahari society. Whereas the primary emphasis of the point of view we are now examining rules out—in fact subverts—such precise knowledge. And unscientific attitudes to the TUJS and the Church, reflect the character and logic of a distorted view of Pahari society. An emphasis on 'external' links that obscures the real, concrete history of the nationalities of the North East, will inevitably endorse a ruling class view of 'national integrity'. Let us take a look at the facts.

The Church in Tripura follows a policy of conversion. It does so in many other places, and its success in Tripura is only marginal. No clear evidence of its involvement in the communal riots exists. The Left Front government has been compelled to modify and shelve its allegations. The Church is socially weak, historically a comparative late-comer. Some 89.5 per cent of Tripura's population is Hindu, a Hinduism often enmeshed with pre-Hindu tribal forms and customs. An exotic and rather marginal group of Pahari women militants derive their name from an indigenous cult of Kali. Hinduism is tied up with structures of domination and status within Pahari society; for example, the Reangs, ethnically more negroid, have an 'untouchable' status. The main leaders of the TUJS are Hindus, and there are strongly conflicting attitudes towards the Church within the TUJS. Marxists are not supposed to make an allegorical monster of the Church. The general international alliance between the Church and imperialism should not blind revolutionary science to the fact that there are different churches, to contradictions within institutions, to contradictory trends within Christianity, and to its acquisition of specificity from special social formations. The opportunist and distorted emphasis in the CPI(M) State Committee's last statement should now be clear. It simultaneously equates the TUJS with Christianisation and exploits Hindu fears. I do not seek to soften emphasis on the communalism of the TUJS, but I do wish to emphasise the CPI(M)'s evasion of the task of freeing mass consciousness of communalist stereotypes.

As for the Church, what in fact has been its significant role? The Baptists have worked on the development of a Roman Kakbarok script; something the communists themselves should have done, had they been interested in communication and development at grassroots level. It is only of late that the CPI(M) and the Upajati Ganamukti Parishad have agitated for the recognition and development of Kakbarok, and now the Left Front government has schemes for its promotion. But in this too one wonders why a political issue should be made of the Roman *vs* Kakbarok script. Why not let the choice emerge democratically from Pahari society?

In Tripura, as in the case of other major Indian nationalities, missionary education has contributed to the production of an intelligentsia, a new generation of educated elite—volatile, unstable, opportunist, strong in injured pride, in political and social ambition. Bargaining, changing alignments, making deals, combining terrorist and opportunist impulses, this elite could be instructively compared with the educated elites found earlier within comparatively dominant and 'mainstream' Indian nationalities. A proletarian strategy covering this elite would be on stronger scientific ground if it attended to its internal basis and character, and to its relationship with the socio-economic structure of Pahari society. To the fact that settled agriculture is fairly well developed, landlord-moneylender exploitation strong, and class differentiation sharp. The leadership of the TUJS is an amalgam of landlords, mahajans, rich peasants, and this new generation of missionary-educated elite. The CPI(M)'s evasion of such a view and strategy betrays its own class basis, and involves a drastic distortion and simplification of historical and political reality. The TUJS's intimate relationship and collaboration with the Congress, in effect its total manipulation by the Congress, is emphasised; but the complexity, unevenness, and vacillations of its political alignments are defined out of existence. In fact it is denied any historical evolution, any changes in tactics. It is true that in the sixties the Congress encouraged the formation of the TUJS. It is also true that though the TUJS appropriated the popular slogans of the Gana Mukti Parishad, yet for quite some time—as long as communist mass strategy did not make glaringly opportunistic compromises—its influence was limited to a few pockets. It is true that the TUJS has met, bargained with, and allied itself with the Congress. But it is also true that the TUJS has met, bargained with, and informally allied itself—in spite of sharp differences—with the CPI(M).

Dasrath Deb Barma in his speech to a democratic convention organised by the Upajati Mukti Parishad in 1974 (available as a state government pamphlet: 'Strengthen United Democratic Struggle in Support of the Four Demands of the Upajatis') draws attention to the TUJS campaigning that both the Congress and the CPI(M), the white caps and the red caps, are alien Bengali organisations. It is true that the Emergency saw an intensification of the expropriation of Paharis, and that both the CPI(M) and the TUJS gained from the anti-Congress wave in the 1977 elections. It is also true that the CPI(M) in its pre-election campaigns pledged support to the Pahari demand for the Sixth Schedule, and withdrew this support after coming to power. After this, in 1978, the TUJS built up a movement in support of the Sixth Schedule that gathered formidable mass strength, and was poised to set up a parallel administration in many areas. During this movement there was no incident of communal violence. More, this movement began to generate a spontaneous populist socio-economic content, and a tendency towards radicalisation of the rank and file. It was at this stage that the TUJS leadership struck a deal with the Left Front, accepting the limited, essentially municipal autonomy of the Autonomous District Council Bill, and explaining to its cadres that at least a step forward had been taken, that a pause was required before a higher phase of struggle. In fact the TUJS leadership had learnt its lesson from the spontaneous tendency towards radicalisation that its movement had generated, and would in future concentrate on a more chauvinist motivation and programme. But the intensification of chauvinist and communalist tendencies was objectively also a reaction to the growing communal aggressiveness of Amra Bangali through 1978-79. The Amra Bangali (main organising force; the Ananda Marg) in fact gained mass support primarily in areas where the Bengali peasant's fear of losing land was strong. It was this fear that helped Bengali landlords and rich peasants to mobilise the middle and poor peasantry against the Autonomous District Council Bill. Therefore, to project the TUJS as merely a co-conspirator and twin brother of Amra Bangali is again an evasion of socio-economic reality. Only an uncompromising class line towards both the questions of nationality and land, the two being intimately related, could have isolated the TUJS and the Amra Bangali, sharpening the issue of class leadership within the Pahari nationality and demonstrating the class basis of communalism within both communities. Instead, the CPI(M) offered the Bengali peasant cash compensation (meaningless in a depressed economy like Tripura's) and its main machinery for land transfer and redistribution was an untransformed bureaucracy; there was no real involvement of mass organisations. This reliance on bureaucracy itself has a class logic: the rich can afford bribes,the poor cannot. The CPI(M-L) in contrast, called for and built up a vigorous class front in its own areas. It supported the Pahari demand for the Sixth Schedule unequivocally, but did not shirk clear class differentiation regarding return of Pahari land and compensation. Its slogan was "Not one Kani [almost a bigha] to Pahari jotedars and mahajans; not one Kana [bit] compensation to Bengali jotedars and mahajans". It called for joint Pahar-Bengali peasant committees for supervising land re-allocation operations; insisted that the Bengali peasant should be given land and not cash in compensation, and that he should be involved in the process of choosing new land. It empirically demonstrated that given a class line, a land pool for such purposes did exist, reminding the CPI(M) of its earlier, now forgotten slogan that "Man was greater than the forest" (referring to the historical fact of the systematic expansion of reserve forests that uprooted Paharis from the land they once cultivated, a fact once intensely deplored by the CPI(M)).

### UNDERSTANDING OF RIOTS

This testing of the CPI(M)'s ideologically simplified and distorted view of Pahari society against concrete history, helps clarify the difference between the proletarian outlook and some other ideology. The primary question is whether we see the riots as an objective consequence of internal tensions and of the failure of class struggle to cope with and harness these tensions or as a progeny of mere external manipulation, mere puppetry. This latter view, which is essentially the CPI(M)'s, in effect sees Paharis as an amorphous, undifferentiated mass, triggered by external and conspiratorial mechanisms. It definitely does not reflect a proletarian point of view that works from within Pahari society. It is neither informed with a strong urgent sense of a nationality's specificity and identity, nor with a sense of internal contradictions that a revolutionary class perspective would entail. It carries the externalised, 'from above' view of a superior elite. Ideology reflects class; and usually a shift away from class struggle.

This is not to dismiss external influences and links. Yes, there is some evidence of links between the TNVP and the Mizo and Chakma rebels; and the TUJS is 'allegedly' linked to the Forum of Hill Regional Parties of NE India. Such links amongst sections of oppressed nationalities are natural, and should be seen analytically. Why should Marxists go out of their way to charge them with an obsessive, criminal significance? There will be various kinds of meetings, contacts, exchanges of experience, know-how, and even plans of co-ordination. Yet there are also specific and clear differences between Mizoram and Tripura for instance, or between Tripura and Meghalaya. In fact when Deb Barma argues against the Sixth Schedule, in that compartmentalised context, he strongly stresses such historical and social differences. Also, there is no evidence of any systematic, high level and large scale foreign technology or help in Tripura. The spasmodic, short-term nature of the violence, in spite of the mass momentum it generated for a while, argues against that; nor would the class basis of the TUJS sustain or allow a long-term mass strategy. In fact one of the reasons for its present increased alienation from the poor Pahari masses is precisely that; it could offer no socio-economic programme, no long-term 'social' plan or organisation. It exposed the Pahari masses to violence and destitution, but had no solutions to problems of food, shelter, survival. Again, the weapons used were overwhelmingly traditional weapons of the peasantry; fire-arms were relatively rare—most of those seized were country-made muzzle-loaders that Paharis have been making for a long time. Chakravarty's incendiary sticks are cloth-packed explosives that can be tied to arrows. They could have been supplied as finished products, or equally possible, some Paharis could have made them, having been given the know-how. Unless of course one's point of view is identical with the standard bureaucratic underestimation of a people's resourcefulness. To repeat, I do not exclude external influences, but insist that these are subordinate to the development and pattern of internal socio-historical forces; externals assume importance and impact according to the logic of objective conditions and alignment of class forces, according to the dynamic of the internal contradictions of people and society. This is to see external influence as involved in real contradictions, real relationships, with specific social formations. Such 'links' and 'hands' as are dramatised so compulsively, are secondary. The principal contradiction is within Tripura's social structure, in its internalisation of the logic of the dominant economic system. It is interesting to note that the CPI(M) not only avoids a class-differentiated picture of Pahari society, it does not, or cannot, differentiate itself clearly from the TUJS in terms of such a picture. The CPI(M) State Committee and Dasrath Deb do not define and place the TUJS in terms of its indigenous class basis; it is 'right wing', it likes the Congress more than the CPI(M), but it is primarily a 'puppet' and a personification of 'communalism' and 'conspiracy'.

## 'FROM ABOVE' VIEW

We need now to turn to Dasrath Deb to see how this 'from above' paternalistic view can be internalised in the consciousness of a Pahari elite. We see clearly why the CPI(M) cannot differentiate itself from the TUJS in ruthless class terms; because both are elites, seeking to control Pahari society as a homogeneous base, as a constituency, from the top. The difference is that one elite must stake itself exclusively on Paharis, and the other must prove itself to be the only force capable of balancing Pahari and Bengali 'self-interest'—with a minimum cost to stability, order, 'national interest'. Before I analyse Deb's text, let me outline the four demands its title refers to: (1) Cancellation of the Congress sponsored Tripura Land Reform and Land Revenue Act (1974 Amendment) that invalidated the earlier provision for a Tribal Reserved Area. (2) Formation of an Autonomous District Council. (3) Development of Kakborok as a medium of instruction and an official language. (4) Return of all Pahari land illegally transferred since 1961.

Dasrath Deb's programme is one of diffusing and containing the tensions and pressures created by a history which he admits only to edit and dilute. The history is one of massive, continuous proletarianisation and national expropriation: "Twenty-seven years of continuous Congress rule has rendered a large portion of Tripura's tribal people landless; and through the expansion of reserved forest land into areas traditionally used for Jhoom cultivation, without providing alternative means of livelihood, a massive number of tribals have been turned into a landless proletariat to provide cheap labour for the rich." He tells us how the Congress government intensified expropriation of Paharis—how its 1960 Tripura Land Reform and Land Revenue Bill quitely suppressed the Maharaja's earlier provision for a Tribal Reserved Area, and how only under Communist pressure, the then Home Minister, G B Panth, agreed to the inclusion of a limited legal guarantee against alienation of Pahari land, though he refused to include any clear delineation of the Tribal Reserved Area; how in spite of this large-scale expropriation and alienation continued; and how in 1974, the Congress-sponsored amended Bill sought to remove the earlier legal guarantee, as well as the provision for a Tribal Reserved Area, and changed the date from which transfers of Pahari land would be held illegal from February 14, 1961 to January 1, 1969; how the 14th Report of the Minority Language Commission indicts the Tripura state government for complete violation of Constitutional guarantees for protection and development of minority languages.

Yet this fact of proletarianisation through national oppression does not lead to any programme of proletarian struggle, any sharpening of the question of proletarian leadership of the struggle of the Pahari masses. It has no intrinsic relation with his analytic scheme or reformist programme. References to revolutionary change and class struggle are gestures introduced only to be postponed to an indefinite, diffuse future. Yes, the District Council Bill will provide no fundamental solution to the 'Tribal problem'; it will provide them with 'opportunities for limited participation', in a 'limited endeavour for the development of the tribals' and this will be a valuable gain, until the present social system is transformed. Throughout the speech the enemy is identified primarily as a party, the Congress, and only very marginally as a class or classes, as a social structure. On p 22 he in fact says "only the Congress government is responsible for this entire situation". The objectives and needs of the struggle are formulated in terms of the need to end Congress rule, and to build democratic unity against "the Congress government's conspiracy to rob the tribals of their constitutional rights". The democratic unity of Pahari-Bengali working people, students, youth, middle class masses is mentioned but kept very amorphous; differentiation in class terms is evaded. In fact there is absolutely no emphasis on class differentiation within Pahari society (a process in actuality intensified by national oppression). There is no concept of a class-front as the vanguard of a joint Pahari-Bengali mass movement. As a logical corollary of this, the appeal for Pahari-Bengali unity is essentially a balancing of two separate electorates; there is an added appeal to the interest of 'settled inhabitants' both Paharis and Bengalis, but essentially Bengalis are told that when Dasrath Deb, in the fifties and sixties, raised the demand that all fresh refugees should be sent outside the province, this was in the interest of the 'permanent' 'already' settled inhabitants, both Pahari and Bengali. Thus segmentations that deliberately evade class-differentiation are made a focus of self-interest. The whole appeal for the rights and aspirations of Paharis is couched in negative, defensive terms. They are bound to lose in unequal competition with people of an advanced society. The last twenty-seven years have proved that (p 24). They should be careful not to take any step, make any comment, that might generate hostility in the minds of the democratic and working people of the "State's largest group of people", the Bengalis. The whole emphasis is on the Paharis as a less-developed, inferior people, naturally excited, apprehensive for their survival, restless (p 20). The Bengalis should therefore see that it is in their interest to placate and defuse this situation. Bengalis are offered a bargain we are now familiar with: in any other state such a drastic conversion of original inhabitants into a minority would not be possible, but for communist influence among Paharis 'unpleasant incidents' with long-term effects could have taken place (pp 20-21). It boils down to this: Paharis are told, "get the Bengali's on your side, and you can be sure of valuable, limited gains". And Bengalis are told, "Look, if you don't allow limited concessions and give limited support, explosions might take place". This is clearly not an outlook that focuses on social contradictions fearlessly to define a strategy that can harness the energy generated by them towards revolutionary change.

## IDEOLOGICAL BASIS OF INCONSISTENCIES

Dasrath Deb's editing of Tripura's history has peculiar inconsistencies; the ideological basis of these now becomes clear. We are told that a little before Tripura's formal incorporation into the Indian Union, when Tripura was already under *de facto* control of the Indian government, "an initial effort towards construction of Tripura's Tribal Reserved Area started" (p 2). Later there is strong, eloquent emphasis on the historically evolved status and logic of Tripura's pre-Partition mixed society (p 18). There is eloquent praise of the socially, economically progressive role of advanced Bengali culture in Tripura's development; this included everything: trade, commerce, settled agriculture, implements, utensils, techniques and administration (almost 100 per cent of the royal government's employees from peon to minister). I am in complete agreement with this emphasis on the objective role of Bengali culture as an agent of modernisation; this itself is obviously a part of the larger, controlling logic of colonialism (which aspect Deb omits) and of a socio-economic system that exploits and sharpens uneven development. The problem is that this is integrated with Deb's introduction of a strange, historical split: After 1947, expropriation and conspiracy, and before that an historically evolved mixed society. Does historical evolution stop after 1947? The ideological function of this is however clear. One is to legitimise Deb's limited demand for autonomy rather than a separate state; but the more important function is to observe the continuity of class struggle in Tripura. On one hand, the focus on class exploitation and polarisation within Tripura is muted, and on the other hand one's whole attention is fixed on the ending of Congress rule, i e, on winning elections. All this is quite consistent with Deb's pious hope that elements of suspicion that linger in 'sections' of the 'mass-mind' (both Pahari and Bengali) will be eliminated through patience and an idyllic communal harmony achieved without too much conflict. A Marxist would have emphasised that the social basis of communalism and national oppression can only be destroyed through united class struggle of the Pahari and Bengali masses, that this means intensified polarisation on a class basis within the Pahari and Bengali peoples. As competing elites both the TUJS and the CPI(M) have different interpretations of, and solutions to the 'tribal problem' or the nationality question. Dasrath Deb presents Pahari society with a programme of rational, secular, progressive, bourgeois reformism—which of course is definitely preferable to the chauvinist elite. But what is the social basis for such a programme? Because Pahari society, though sharply differentiated in class terms, has not the objective economic basis as yet for a modern bourgeoisie. The answer is, I think, the CPI(M). The CPI(M) as representative of the advanced, progressive aspects of Bengali culture, as an agent of modernisation, helping the production of an indigenous educated elite. What we have here is a petit bourgeois elite and organisation operating as a kind of substitute progressive bourgeois within Pahari society; an organisation whose ideological basis did not and could not, generate proletarian leadership.

It does not appear strange therefore that Dasrath Deb's 'history' does not include any analysis of either the insurrection he led in the late forties and early fifties; or to the massive uprising of 1942-44 led by Ratan Moni Reang, which uprooted the royal government from large areas in South Tripura. Revisionism must have a short memory. And besides, all events pre-1947 have been relegated to a realm of historically evolved 'normalcy'. Tripura's Pahari society has a rich tradition of peasant struggle and creativity. So Deb's historical perspective on the modernising role of advanced Bengali culture remains inadequate, because it does not, cannot, internalise the fund of ideas, myths, experience, which this tradition embodies, and use them as tools of proletarian struggle and consciousness.

The difference in the way poor Paharis think and talk about Dasrath Deb and Ratan Moni is interesting. Dasrath Deb commands wide respect for his revolutionary past. Paharis also feel proud of his educational and cultural achievements—his skill with the English language for instance. But Ratan Moni: He is one of the people, of the soil, their own man. His exact origins are obscure; but he is surrounded by legends that vest him with near-magical powers. The Reangs are the most oppressed, the poorest among Pahari groups, and they are formally untouchable. But Ratan Moni transcends all that. He is a legend close to the heart of all Pahari groups and the uprising he led was not limited to the Reangs, but had wide and deep support of poor Pahari masses. It is also significant that his insurrection developed independently of Communist influence. Looking back, it seems clear that the revolts and the discontent of the forties had an objective national content as well as embryonic proletarian impulses. Long before 1947, the Paharis were being reduced to a minority. Around 1930 they were roughly 70 per cent of Tripura's population; by 1941 they were down to 48 per cent. The king was a vigorous ally and servant of the British Empire. The brutality of his army was a major source of discontent for the poor Pahari masses; as was his extortionate taxation and his land conservation policy. Another probable source of the discontent that fuelled the peasant revolts was forced conscription during the Second World War. The Tripura royal family took pains to differentiate itself from its own people, seeking to overcome any smell of a tribal king that might linger, and building marriage alliances with other famous royal households, e g, Gwalior. The king did nothing for Kakborok; Bengali was the language of state and education. Rabindranath was a regular guest of the royal household (the inspiration of his 'Rajarshi' and 'Bisharjan' came from such contacts). The king actively promoted Bengali culture, and gave strong encouragement and incentives to Bengali settlers in city and countryside. Simultaneously, there was a sharp, growing economic and also cultural polarisation among the Paharis, especially the numerically predominant Deb Burmas and Jamatias. The Pahari economic and cultural elite, the Choudhuris (chiefs) and the Pahari administrative elite gained from, and were the main internal supports of intensifying landlord and commercial exploitation.

The economic and cultural domination of Bengalis thus coalesced with and sharpened the modes and structures of feudal exploitation within Tripura, and in this it reflected the objective logic of the growing incorporation of Pahari society into the dominant socio-economic system—its penetration by commercial capital and intensification of landlord exploitation. Given the colonial agrarian and land revenue system, the expansion of settled agriculture and trade was profitable to Tripura's ruling elite; and this ruling Pahari elite and the Bengali elite were closer to each other than to the oppressed rural masses of either community. Already, "before its incorporation into the Indian Union, approximately 1,28,016 'destitute peasants' searching for fertile uncultivated land, had found refuge in Tripura" (*Sphul Kailasahar Tripura*, No 4/80). During Ratan Moni's uprising, the deprived Pahari masses did not identify them as the enemy. There is evidence of the poor Bengali peasantry's passive support to this struggle. The uprising was directed against the king and his government. The king was simultaneously the main agent of national oppression, and the dominant internal class-enemy. We have already emphasised the co-existence of an objective national content and embryonic proletarian impulses in the uprisings of the forties. This reflected the process which merely accelerated after 1947, of the simultaneous progression of nation oppression, internal social differentiation and proletarianisation of a large section of Pahari peasantry.

For Communists participating in, or leading the struggle of the Pahari masses, it was not a question of choosing between what we have tentatively called its objective national content and its embryonic proletarian impulses. The primary task of Communists is to develop and consolidate, within the broad exploited masses, the social leadership of the proletariat. The precise historical situation then in Tripura was that neither the nationalist nor the proletarian trend had developed, become self-conscious. Communists do not go out of their way to develop still unconscious national struggles; they concentrate on building the class leadership of the proletariat within mass movements, and if in spite of this the national question achieves independent significance and mass basis, communists are then in a stringer position to adopt and implement a proletarian strategy towards it, and to combat chauvinist and communalist trends, and to force it towards revolutionary social change. Without such an orientation, so-called mass lines are bound inevitably to backfire. As the Tripura Riots so tragically demonstrated in 1980.

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## CIFCO Finance

CIFCO FINANCE, an integrated finance company with an equity base of Rs 4 crore, is being promoted by Champaklal Investment and Financial Consultancy (CIFCO), reputed private sector merchant banker. CIFCO and its associate stock broking firm, Bhupendra Champaklal Devidas, are well established in stock-market operations and financial consultancy. Being the only Indian company with two overseas joint ventures in UK and Sri Lanka, CIFCO is known internationally and is in the forefront of non-resident investment. According to Bhupen Dalal, Chairman, the new company will bring to India, for the first time, a number of innovative schemes. Apart from the profitable leasing and hire-purchase activities, which will allow the company to gear up its working capital by accepting deposits upto ten times its net worth, the company will also act as a Discount House. It will develop the Bill Market Scheme outside the banking system, whereby genuine trade bills will be discounted and rediscounted. For a fee the company will selectively lend its name as an 'Acceptor'. The company also has plans to provide venture capital and financial backing to technocrats and entrepreneurs, with a view to disinvest at a profit after nursing the company in the initial stages. CIFCO Finance will also actively participate in underwriting and sub-underwriting business as well as act as portfolio managers and investment advisers. CIFCO Finance will be entering the capital market with a public issue of 24 lakh equity shares of Rs 10 each at par sometime in October 1985.

# Report on Black Money

### J C Sandesara

**Aspects of the Black Economy in India**, National Institute of Public Finance and Policy, New Delhi, March 1985 (mimeo); price not stated.

## I

## Preliminaries

THE black economy study of the National Institute of Public Finance and Policy, New Delhi has been in the limelight for long. Earlier when it was in progress, we wanted to know when the study would be completed. When it was completed, we wanted to know when the report would be released. When the report was released, it received further publicity on three different grounds, one of which was that only a handful of copies were available and this complaint is perhaps valid even today. The second reason is that one of the authors of this report has expressed publicly views and opinions on some findings and suggestions of the report which are at variance with those embodied in the report, but which are not there in it. A third reason is that the report has made far-reaching suggestions, and these seem to go well with the general thinking, and with some measures already adopted on the basis of that thinking, of the government for about a decade, but which has received added thrust after the inauguration of the present government. Indeed, in terms of attention it has received and may yet receive, the report may not lag much behind the Five-Year Plan reports, the Finance Commission reports or the Union government budget papers!

This review is based on the mimeographed copy of the report. The printed words on the cover mention conspicuously "Draft Report", and the report does not contain Appendix 3 entitled "Black Income Generation in the Sugar Industry: A Case Study (Forthcoming)". Thus, this is not a final and complete report. However, it is all that is available. It is also unpriced. Further, there is no insertion anywhere of phrases such as "for private/limited circulation only", "not to be quoted/reviewed", etc. In view of this, we take it that the report is quasi-final and quasi-complete, if not final and complete; and also that if and when the final and complete report is available, it would be more or less the same as the report under review. We crave the indulgence of the sponsors and undertakers of this study as also of our readers for basing this review on such a report.

The responsibility for the views expressed in the report, as claimed in the preface, "belongs to the Director and staff of the Institute, and more particularly to the authors of the report". The staff and the authors of the report as named are many, and therefore, here we refer to them collectively as the Institute and not by names.

This study was sponsored by the Central Board of Direct Taxes, Department of Revenue, Ministry of Finance, Government of India. The 'tentative terms of reference', were:

"(i) to identify the important sectors of the economy in which black money is generated;

"(ii) to examine the causes and conditions that give rise to and/or facilitate the generation of black money;

"(iii) to study the methods employed to generate black money and the channels through which concealed income is invested and spent in other ways;

"(iv) the methods employed to convert black money into white money;

"(v) to attempt a broad estimate of the volume of black money generated;

"(vi) to undertake any regional or sectoral surveys that may be required in connection with the above".

Of 'particular importance' was the fifth term of reference.

As the chapters are not ordered systematically as per the terms of reference, it would be helpful to suggest a matching, admittedly rough, of the two. The first term of reference is dealt with in chapter 11 and the second in chapters 9 and 10; the third and the fourth terms are also in chapter 11; the fifth term is in chapters 2 to 5 and 13, and the sixth in chapters 6 to 8. While this description exhausts the terms of reference, it does not give a complete account of the contents of report. There are two appendices detailing and explaining the points having a bearing on the fifth term of reference. The first chapter is introductory. But more importantly, the report has two more chapters: chapter 12 on economic consequences and chaper 14 on policies. It may be added that these two areas were not assigned to the Institute specifically or even vaguely, as is some times done through such phrase as "any other matter incidental or related thereto". Yet, they have been dealt with in the report—the former "to give some qualitative flavour of the issues involved" and the latter "for the sake of completeness".

This review may well be presented under the sections of Estimates, Case Studies, Other Terms and Other Areas, covering in that order the fifth term, the sixth term, other terms and the areas not covered by the terms of reference.

## II

## Estimates

The Institute begins by drawing attention to the loose use of the phrase black economy, and draws particular attention to the differences in the meanings of black income, black wealth and black turnover—all phrases used to denote black economy. The focus of the report, for estimate purposes in particular, is on black income. It is defined as "the aggregate of incomes which are taxable, but are not reported to tax authorities". The alternative definition is referred to as unaccounted income, and it relates to "the extent to which estimates of national income and output are biased downwards because of deliberate, false reporting of incomes, output and transactions for reasons of tax evasion, flouting of other economic controls and related motives". The Institute has given primacy to the former definition.

In view of the fact that the phrases such as black income, unaccounted income, unreported income, etc, are used generally interchangeably with more or less the same connotation, the Institute's labellings of black income and unaccounted income to the above definitions is not happy, and they are likely to be a source of confusion to some readers.

The Institute describes the various approaches to estimation of black income, and reviews critically the more studious estimates. The approaches and the names of such estimators (in brackets) are: Fiscal (Chopra), Monetary (Gupta and Gupta), Physical Input (Gupta and Mehta), Labour Market (—), National Accounts (Ghosh, Bagchi, Rastogi and Chaturvedi). A numerical review of these estimates shows that almost all of them show a growing quantity of black income relative to national income as well as in absolute terms. These statistics support the general impressions on this subject.

Readers of *EPW* and the *Journal of Income and Wealth* may remember having seen the above estimates in some of their recent issues. In fact, the relevant chapter on the above estimates is based on the paper published in *EPW* (December 3, 1983) under the name of one of the authors of this report.

The Institute's own attempts to estimate black income may be summarised under three sub-heads.

(i) *The Tanzi Method:* This method is a specie of the group of monetary methods. In view of a number of conceptual, substantive and practical limitations, some special to India in the context of its application, the Institute has refrained from committing itself to any particular estimate on that basis.

(2) *Estimates, 1975-76 and 1980-81:* The Institute puts its judgment on the fiscal approach as best suited for its purpose. Here, black income relates to "income which should have been declared to the tax authorities, but was not". The method followed by the Institute is essentially an "extension and refinement" of the method used by the pioneers/predecessors—Kaldor, Wanchoo Committee and Chopra. The official Na-

tional Accounts Statistics, the National Council of Applied Economic Research's Survey Statistics, and the All-India Income-Tax Statistics constitute the foundation stones of the Institute's estimates. While the basic exercise is limited to 1975-76, the results are extrapolated to get an estimate for 1980-81.

It must be stated that the Institute's work for the basic exercise for 1975-76 is not only by far better than its work on any other term of reference of the report, but it is also better than the work of any previous estimator. The phrase "extension and refinement" used by the Institute in this context does not indeed convey even the flavour of the Institute's work. The imagination and the ingenuity, and the skills and the efforts which have gone in blending basically different types of statistics for the purposes of estimation are all truly remarkable. Also, it is for the first time that underestimation of national income is corrected for arriving at more realistic estimates. The estimates are thus solidly based. Indeed, it would require more ingenious, more widely based and more painstaking studies before the Institute's estimates are displaced or replaced by other estimates. However, since such skills and resources which are necessary for such studies are not easily available, it may be said safely that the estimates of the Institute would continue to command credibility and respect for quite some time. In the introduction to the report, the Institute writes: "Given the unusual nature of the enterprise, we will rest content if, in the reader's judgment, we have accomplished two goals: first, that we have improved on the work of previous researches in this field; and second, our methodology, assumptions and data are clearly spelt out so that those who follow us can improve on results with the benefit of better data, more acceptable assumptions, and perhaps, more refined methodologies." We have already given our opinion on the Institute's performance on the first goal. As to the second, the Institute's cards that matter are all, or almost all with the most notable exception of Appendix 3, clearly on the table, that is in the report. The Institute has, therefore, reasons to be more than content on both the counts. Indeed, with this work, the enterprise of estimating black income in India may have outgrown its infancy stage.

In view of the widespread interest in the estimates of the Institute, we may devote some space to them. The estimates of black income given in Table 1 are based, among others, on the assumption that national income estimates are accurate.

We may also give estimates for overview which are based on the highest estimates (case III) presented in Table 1. Further assumptions built-in are that the official GDP requires an upward adjustment by 10 per cent, and that half of this 'increment' accrues to earners in the form of tax-avoided income, and that 10 per cent of the relevant public expenditures are 'siphoned off', and three-quarters of this amount accrues to people with taxable incomes. Table 2 gives the relevant data.

(3) *Global Estimates: 1975-76, 1980-81 and 1983-84:* The global estimates are presented in a far away chapter (13, as the above estimates are in chapter 5). A further point to be noted is that this chapter is sandwiched between chapters 12 and 14 on Economic Consequences and Policies, and both of these subjects as noted above, are outside the terms of the Institute.

One of the special features of the global estimates is that they relate to the latest year, 1983-84 (considering the fact that the report is dated March 1985, it is the latest year in the real as well as the statistical meanings of the word), alongwith estimates relating to 1975-76 and 1980-81 also. The second feature of these estimates is that they are more widely based than the estimates for 1975-76 and 1980-81 reviewed above. For these two years, the estimates include additionally estimates of income from possible under-declared value of immovable property, from leakages from public sector and private corporate sector investments and through under-invoiced traditional exports. Accounting from these sources boosts up the estimates of black income to Rs 9,958 to Rs 11,870 crore in 1975-76 to Rs 20,362 and Rs 23,678 crore in 1980-81, constituting 15 to 18 per cent and 18 to 21 per cent of GDP at factor cost in current prices.

The 1983-84 estimates assume that the black income proportion in 1980-81 is constant (18 to 21 per cent), and is applicable to GDP at factor cost in current prices in 1983-84 (Rs 173,420 crore). On this assumption, the Institute gets absolute values of black income of Rs 31,326 to Rs 36,418 crore. To these are added black incomes from illegal transactions pertaining to import licences and imported goods, and from smuggling of gold in that year (Rs 118 and Rs 250 crore). Thus, for 1983-84 the global estimates add up to Rs 31,584 to Rs 36,786 crore, or 18 to 21 per cent of GDP at factor cost in current prices.

Before moving to the next section, two things may be noted here. First, a consideration of various biases, exclusions, and other relevant factors supports the view that on balance these estimates are tilted on the low side. Second, like the estimates and impressions of others, they also point to a growing size of black income relatively to white income as well as absolutely over time. We will have an occasion to refer to the second point in the last section.

## III

## Sectoral Studies

The report contains three sectoral/regional studies: one on sugar industry, the other on real estate and the third on public expenditure. In each study there is a vivid description of the sources and mechanisms of generation of black income, a clear exposition of the methodology employed to derive estimates of black income, and the estimates/guestimates of black income for each sector for varying numbers of years and the limitations of the numbers so arrived at. The three chapters which present the case studies also provide many valuable insights to the reader.

Judged by the empirical base of these studies, the sugar industry study is by far the best as it is done very comprehensively. The real estate study is based on data rela-

TABLE 1: ESTIMATES OF BLACK INCOME, 1975-76 AND 1980-81

| Item | Case I | Case II | Case III |
|---|---|---|---|
| (1) Tax-evaded income (Rs in crore) | | | |
| 1975-76 | 2,467 | 2,654 | 3,741 |
| 1980-81 | 4,839 | 6,704 | 9,813 |
| (2) As per cent of GDP at current prices and factor cost | | | |
| 1975-76 | 3.7 | 4.0 | 5.6 |
| 1980-81 | 4.2 | 5.9 | 8.6 |
| (3) As per cent of assessed income | | | |
| 1975-76 | 58 | 62 | 87 |
| 1980-81 | 68 | 95 | 139 |

TABLE 2: ESTIMATES OF BLACK INCOME—AN OVERVIEW, 1975-76 AND 1980-81

| Item | 1975-76 | 1980-81 |
|---|---|---|
| Tax-evaded income (1 + 2 + 3; Rs in crore in (1) to (6)) | | |
| (1) Case III of Table 1 | 3,741 | 9,813 |
| (2) Adjustment to (1) to possible underestimation of official GDP | 3,318 | 5,713 |
| (3) Illegal transfers from public expenditure | 900 | 1,683 |
| (4) Subtotal (1 + 2 + 3) | 7,959 | 17,209 |
| (5) GDP at factor cost at current prices | 66,370 | 114,271 |
| (6) Assessed income (adjusted for undercoverage) | 4,278 | 7,077 |
| (7) (4) As per cent of (5) | 12 | 15 |
| (8) (4) As per cent of (6) | 186 | 243 |

ting to the cities of Delhi, Bombay and Madras of which the Delhi data are the best. The public expenditure study is based on judgments formed from a perusal of a number of previous researches and from informal interviews conducted by the Institute. While no particular sanctity may be attached to the numbers suggested by way of the size of the black income generated, the numbers may be taken to suggest (a) that black income is sizeable and (b) that it might be growing relative to the total income, in each case.

It is difficult to establish the cause-effect nexus, at least in relation to the consequential numbers on estimates which emerge from these studies. All the same, we note below one important conclusion on each case which the Institute offers in these studies.

(1) *Sugar Industry*: "Perhaps the most important and intriguing result of our analysis is the absence of any clear-cut relationship between the estimated time-profile of sugar output evasion and the varying extent of controls over sugar prices and marketing."

(2) *Real Estate*: "The evidence on the efficacy of the capital gains taxation concessions, introduced in the 1977 Finance Act and pertaining to 1978-79, in reducing undervaluation is mixed."

(3) *Public Expenditure*: "It is widely believed that the scale of leakage from public expenditure is substantial and growing (in proportionate terms) over time. Our own informal interview information is consistent with this view."

We will have an occasion to refer to the first two of the above conclusions in the last section.

## IV

## Other Terms

We now go to the other, the first four, terms of reference which are dealt with in chapters 9 to 11. The terms relate to identification of sectors, causes and conditions, methods and channels of black money, and devices to convert black into white. These terms are studied on the basis of the earlier works, interviews and secondary and primary data.

As to causes, the Institute lists the following:

(1) the level and structure of taxation;
(2) the effectiveness of tax administration;
(3) controls on economic activity;
(4) general laws and regulations;
(5) political finance;
(6) governmental spending;
(7) standards of public morality; and
(8) inflation.

The hypothesis in general is that black income generation varies inversely with (2) and (7) above and directly with others. The discussion on 'Deterrence of Tax-Evasion: Theory and Practice' concludes that while legal provisions for tax detection are adequate, there are weaknesses in implementation and administration. Thus, the weak efficacy dilutes the inverse tendency of cause (2). Mention must be made here of the very illuminating discussion on taxation, especially the one on deterrence of tax-evasion.

Among the most important sectors/activities of black income generation as per response to the questionnaire issued to Commissioners of Income-Tax, in that order, are: capital gains on real estate transactions (both land and buildings), large-scale manufacturing, film industry, smuggling, under/over invoicing of foreign trade, income from professions and income from construction. Among the methods of black income generation are complete or partial suppression of gross receipts followed by exaggeration of expenses, undervaluation of assets and *benami* business.

Consumption is to the fore as regards the use of black income, especially of salary earners and self-employed professionals. The most important forms in which black wealth is held, in that order, are: undervalued real estate (commercial and residential land and buildings), undervalued stocks in business, gold, silver and other precious metals, *benami* financial assessments, undisclosed holdings of foreign assets and diamonds and other gems. Finally, the Institute describes the methods of converting black income and wealth into white. Among the methods listed in order of importance are: *hawala* loans, distribution of money among friends and relatives with no or less tax liabilities, showing of non-agricultural incomes as agricultural incomes, receiving of gifts, purchase of foreign exchange in black and getting it remitted as gift, etc.

While these descriptions by no means exhaust the items covered, they do seem to cover the major items under each. However, the value of the responses in terms of the percentages presented in the Tables in this chapter is limited by the fact, as acknowledged by the Institute, that the respondents belonged to a relatively homogeneous group of senior officials. It is possible that on a wider and varied coverage by status, occupation and industry of the respondents, if ever it can be done satisfactorily, the ordering under each, namely sectors/activities of black income generation, forms in which black wealth is held and methods used to convert black into white, may turn out to be different from the one presented in this chapter.

## V

## Other Areas

A number of issues dealt with in the chapter on Economic Consequences of Black Economy, as the Institute has acknowledged, have been discussed elsewhere by others, in the sources cited therein. Among the consequences discussed in this chapter include: (1) misinformation about the economy; (2) impact on the fiscal system; (3) implications for resource allocation; (4) consequences for income distribution; (5) implications for monetary policy; and (6) some wider issues. Here, while there may not be much gain for the reader familiar with the literature on this subject, he may find the discussion on (3)—implications for resource allocation—quite illuminating.

The last chapter deals with the policies for scaling down black income generation. As some of the policies—tax related matters—have already been dealt with in chapters 9 and 10 of the report and to which a reference was made in Section IV of this review, what follows is restricted to other policy issues.

The chapter begins with a brief review of the measures deployed to curb black money. The measures include demonetisation, voluntary disclosure schemes and special bearer bonds. The discussion points to the paltry results of these measures and accounts for the same, a highlight of which is that the measures did not blunt the edge of the underlying causes of black income generation. The follow-up discussion is founded on the remedial measures to blunt the edge, and is focused on changes in economic and related policies, policies designed to promote integrity and improve honesty in administration, measures designed to bring down the amount of black wealth currently held, and policies relating to administration and enforcement of taxes. These measures, it is suggested, should be initiated in that order. It is not possible to cover here all the details of these measures. However, there is perhaps space to pick some on which we have specific observations to make.

(1) The Institute is clear and categorical regarding the role of the top in the task of scaling down black income. It says: " . . . it must be emphasised that no measures are likely to succeed unless at the highest level there is determination to root out black income or at least to bring it down to tolerable proportions and the top political leadership at the Centre and the states observe high standards which they can exhort the population to emulate. Thus, the first requirement for tackling the black income generation is clean administration at least at the level of political authority and top senior servants."

On this point we may consider two propositions. One is the view which is embodied in the above quotation, that is that the spirit of the society is created from the top, and the character of others is a reflection of the character of the rulers. In this view, the responsibility rests with the government so that if the government is competent and honest, others would also be so. The other view is that the character of the rulers is a reflection of the character of others. In this view, the responsibility rests with others so that if they are honest and conduct their relations with government correctly, that spirit will be reflected in the government also. There is clearly some wisdom in both of these views. Tax compliance requires basic honesty on both sides, and the honesty of one influences that of the other. Perhaps the former view is more relevant in the short-run, and the latter in the long-run. There is little discussion of the latter in the report. In this connection, a discussion of the measures such as to inculcate right values among the population at all levels, continuous vigilance and activism in an organised way at various levels by voluntary agencies and groups, etc, would have made for a complete account of the subject in the report.

(2) The Institute has advocated substantial reductions in rates on various major taxes and to peg them to 'reasonable levels'; alongside, it has recommended the simplification of tax structure. It has also recommended reduction in the complexity and the number of controls and the greater rationalisation in the controls that remain.

It may be conceded that in the absence of regulations, controls and taxes, there would perhaps be no black income. (But there could be other, perhaps worse, consequences, to which however, we would not like to stretch our present discussion.) All the same, even in the limited context under discussion, the following points would have to be kept in view. Government of a poor, democratic country like India has to operate on many fronts—to promote growth with egalitarianism as well as in the traditional areas such as maintenance of law and order, defence of the country against external invasion, etc. Here the impact of governmental activities should not only be experienced and felt but also be conspicuously visible in the short-run. For this, the government requires, among other things, resources, a framework of regulations, controls, etc. Second, reduction in black income has not so far been declared to be the sole or even the top priority objective, so that one has to consider the trade-off between this objective and the other objectives which guide the policies and measures. Third, should reduction in taxes and controls following loose compliance by citizens and poor implementation by administrators build expectations of further reduction, there is a danger that the citizens may comply with the laws and regulations that remain loosely with a view to providing grounds to the government for still further reductions.

In view of this, we entertain the fear that the policies for still more forceful and all round thrusts in this area as advocated by the Institute may tilt the applecart of the Indian society and polity excessively in favour of the more well-to-do at least in the short-run. It may be wise to have detailed critical reviews after some time of the policies and practices which have been initiated recently and a view taken in the light of this review before the government goes further along the lines advocated by the Institute.

(3) The Institute has suggested perimitting companies/business houses to make donations to recognised political parties out of after-tax profits; and to supplement them by state funding of election expenses at least in respect of Lok Sabha and state Assembly elections.

Both of these are good suggestions of which the first has already been accepted and implemented. An additional suggestion offered here is that recognised political parties must be required by law to publish their financial statements annually and on particular occasions as after elections, detailing their assets/liabilities, income/expenditure and sources/uses of funds.

(4) Among the measures to bring down the amount of black wealth currently held, the Institute offers two suggestions. One: Creation of a National Fund for elimination of slums with a seed capital of Rs 100 crore or so from the Central and the state funds. The Central government may then float debentures with maturity of 7 to 10 years and 8 per cent interest. It further suggests that no questions should be asked as to the source of funds and that the value of debentures and interest thereon could be liable to wealth-tax and income-tax but exempt from gift tax. The immorality of black money is sought to be neutralised by using this fund for the amelioration of the conditions of the citizens living in slums. The other suggestion relates to black wealth held in the form of real estate, bank and company deposits, debentures, shares, etc. The holders of this wealth may be required to pay income-tax at the rate of 50 per cent on the estimated income from these assets during the previous financial year, and the wealth so declared would become liable to wealth-tax from the year of declaration.

First, the terms of the bond are rather attractive on balance, and there is little element of punishment. Second, there may be equally, if not more, worthy causes for which such funds may be used—or for which more funds can be procured—for example, making drinking water available or available more easily in the villages, caring for the poorest of the poor in the villages by giving relief/employment, health care, etc. Third, a thought worth pursuing in this connection relates to mopping up black income/wealth for such causes/areas which the contributors hold dear with/without their names being tagged to them. The well-off are known to contribute generously for establishing/maintaining water houses, buttermilk houses, rest houses, health centres, dispensaries and hospitals, schools and colleges and so on, especially when they are located in or around the native place or the places of usual residence/work of the donors. It may be possible to attract more black money funds by such bonds if they are cause- and/or area-specific. In case of a large scale response the government may even think of cutting its own funds from such causes/areas and utilising them for other purposes. Fourth, it must be remembered that the suggestions here are of a once-for-all nature and, therefore, non-declaration must be followed by strict enforcement and punishment without fear or favour. If this is not done, it may make for loose compliance with law in the short-run with a view to benefiting from possible concessions which those concerned may expect the government to offer when it is prepared to come to terms with black income/wealth in future in a more lenient manner.

## VI

## Concluding Remarks

How does the Institute fare on the various terms of reference? And how do the studies thereon add up as a report? The first question can be answered briefly on the basis of what we have already said. But since we have had no occasion to reflect on the second question, we may answer it less briefly.

The quality of work which has gone into the study of the fifth term of reference on estimation is by far the best (Section II). This is especially true of the estimates of black income for 1975-76. Next in quality are the studies made in response to the sixth term of reference (Section III). This is especially true of the case study of sugar and also, though to a lesser extent, of that of ubran real estate. Then follow in that order the studies for the other terms of reference (Section IV) and for other areas (Section V).

We answer the second question in the following way. Concepts, definitions, approaches, assumptions, methodologies, statistical findings, limitations, substantive findings, values and prejudices have all been by and large clearly stated at the appropriate places in the report. So it is possible for the reader to agree or to disagree with the points and views quickly, or to attempt to come out with alternatives and/or follow up on these.

However, we do not find ourselves at ease on a number of occasions, when we try to put two and two together. We may list here three points in particular.

(i) Some of the suggestions on policy are made generally, without special studies having been conducted towards those ends or without detailed and careful scrutinies of previous works on the subject (for example, the suggestion on suitable adjustment in the value of the rupee).

(ii) In some cases, although the Institute's own main case studies specially conducted for this report do not permit the drawing of specific conclusions, the Institute has done so drawn these conclusions, perhaps in a general way or on the basis of the studies/impressions of other researchers and knowledgeable persons. (For example, the study of the sugar industry in the context of the report's plea for reduction in the complexity and number of controls; the real estate study in the context of its plea for substantial reductions of various major taxes.)

(iii) General impressions, estimates of other researchers and the Institute's own estimates all point to growing black incomes through time, relatively as well as absolutely. Although the Institute's own estimates relate to 1975-76, 1980-81 and 1983-84, the impressions of the Institute and of others, and other estimates relate to years from 1960-61 to 1979-80. While one cannot establish even very roughly the cause-effect relationships quantitatively on this subject, it would seem that at least some factors which may account for black income growth operated less vigorously during 1975-76 to 1980-81 (largely the period of Emergency under the Congress government and the period of the Janata government) than during the earlier period. Thus, for example, in general during that period inflation was lower, tax compliance was better, and controls were fewer than during the earlier period—and yet black incomes continued to grow during this period. These tendencies have to be accounted for. It is possible to argue that although the movements of the factors referred to above were weak, they were still in the directions conducive to black income growth; or that other factors such as decline in morality exerted a more powerful impact than before so that on balance they did not make much difference to the growth of black incomes; or that had the former factors operated more strongly during the latter period, black income levels would have been still higher. Not that there is an answer, much less an easy or a satisfactory answer, to such 'ifs', but a serious consideration of the various factors with reference to the directions/changes in quantities in the context of black income growth where it could be done, *albeit* roughly, was warranted in the report.

Greater attention to and more thorough analyses of such points as made above, especially with reference to the linkages, in the report would have left less room for critical comments by readers like this reviewer in response to the second question posed in this section.

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## REVIEW

# Secularism and Society

### Romila Thapar

**Secular Values for Secular India** by P C Chatterji; Manohar Book Service, New Delhi; pp xi + 348, Rs 175.

THE term secular, in origin, concerned the world other than that controlled by the Christian Church and implied a polarity between the two. It referred therefore to that which was initially beyond the purview of the Church and implicitly to the changes of these areas of reference with the gradual reduction of the functions of the Church by the extension of law and the civil code and of ethics derived from sources other than religious codes. In the evolution of this word has been included various dimensions which in the European tradition referred it to the common or uneducated people and professions, and to articulations which were not sacred. More recently the word has been used particularly with reference to ethics and morality not deriving from religious sources but from humanism, rationality and theories emphasising the well being of society. Added to this is specifically the question of secular education. Both these trends have coincided with the extension of legal, civil and constitutional rights and practices.

These definitions are pertinent to Chatterji's opening chapter in which he raises the question of whether there may not be a confusion in the Indian concept of secularism and where he attempts to lay bare the implications of the term. Does the Indian definition place greater stress on the coexistence of all religions rather than the more fundamental question of whether it is necessary to break with one's religious tradition if one owes allegiance to secularism? One may suggest that in the Indian context perhaps secularism is viewed differently by the various religious groups. Where there is a church or the equivalent thereof, the European experience of the term becomes pertinent. But in those religions where there is an absence of a church or there is a weaker sense of institutionalisation, as among a number of Hindu religious groups, secularism requires another kind of consideration. Such religious groups have had strong social identities and legislate social norms. They are caught between either identifying themselves with a monolithic 'Hindu' religion which is now being propagated for the first time on a large, political scale, or opting to drop the religious identity of social norms and adopting *in practice* (and not just in theory) a common civil code. Chatterji maintains that the very concept of the secular state does violence to the major religions of India because they prescribe on all aspects of life.

The essential qualities of a secular state according to Chatterji are that the state guarantees freedom of conscience in matters of religion to all citizens, that there is no discrimination between individuals on grounds of religion implying an equality of all before the law and finally that the state is not concerned with and therefore does not interfere in matters of religion. He then goes on to consider the views of earlier authors on secularism and the Indian state and discusses the question of whether India is a secular state or a jurisdictional state; whether government interferes in religious matters under the guise of social reform; and whether the absence of a common civil code weakens secularism. He considers whether the assertion that religion be reduced to private practice and belief is a western concept and therefore foreign to Indian culture, is arbitrary. That the question of secularism relates not just to political and social concerns but is basic to political and moral philosophy as well is well-argued. Secularity is part of the debate on the degree of individual freedom.

The Indian problem as has been generally conceded is more complex than most since it involves substantial bodies of people practising various religions—unlike Europe where there was in essence only one church. In India the relationship between various religions as affected by legislation has also to be considered. If the Constitution introduces a prohibition on cow slaughter, should there also be one on the availability of pork, and to carry it to its logical conclusion the state might then also be asked to legislate on *jatka* and *halal*. If the state only legislates a ban on cow slaughter, because of the religious sentiments of what is described as the majority community of Hindus, then this shows partiality towards one religious group, which strictly cannot be regarded as secular legislation.

Legislating on religious matters or the ignoring of these by the state involves the question of whether morality and ethics require a religion. The centrality of ethical values in religious forms in the past were largely because religions endorsed and legitimised these values if one accepts that the social face of religion was closely tied to social aspirations and needs. Only when the legitimacy of the Constitution and the civil code is seen to override all others will legislated morality be acceptable. Possibly when this happens in India secularity will also become evident.

The discussion on the ideal of religious morality tends to be somewhat selective and theoretical. His description of Hinduism draws largely from Vedantic Hinduism. It may be possible to argue that Vedantic Hinduism as an ethos pervades a large segment of caste Hindus (although even this is debatable) but the level at which secularism becomes important, that is, the routine of life and social custom and practice, varies greatly among Hindu sects. Given this noticeable traditional variance in practice, should the state legislate on such things or ignore them completely? In earlier periods Indian states often accepted a laxity in civil codes and left various social segments to work out their own practices. But that was a hierarchically ordered society in which both religious and social practices were evaluated in giving a hierarchical position to a social group. If equality of status is the aim and the equality of all before the law, then the law has also to be equally applicable to all: a point to which Chatterji quite rightly gives the appropriate emphasis. A civil code would seem to be a better solution since it would prescribe the minimum. Chatterji points out that the alternative in India if there was a religious state would have to be a Hindu state since the majority of the population is Hindu: but the Constitution even as it exists did not envisage this and was drawn up for a secular state.

Chatterji's plea for the alternative ideal to the religious, that of taking the human personality as a whole is persuasively argued. This would require a premium on tolerance, social justice, economic welfare and the equality of all before the law. Tolerance, writes Chatterji, is more than just a practical necessity. It is the key to a new way of organising society. For him it derives from a healthy scepticism about what constitutes truth and insists on equal respect for individuals and the co-existence of alternate ways of life. But, he adds, freedom is circumscribed by the integrity and security of the state. However, this would imply a greater closeness to the Constitution and its values than is evident these days. Most religious texts support tolerance, but the practices of their followers frequently belie this value and the reality lies in the activities of religious groups and less in their texts.

Social justice draws on human equality and respect for others. Even though persons are not of equal intrinsic value they are worthy of equal minimum respect. This again emphasises the equality of all before the law and the equality of opportunity. The implications of social justice are tied into economic welfare. In this discussion Chatterji could have considered the notion of economic welfare in the religions of India more fully. Economic welfare as envisoned in a secular state would emphasise a different set of factors. It is also relevant to keep in mind that the major religions, whether Semitic or Indian, evolved in a context where social and economic inequality was taken for granted and was the recognised idiom. Where some religions emphasised ethical or morality equality it was often as an antidote to social inequality which they could not or did not wish to change.

Equality before the law has witnessed some of the turmoil in recent years over the question of reservations for Dalits and Other Backward Classes. Are the inequities of the past to be taken into consideration and a policy of reservation to be followed or is there to be a strict adherence to observing the equality of all before the law? There is also the problem that the law is not value-free. It is often fashioned in favour of those social group who are in power or are the potential inheritors of power. And even if the laws do not endorse discrimination, the practitioners of the legal profession may not be above discrimination.

In discussing the problems and perspectives for secularism in India in the final section of the book, Chatterji ranges over a number of features which have been discussed recently. For example, does the development of a scientific temper assist the process of secularisation or does science make claims and demands which are unacceptable? Fortunately, unlike some others who have commented on this question Chatterji does not confuse science with technology since he has enough training as a philosopher to recognise and understand the difference. Ultimately he thinks it is better to stress rational enquiry rather than science *per se*. Science without a scientific attitude can result in absolutism. Chatterji regrets the growth of obscurantism and ritual in recent years. In a sense this is not unexpected in a condition of social crisis and change. What is to be regretted even more is that the supporters of these act as pressure groups on social action. There is also the problem of minority groups within minorities banding together under the banner of conservatism and preservation of identity, denying fundamental rights to their members through an ex-communication of those who do not obey their highest religious authority—a case in point being that of the Bohra community. At another level the hostility against the backward classes are continues unabated. Chatterji quotes the official figures for crimes against the Scheduled Castes and Other Backward Classes and provides the information that between 1974 to 1982, the registered occurrence of crimes against these communities have doubled and possibly if a margin is allowed for instances not registered the increase may be greater. Further, seventy per cent of these crimes have occurred in Uttar Pradesh, Bihar and Madhya Pradesh.

Chatterji also provides figures on Hindu-Muslim communal riots with a record high of 1,170 incidents in 1964. Although the number of incidents had declined between 1964 and 1983, the numbers of those killed and injured in each year have gone up from 1,277 in 1972 to 3,680 in 1983 (and this excluding Assam). These again are official figures and the actual numbers may therefore be in fact much higher. Chatterji also analyses a few major riots and frequently the causes relate to economic competition, the hold of *goondas* and the underworld on society and the corruption of the administration and police, where there is an attitude of unconcern to say the least. (In more recent cases there have been accusations of complicity apart from unconcern.)

Unlike most earlier studies on secularism in India which deal with specific aspects relating either to law or religion, P C Chatterji's book seeks to cover the major areas which are involved in the question of secularism, from moral philosophy and the nature of the state to communal riots. It succeeds in effectively making the point that secularism impinges upon some and enters deeply into other aspects of all our lives. It also poses the choice between a religious state and a secular state in no uncertain terms. Perhaps what is even more important is that he feels the urgency of emphasising an alternate value system.

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# 'Rational Choice' Marxism

## Some Issues of Method and Substance

**John E Roemer**

*In seeking to provide micro-foundations for behaviour which Marxists think are characteristic of capitalism, the tools par excellence are rational choice models: general equilibrium theory, game theory, and the arsenal of modelling techniques developed by neoclassical economics. With rational choice models, Marxian economics has made a good deal of progress in explaining mechanisms which lie behind otherwise apparently teleological claims.*

*The author outlines an agenda which 'rational choice' Marxism can set in order to answer two important questions which challenge its methodological premises. In rational choice Marxism (1) where is there room for class struggle? and (2) where is there room for the social formation of ideas, for the formation of the individual by society?*

### I

THESE comments address some issues of method and some issues of substantive research. With respect to method, I think Marxian economics has much to learn from neoclassical economics. With respect to the substantive research agenda, I think it is the other way around, in many instances.

I do not think there is a specific form of Marxist logic or explanation. Too often, obscurantism protects itself behind a yoga of special terms and privileged logic. The yoga of Marxism is 'dialectics'. Dialectical logic is based on several propositions which may have a certain inductive appeal, but are far from being rules of inference: that things turn into their opposites, and quantity turns into quality. In Marxian social science, dialectics is often used to justify a lazy kind of teleological reasoning. Developments occur because they must in order for history to be played out as it was intended. Thus state actions are explained by their effect of propping up existing regimes; capitalism foments racism and sexism among the working class because those ideologies weaken working class power and strengthen capitalist power; schools mis-educate working class children in order to maintain bourgeois power. All of these consequences may be true, but they cannot be demonstrated by appealing to the 'historical roles' that must be played by the entities 'state', 'capitalist class', 'working class', 'capital'. For example, an honest Marxist must come to grips with the skeptical argument that competition will eliminate racist discriminatory wage differentials paid by profit-maximising capitalists, in the usual competitive model; if divide-and-conquer is in fact a capitalist phenomenon, the argument for it must be a good deal subtler.[1] The existence of unemployment cannot be explained by the needs of capital to maintain a pliant working class with a large industrial reserve army, when in a competitive economy there is no agent who looks after the needs of capital.

That is: Marxian analysis requires micro-foundations. In broadest strokes, neoclassical and Marxist visions of the capitalist economy differ in that the former sees competition as bringing about an efficient allocation of resources, while the Marxist view has the same invisible hand floundering. Crisis, gross inefficiency, alienation, exploitation, and the like result. The neoclassical model of a competitive economy is not a bad place for Marxists to start their study of idealised capitalism. What Marxists must provide are explanations of *mechanisms*, at the micro level, or the phenomena they claim come about for teleological reasons. In a sense, the problem is parallel to the one bourgeois economics faces in providing micro-foundations for macro-economics.

There is a more benign (and supportable) interpretation of dialectics. Jon Elster characterises dialectics as the unintended consequence of rational action, more specifically, the sub-optimal allocations resulting from individual optimising behaviour.[2] The standard example is the prisoner's dilemma; generally problems of public goods provision and situations characterised by externalities have the property that the invisible hand fails. Elster claims that Marx thought most processes under capitalism were characterised by this sort of problem, and hence the 'dialectical' result that optimising agents end up in a sub-optimal solution. The famous theory of the falling rate of profit is a case in point: in an attempt to raise their individual profit rates, capitalists introduce technical change which in the new equilibrium lowers all their profit rates. Now Marx's specific reasoning in the theory was wrong, but it exemplifies dialectics as the failure of the invisible hand.

Thus both Marxism and neoclassical reasoning have their respective vices with respect to teleology. Neoclassical economics suffers from a panglossian attitude towards the consequences of individuals' uncoordinated behaviour; Marxism, while not teleological with respect to the consequences of market activity and individual behaviour, asserts that in the big picture, history pushes itself on to more glorious societies, as described in the theory of historical materialism.

In seeking to provide micro-foundations for behaviour which Marxists think are characteristic of capitalism, I think the tools par excellence are rational choice models: general equilibrium theory, game theory, and the arsenal of modelling techniques developed by neoclassical economics. This method is a great contribution in the intellectual history of the last century. Against this position the accusation can be levied that the tools were developed to apologise for the rising bourgeois order, to justify capitalism, and hence their use necessarily taints the results with a bourgeois pallor. This argument is a functionalist one of the type I criticised. If Marxists wish to impugn the intellectual unbiasedness of rational choice models, they must show precisely where the dirty work is being done. What hypotheses should be changed? In what sense is the characterisation of rationality wrong? There are some trenchant criticisms of rational choice models. They are not coming predominantly from the Marxian quarter, but from the cognitive psychologists, who are showing that people do not behave rationally in a variety of ways.[3] When the new cognitive psychology is fully integrated into economic theory, a new micro-economics will emerge, which may look quite different from neoclassical economics.

With rational choice models, Marxian economics has made a good deal of progress in explaining mechanisms which do lie behind otherwise apparently teleological claims. Micro-foundations for the formation of class can be provided by using more or less standard general equilibrium models, and class can be related to exploitation in a way that is quite classical.[4] Mechanisms can be provided which explain why racist pay differentials persist although it is in the interest of any individual greedy capitalist to unravel them, contrary to what the Chicago school of *laissez-faire* would claim. With respect to explaining the persistence of unemployment in capitalist economies, there are a variety of models constructed at the micro level, though credit for them does not go mainly to researchers who call themselves Marxist. The study of technical change and the labour process has been a rich one; and the approach of postulating individual profit-maximising agents has explained a good deal of the forms of technical change and labour control that might previously have been ascribed to the blind hand of capital.[5]

So I believe the programme of applying neoclassical tools to studying what might be called Marxian questions has been productive. There do remain, of course, some key differences in the use of these models. I would single out, for example, taking agents' preferences as data. Neoclassical economics, being primarily concerned with positive description, usually (though not always) postulates individual preferences as given. I think this postulate is more than methodological: it is ideological and flows from the dictum 'cogito ergo sum'. Marxism reverses the Cartesian epigram, and asserts that people's preferences are in large part the consequence of social conditioning. This is an important consideration, *if* one intends to use rational choice models for describing welfare, for making normative judgments about the consequences of rational activity. Rational choice models should be used to develop a theory of endogenous preference formation. A materialist psychology is necessary to derive preferences from endowments and history. This is an example of a specifically Marxian question, which will eventually be solved using standard tools.

For by adopting its usual position of hegemonic individualism (that the individual is taken as given), neoclassical economics tends to confound two diads which should not be joined together: (1) preference *versus* choice, and (2) choice *versus* welfare. People do not always choose what they prefer—this distinction, which might seem nonsensical has been made compelling by the work of the psychologists;[6] and people do not always choose or prefer what leads to their welfare because their preferences have been formed under conditions of inadequate opportunity, have been warped, more generally, by capitalist society. Together, (1) and (2) imply that neoclassical welfare economics stands on very weak ground; they imply we cannot easily draw welfare conclusions from observing individual choice. It does not follow that social choice theory, an admirable piece of rational choice architecture, is useless: quite the contrary. It is a theory of how people might or might not be able to design consistent and democratic aggregations of their choices, which is a social engineering problem. It is not, however, *necessarily* a theory of the impossibility of achieving some kind of welfare optimum in a democratic setting. As an alternative to welfare economics, which bases its admittedly weak conclusions on the given preferences of individuals, Marxism proposes what appears to be a normative concept of exploitation as a measure of the welfare of members of a society.

As to substantive agenda, Marxism makes two great contributions: its theory of the relationship between property rights, technical change, and class struggle (a positive theory), and its claim that capitalism suffers from unnecessary alienation and exploitation (a positive and normative claim). The first of these contributions is summed up in the various theses of historical materialism. The modern reconstruction of historical materialism is a theory of the determination of technical and institutional change.[7] Many gaps must be filled in, and to do the filling, I would call upon rational choice models. One big question is the formation of preferences of the historical actors—in particular, preferences which lead to collective action (class action) which is so important for the theory. A theory of ideology formation is needed.[8] Perhaps ideology is an institution which cuts transaction costs of various kinds; or perhaps ideology should be conceived of as a set of satisfactive rules which an agent adopts to limit his own feasible set. Another question is to decide precisely where class struggle should be fitted into the general equilibrium model: does it determine preferences, or endowments, or is it a bargaining technique in a non-competitive model? There are other possibilities. While the question comes from historical materialism, the solution must be conventional. If class struggle is as important as Marxists say it is, and as I believe it is, there must be a way of putting it properly into an economic model. There is, now, a theory of class formation based on individuals who optimise with given preferences and endowments; the next step is the sociological one of proposing a theory for why members of the same class should overcome the collective action problem in the way they sometimes do, and what effect their concerted action can then have on the equilibrium—does it work by changing prices, endowments, preferences, production functions?

## II

In this Section, I outline an agenda rational choice Marxism can set to answer two important questions to which I have referred which challenge its methological premises. In rational choice Marxism:

(1) Where is there room for class struggle?
(2) Where is there room for the social formation of ideas, for the formation of the individual by society?

These questions arise as a challenge since the rational choice model assumes the maximisation of utility subject to constraint. There are immediately two problems with understanding class struggle. First, class struggle is characterised as breaking constraints; second, class struggle, and collective action more generally, is usually thought to be irrational from the individual's point of view. So it would seem the rational choice paradigm cannot admit class struggle. I argue this is not the case; class struggle is ignored by neoclassical economics because of its emphasis on a particular solution concept, competitive equilibrium. With respect to the second question, it seems clear that the individual must first be defined, his preferences must exist before the analysis starts, for one to be able to use the rational choice method. Hence: where is there room for the social formation of the individual?

To answer these questions, consider a very general description of the historical process, a materialist description. There are two categories of interest. $R_t$ is the full description of technology, institutions, and ownership relations at time t, the conglomeration of the classical Marxian productive forces and economic structure. The second category, $P_t$, is a list of all the people and their preferences at time t. These people, of course, own things (which are described in $R_t$), but it is useful to separate the subjective element which is in P from the objective element which is in R. Historical progress is the consequence of two processes, called the *solution process* and the *preference formation process*. At time t, there is constellation $\{R_t, P_t\}$ which gives rise through some solution process, to production and distribution of goods, invention, new institutions, and so on. These come into existence at the next time period, (t + 1). Thus we have a process

$$\{R_t, P_t\} \rightarrow R_{t+1}$$

Neoclassical economics has studied one special case of this solution process: the competitive equilibrium solution, where each agent has negligible power, accepts all signals from the environment as unmalleable by him, and maximises his utility (given in $P_t$) subject to the constraints he faces from his property endowment and the given institutions. This process gives rise to an equilibrium allocation which is described in $R_{t+1}$. But there are other solution processes which can be described.

The second important process is the social formation of preferences: members of a new generation are born each time period (let us say), and their preferences are formed by the state of the world into which they are born. The generation born at time t matures at time (t+1), when it becomes the generation engaging in economic behaviour; its social formation is consequently from the environment $R_t$ existing at t, and the preferences of its parents. This can be schematically represented as:

$$\{P_t, R_t\} \rightarrow P_{t+1}.$$

Very little work has been done to understand the preference formation process.

Thus individuals are formed by society, and these individuals react rationally to their environments to produce tomorrow's environment, which in turn produces individuals who think somewhat differently from before, and react in their environment to bring about yet a new equilibrium.

This is a reasonably general materialist history. It is more general than classical historical materialism, which contains many claims which may or may not follow from the above description—such as, that the social relations of production last only so long as they do not fetter the further development of the productive forces. To analyse that issue, one would have further to articulate $R_t$. The above model includes historical materialism as a special case.

This model also includes the neoclassical paradigm as a special case. Neoclassical economics is characterised, in the language of this model, by two special assumptions. First, the solution process studied has been the competitive equilibrium process (until very recently); and second, more importantly, there is no preference formation process. P is taken as constant through time, a constant 'human nature'. There is a certain distribution of preferences in each generation which is essentially unchanged. What changes are the constraints people face, which bring about varying behaviour: but there has been a fundamental antagonism in neoclassical economics to thinking of P itself as formed by R.

If P is taken as constant, then P is seen as the prime mover in history. P sets in motion the sequence of $R_t$s, and hence our present world $R_{1984}$ is a consequence of the exercise of an unmalleable human nature throughout the ages. Some Marxist interpretations make the opposite error, of underestimating the role of P. Thus, some Marxists say, the preference formation process is more correctly described as

$$R_t \rightarrow P_{t+1}$$

The preferences of this generation are almost wholly a product of their material conditions (or, as I have written above, of their material conditions last year). Were this so, one could eclipse the role of preferences entirely and describe history as a sequence $R_0 \rightarrow R_1 \rightarrow R_2 \rightarrow \ldots$ At each stage there is a micro-process of the formation of preferences; people interact with their environment and bring about a new environment. But we can drop the people and the preferences out of the picture, since they are caused by their environment, and we are left with the evolution of modes of production, with the preferences of agents playing only a passive role. This approach is associated with explaining the evolution of property forms and productive forces without reference to individual decision making. Perhaps with a good enough understanding of the preference formation process, one could indeed represent the evolution of $\{R_t\}$ in this way, with no reference to $\{P_t\}$; but one would miss the *explanation* for why history happened the way it did.

There are, therefore, two hyperbolic positions: the idealist position views history as derived from a constant P, and thinks of the mode of production R at a given time as a consequence only of the minds of people; and the vulgar materialist position thinks of the mode of production evolving independently of minds as preferences $P_{t+1}$ are determined by $R_t$ in the previous state.

Where is rational choice methodology to be used in understanding these two processes? I think in both of them. We have, as I have said, the one major example of a solution concept in the solution process

$$\{R_t, P_t\} \rightarrow R_{t+1}$$

given by neoclassical equilibrium theory. But there are other rational responses people might have to their environment, given their preferences $P_t$, than to act as price takers and environment takers. They might try to influence their environment, to bargain, they might not accept the terms of trade as given. In fact it is often rational not to do so. The classical case is of a monopolist, who does not take the price as given, but realises he can change prices and make greater profits. This gives rise to another solution concept, monopolistic competition. Or, if we have monopolistic elements on both sides of the market, there is bilateral monopoly, or bargaining. Now class struggle can be viewed as a kind of bargaining. Class struggle occurs when many agents in the working class, for example, learn to organise and act as one unit, so they can effectively set up a bilateral monopoly against capital. Of course, the situation can be more complicated: there can be all kinds of factions, and so perhaps it is n-agent bargaining. The point is class struggle is a method of carrying out bargaining, and bargaining is as good a solution concept as competitive equilibrium—in fact, in many cases, it is much more appropriate, more rational. The question has still to be asked: what makes coalition formation possible? How can workers overcome their individual self-interest, overcome the free rider problem, and engage in class struggle? But I take the answer to this problem also to lie in rational choice analysis. One must understand, at the level of individual preferences, what causes a person to cast his lot with a class despite the possible penalties and costs, when his standing on the sidelines would not weaken the class struggle, and the internal gains to him would be no smaller. We do have some answers to this question, at the level of rational choice theory: for instance, that people derive pleasure from co-operating with others whom they feel are as exploited as they, if together they can win, and indeed, that they would derive less pleasure from 'letting history pass them by'. There is a bond from common oppression which makes people want to fight if they think others too will fight. Class struggle can emerge rationally as part of a solution process. Neoclassical economics has avoided the study of class struggle not because of its rational choice method, but because of its emphasis on the competitive equilibrium solution process, which is not always appropriate. Indeed, modern neoclassical economics has seen an explosion of interest in game theory the last decade, in which bargaining solution processes are studied in great detail.

I have little to say about the second process in the historical scheme, the preference formation process. There, too, rational choice models will be used to build a theory of the social formation of the individual. It seems studying the question of preference formation requires postulating some apparatus of meta-preferences: a person has a variety of preference profiles he can 'choose' to have, and given the information in his environment, including the constraints he faces, he 'chooses' an appropriate conception of welfare. There will be expectations upon a person by the rest of society, given the place he occupies in $R_t$, which will direct him to order his options in certain ways. A person born into the Rockfeller family will maximise his satisfaction by choosing to remain a capitalist, by and large. It is more accurate to say that culture chooses a person's preferences for him. But culture can be understood as ideology, and if there are rational foundations for ideology (as I mentioned earlier) then the process of endogenous preference formation can be seen as a rational choice. The social formation of the individual can be explained while at the same requiring that society be understood as the consequence of many individual's actions.

## III

With respect to what might be called welfare economics, Marxism highlights exploitation and also alienation. There has been much recent work on exploitation, and the modern concept looks considerably different from the classical one: for instance, exploitation need not be defined using the concept of labour values, an antiquated tool which does not hold up against modern standards of generality and rigour. Exploitation, rather, should be conceived of as an injustice in the distribution of income resulting from a distribution of endowments which is unjust.[9] To demonstrate the nature of that injustice, political philosophy must be called upon: what Marxian economics can do is work out the allocative consequences in terms of economic variables of an unjust distribution of property (which might include property of various kinds, alienable and inalienable). Here, I think, there is less ground for agreement between Marxists and non-Marxists than in the theory of historical materialism: for the underpinnings of the disagreement are not questions of positive history, but of philosophy concerning what constitutes a desirable or just society. The sharpest form of the political debate on this question is between Marxists and libertarians, on questions of self-ownership, inheritance, and various kinds of rights. It is not at all clear how analytical Marxists will differ from non-Marxist philosophers like Ronald Dworkin, John Rawls, and Amartya Sen, who may be more vigorous in their opposition to utilitarianism and welfarism than are certain Marxists.[10] I mention this simply to indicate that the lines drawn between contemporary analytical Marxism and contemporary left-liberal political philosophy are fuzzy. This indicates there is a common core, yet to be elucidated.

The Marxist belief—and I call it that, rather than theorem—is that exploitation of important kinds can be overcome by a change in property relations, by socialism. The experience of existing socialism of the last 60 years has forced Marxists to be much more interested in electoral politics and markets under socialism than their counterparts were a generation ago. To what extent can markets be used to implement a regime in which alienation and exploitation are attenuated? Oscar Lange, the Polish Marxist who was perhaps the first economist of the twentieth century to embrace roughly the combination of neoclassical methodology and Marxist research agenda which I have outlined here, was optimistic. The question is very much open. Lange said that Marxist economics is the economics of capitalism, and bourgeois economics is the economics of socialism.

The Marxist ethical view of capitalism comes not from economic models, but from history. In that view all class societies are characterised by the expropriation of a surplus from a large class of direct producers by a small class of property holders. The bourgeois view of history is, in contrast, that each factor earns its appropriate return. Each view represents, I think, a *possible* world, and hence I think consistent models can be constructed to formalise the insights of each view. For that reason, it is not useful to criticise neoclassical economics for its possible inconsistency (which is what the so-called Cambridge controversy was about); the criticism must be, more fundamentally, of the view of history which neoclassical economics models and reinforces. By building axiomatic models, in particular, rational choice models, which represent the Marxian view of history, we do two things: first, we learn more about the mechanisms that may explain history, which is the purpose of any modelling exercise; and secondly, we show that a Marxian view of history is consistent and rigorous as well. If consistent models can be presented to capture two different historical world views, then one must choose between them on the basis of which better describes actual history. But if only one historical worldview is studied in a rigorous and axiomatic fashion, there is no contest. In sum, I do not think models are the fountainhead of one's ethics; I think one's view of history implies the models one builds, and if the models are good, they will clarify the ethics whose root lies in the actual history.

## IV

According to this outline I can distinguish rational choice Marxism from neoclassical economics in at least these ways. Marxism holds:

(1) a commitment to the malleability of human preferences, to the social formation of the individual;

(2) that the neoclassical theory of welfare economics is weak and misleading, because of the non-autonomous formation of preferences;

(3) a commitment, based on a certain reading of history, to the importance of collective action and power in solution processes; in particular, class power and class action, but more generally nationalist power and perhaps religious power. In competitive equilibrium theory, no one has any power.

(4) a belief in the injustice of capitalism, and the transiency of it, which flows from a historical worldview, based on the evolution of forms of property.

What is lost with rational choice Marxism is, principally, teleology. One cannot assert that those things happen which are optimal for the preservation of the capitalist system; or, on the contrary, that the system will destroy itself. Perhaps these events may happen, but the mechanisms at the level of the preference formation and solution processes must be shown to bring them about. The heritage of Marxism, as an idea, is a set of powerful descriptive insights. These descriptions must not be assumed true, but rather shown to emerge as theorems in models whose postulates are elementary and compelling.

## Notes

1 Roemer (1979) presents a model in which the rational strategy for individual capitalists is to pay discriminatory wages to black and white workers of equal skill levels.

2 Elster (1985), Chapter 1.

3 See the collection of papers reprinted in Kahneman and Tversky (1982).

4 A summary of this work is given in Roemer, 'New Directions', in "Analytical Marxism" (Cambridge: Cambridge University Press, 1985).

5 The books by Braverman (1974) and Edwards (1979) are prime examples of this approach.

6 See Tversky (1980).

7 See, for a summary of this approach, Cohen 'Forces and Relations of Production, in "Analytical Marxism" (Cambridge: Cambridge University Press, 1985).

8 North (1981) presents a theory of ideology. Roemer (1985) presents a model in which ideology emerges as a rational strategy in a game. Schotter (1984) shows how ideology can also emerge strategically in a game situation.

9 See Roemer, 'Should Marxists be Interested in Exploitation?" in "Analytical Marxism" (Cambridge: Cambridge University Press, 1985).

10 Rawls (1971), Dworkin (1981), Sen (1980) each present theories of justice as equality in which utility is not the concern. Welfarism, a term coined by Sen, is the position that social welfare should be taken to be measured by some function of the utilities of members of the society.

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# First Decade of Coal Nationalisation

## Crucial Test of Performance

**A B Ghosh**

*A growing rate of output of coal was the primary objective of the nationalisation of coal mines. What has been the achievement of the public sector in the coal industry? And at what cost?*

NATIONALISATION of the coal industry was achieved in two stages. The first stage was initiated by the Ordinance providing for the taking over of the management of 214 coking coal mines on October 17, 1971 plus 12 coke oven plants on December 27, 1971, and finalised by the Coking Coal Mines (Nationalisation) Act 1972 passed by Parliament on May 1 receiving the assent of the President on August 17. The second stage began with the Ordinance providing for the taking over of the management of 711 non-coking coal mines on January 30, 1973 completed by the Coal Mines (Nationalisation) Act 1973 which received the assent of the President on May 30, 1973. The entire programme thus took a year-and-a-half.

The coking coal sector received priority in this programme, as steel, the base for industrial development, requires coking coal for its growth. However, the latter's increasing use by non-steel industries, since independence, pressed heavily on its limited resources emphasising the urgency of its conservation. Bharat Coking Coal Limited, a new government company was set up on January 12, 1972. It became a subsidiary of SAIL in March 1973 remaining under the administrative control of the Department of Steel till the formation of the Department of Coal under the Ministry of Energy in October 1974.

The objective of nationalising the non-coking coal mines was to ensure rational and co-ordinated development of coal production, and promotion of optimum utilisation of coal resources consistent with the growing requirements of a planned developing economy and also because internal resources of the private sector could "contribute little to the investment effort required" ["Working Group on Finance for the Coal Industry", 1972 Report, Para 6.7]. Non-Coking coal mines came under the ownership of the Coal Mines Authority Limited, a public undertaking set up on June 14, 1973. Coal India Limited was established on November 1, 1975 as a holding company to take charge of coking and non-coking coal mines and washeries. The scheme of nationalisation provided for payment of compensation to previous owners alongside of transfer vesting to the Central government their rights, titles and interest free from all incumbrances.

The crucial test of the performance of a business is its financial health. Though 1973-74 was the first complete financial year after full nationalisation, it cannot be taken as a base year, as, unrecorded output of the private sector could not be fully incorporated in the records of the nationalised industry by the end of the year. 1974-75 not only incorporated this to a large extent, but was also the first complete year in which all constituents of CIL, which became the holding company in 1975/76, were included. So we have selected 1974/75 as our base for the financial test.

A growing rate of output was the primary objective of nationalisation. What has been the achievement of the public sector? And at what cost? The relevant data for a measurement of the performance of the nationalised industry is provided by columns (4) and (7) of the Table.

Between 1951 and 1971, for the Coal Industry as a whole the annual percentage rise in OMS in underground, open-cast and overall categories were 2.4, 8.5 and 4.6 respectively; between 1974-75 and 1981-82 for CMAL/CIL the corresponding figures were 0, 19.2 and 4.6. The comparative superior position of the open-cast category records the achievement of the objectives of the different Five-Year Plans ending with the draft outline of the Sixth Five-Year Plan 1978-83 containing the statement, "New open-cast mines are expected to contribute about 50 per cent of additional production" (Para 10.3). The stress laid on open-cast mines was due to the difficulties in increasing the rate of production from underground mines, acceptability of inferior coal by the power plants and the relatively lower cost of production of coal from open-cast mines (Third Five-Year Plan Chapter 27, Para 25).

The relatively lower rate of growth in production from underground mines is a cause for concern, for huge investment in the industry has been made since nationalisation. During 1951-71 for the entire industry the annual average percentage rise in paid-up capital and output were 58.7 and 5.8 per cent respectively whereas in CIL for the period 1974-75 to 1981-82 the corresponding data were respectively 69.7 and 5.5 per cent. Also the percentage rise per annum in loan finance was 209.2 in the post-nationalisation period compared to 3.2 in the pre-nationalisation period. Further, "at the end of December 1982, 99 coal mining projects were under implementation (all these projects cost Rs 5 crore and above) with a total sanctioned investment of Rs 2,339 crore and ultimate capacity of 150 million tonnes per annum of coal production. A large number of these projects have slipped up by one to five years" (Sixth Five-Year Plan Mid-Term Appraisal 11.21). It is, therefore, not surprising to note that the rise in the financial loss percentage per annum in the post-nationalisation period was 161.5 whereas the private sector always made profits between 1951 and 1971.

This profit/loss situation reflects the relation of prices and costs in the industry of which wages constitute more than sixty per cent. And it is pointed out in some quarters that the percentage rise in the two periods in earnings and output does not support the plea that losses in the industry after nationalisation were due to a rise in wages. Despite the higher percentage rise in earnings compared to prices, profits before nationalisation were positive in all years. Between 1975-1981 the lower percentage rise in earnings compared to pithead values was associated with growing losses. So, the popular charge is that losses in the industry since nationalisation are not so much due to rise in wages as maintained by the establishment but to some other factors obstructing the required rise in productivity. Let us consider some of these factors and also whether these were beyond the control of the establishment.

Firstly, was investment directed to a greater extent to open-cast mines in view of the favourable growth trend in it in quantitative as well as percentage terms compared to underground mines? Is the impact of this category of investment on relevant output and OMS better than in the pre-nationalisation period? Consideration of these issues will necessitate a measurement of investment in open-cast and underground mines as these are not available in published documents of the Government of India Department of Coal or Coal India Limited. So, a digression on investment in public sector coal undertakings may be made to record the results of an attempt to measure the investment categories under quest.

Investment in public sector undertakings is considered as equivalent to the sum of equities and long-term borrowings. The first complete financial year of the coal industry after full nationalisation is 1973-74. NCDC became a wholly owned subsidiary of CMAL from September 1973 and its equities and long-term borrowings got absorbed in the corresponding categories of CMAL, being respectively equal to Rs 1.3 crore and Rs 173.62 crore, totalling to Rs 174.92 crore. This excluded the Central government's holding of the Singareni Collieries' paid-up capital of Rs 2.72 crore which became a long-term investment of CMAL from June 1974, i e, in 1974-75. Adding to the Rs 174.92 crore the BCCL equities and long-term borrowings of Rs 2 crore and Rs 23.8 crore respectively total investment in 1973-74 of what later came to be called CIL (Holding Co) was Rs 200.72 crore. Singareni finance, however, continued to remain excluded. So, for the purposes of the matter in hand, 1974-75 should be taken as the first complete year as it includes all constituents of what became the holing company in 1975-76. Investment in 1974-75 in CMAL was equal to Rs 218.7 crore (equity) plus Rs 89.05 crore (loans) i e, a total of Rs 307.75 crore. Adding the investment of Rs 65.56 crore (equity Rs 2 crore and loans Rs 63.56 crore) of BCCL which came under the control of Coal Department in 1974-75 (and became a wholly owned subsidiary of the holding company in 1975-76) the total investment of what became the holding company was equal to Rs 373.31 crore. In 1981-82 the CIL investment was equal to Rs 1286.9 crore as equities plus Rs 1,453.5 crore as borrowings i e, Rs 2,740.4 crore. The rate of growth of investment per cent per annum for the period 1974-75 to 1981-82 was 90.5 and for 1975-76 to 1981-82, 66.9, the total investment of the holding company in 1975-76 being Rs 338.15 crore as equities plus 208.02 crore loans i e, 546.17 crore.

The increase in losses from 1974-75 to 1981-82 and 1975-76 to 1981-82 was 161.5 and 114.3 per cent per annum respectively. So, a comparison of investment and losses revealing a ridiculously higher percentage per annum in losses compared to investment may support the charge of investment going down the drain. What is the situation with regard to investment and losses of underground mines and open-cast mines separately? Now, the more than doubling of the output of open-cast mines in the post-nationalisation period upto 1981-82 indicates the huge investment. Stagnant and to some extent a deterioration in the output of underground mines during the same period does not however imply absence of investment. For, underground mines require investment for mere maintenance of production as mines, unlike factories, have a continuously receding floor. The National Coal Board in UK for instance spends about Rs 18 per tonne for maintaining production. So, if production, productivity and input costs remain the same, the cost of production rises every year due to this peculiar character of an extractive industry.

It is learnt on reliable authority that in the CIL this investment has risen from Rs 11 per tonne to about Rs 20/Rs 25 per tonne (average Rs 22.50) over the post-nationalisation period. Assuming that the underground mines did not have any new investment (resulting in additional fixed, assets) during this period, the picture of investment is as below:

*1974-75*

(a) Underground output = 58.2 m tonnes
(b) Investment cost per tonne for maintaining production = Rs 11
(c) Underground investment = (a) × (b) = Rs 64.02 crore
(d) Total investment = Rs 373.31 crore
(e) Open-cast investment = (d) − (c) = Rs 309.29 crore

*1981-82*

(f) Underground output = 63.4 m tonnes
(g) Investment cost per tonne for maintaining production = Rs 22.5
(h) Underground investment = (f) × (g) = Rs 142.7 crore
(i) Total investment = Rs 2,740.4 crore
(j) Open-cast investment = (i) − (h) = Rs 2,597.7 crore

The rate of growth of investment per cent per annum between 1974-75 and 1981-82 in underground, open-cast and aggregate workings comes out respectively to 17.5, 105.7 and 90.5 as given in the Table.

Thus the separation of total investment into different categories provides a very weak mitigating factor to the popular charge. Though investment data before nationalisation is not available, it is universally acknowledged that private sector investment was very unsatisfactory. Yet this highly unsatisfactory rate of investment was accompanied by positive profits. In the post-nationalisation period the 90.5 per cent annual rise in investment was accompanied by a 161.5 per cent annual rise in cumulative losses. Consideration of separate annual per cent growth rate of investment in underground and open-cast workings does not alter the position as is evident from the data of OMS and output.

TABLE

| Coal Mines | Before Nationalisation | | | After Nationalisation CIL | | |
|---|---|---|---|---|---|---|
| | 1951 | 1971 | Annual Average Percentage Change +/− | 1974-75 | 1981-82 | Annual Average Percentage Change +/− |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| Underground workings | | | | | | |
| (i) Output (M tonnes) | 30.20 | 58.50 | +4.70 | 58.20 | 63.40 | +1.3 |
| (ii) OMS (tonnes) | 0.58 | 0.86 | +2.40 | 0.54 | 0.54 | +0 |
| (iii) Investment (Rs crore) | N A | N A | N A | 64.02 | 142.70 | +17.5 |
| Open-cast workings | | | | | | |
| (iv) Output (M tonnes) | 4.80 | 17.00 | +12.80 | 20.80 | 46.20 | +17.4 |
| (v) OMS (tonnes) | 0.54 | 1.46 | +8.50 | 0.78 | 1.83 | +19.2 |
| (vi) Investment (Rs crore) | N A | N A | N A | 309.29 | 2597.70 | +105.7 |
| Total workings | | | | | | |
| (vii) Output (M tonnes) | 34.90 | 75.60 | +5.80 | 79.00 | 109.61 | +5.5 |
| (viii) OMS (tonnes) | 0.35 | 0.67 | +4.60 | 0.59 | 0.78 | +4.6 |
| (ix) Investment (Rs crore) | N A | N A | N A | 373.31 | 2740.40 | +90.5 |
| | | | | (d) | (e) | |
| (x) Labour earnings (Rs) (Weekly average) | 10.90 | 55.83 | +20.60 | 80.74 | 204.96 | +21.9 |
| | (a) | (b) | | | | |
| (xi) Cost per tonne (Rs) | 17.61 | 36.28 | +7.60 | 54.65 | 134.40 | +20.8 |
| | (a) | (b) | | | | |
| (xii) Wage cost per tonne (Rs) | 12.15 | 16.90 | +2.80 | 35.35 | 75.30 | +16.4 |
| | | | | (f) | (g) | |
| (xiii) Price per tonne (Rs) | 14.45 | 35.82 | +7.40 | 51.46 | 143.49 | +25.5 |
| | | | (e) | | | |
| (xiv) Paid up capital (Rs crore) | 18.20 | 231.96 | +58.70 | 218.66 | 1286.89 | +69.7 |
| (xv) Employment (lakhs) | 3.52 | 3.82 | +0.43 | 5.99 | 6.33 | +0.8 |
| (xvi) +Profit/−Loss (Rs crore) (Cumulative) | +ve | +ve | +ve | −65.97 | −811.90 | −161.50 |

*Notes:* a Indicates cumulative 1957
b Indicates cumulative 1971-72.
c More than 50 p c was in the public sector
d Indicates 1974.
e Indicates 1981.
f Indicates 1974.
g Indicates 1981.
Post-nationalisation items (iii) and (vi) have been estimated by us.
Sources have been indicated at the end.

The highly unsatisfactory investment in the pre-nationalisation period was accompanied by a higher rate of growth of *output* relative to the post-nationalisation period in both the total and underground workings. In OMS the same picture holds true for underground workings. The relatively better performance in rates of growth of output and OMS in open-cast workings do not have any impact on the profit/loss position.

Consideration of the rates of growth of *paid-up capital* in the two periods does not alter the situation though the relative performance in this item in the two periods is not as bad as in investment.

The profit/loss phenomenon results from the balancing of price and cost. In the pre-nationalisation period a near equal percentage rise in price and cost was accompanied by positive profits as percentage rise in wage costs was fifty per cent of that of price and total cost. In the post-nationalisation period the higher percentage rise in price compared to cost was accompanied by a very high percentage rise in losses although the wage cost per tonne rose less (as in the pre-nationalisation period) than price and cost. This indicates that prices throughout the post-nationalisation period were unremunerative as insufficient attention was given to improve productivity and reduce cost, as was pointed out by the Baweja Committee.

One mitigating factor to the popular charge is provided by the welfare measures adopted since nationalisation. The miserable record of the industry in this respect before nationalisation may be contrasted with sincere attempts made to improve matters in respect of welfare in the post-nationalisation period, particularly in the last few years. They have, however, been obstructed and frustrated a good deal by inter-union rivalries, mafia activities in the coal belt, the inadequate legal framework, environmental atmosphere of the industry and decline in discipline since nationalisation. Yet, the earnestness of the attempts in this direction deserves appreciation, as indicated by an expenditure of Rs 649 per head on social overheads including medical facilities, education, social and cultural activities, transport subsidy, etc, in 1980-81 compared to Rs 589 in 1979-80. The urgency however of taking active steps to improve productivity is not reduced.

Another mitigating factor that is often presented is that the post-nationalisation period is too short to manifest the impact of investment as machines in coal industry have a long gestation period. The strength of this statement depends upon a detailed analysis of the gestation period of the different types of machines used for which published data are not available. Since, however, a good deal of investment has been made in open-cast mines, where the period of gestation is not long, the strength of this mitigating factor is not likely to be weighty. Besides, there is also the factor of underutilisation of machines and of mines. The extent of underutilisation of machines in open-cast and underground mines in 1980-81 was on an average 37 per cent in open-cast mines and 64 per cent in underground mines ("Public Enterprises Survey 1980-81", Vol 2, p 64).

The percentage utilisation of coal mines in the nationalised industry improved from an average of 100 in 1974-75 to 102 in 1980-81 ("Public Enterprises Survey 1974-75", and 1980-81). It must be admitted that in respect of capacity utilisation the coal industry was in a much better position than the average of all public undertakings.

The mystery of hundred per cent utilisation of mines accompanied by a low state of utilisation of machines can be easily explained. It means that two machines were being used to produce a given quantity of coal with the machinery being used to the extent of 50 per cent on an average. Thus lower utilisation of machines implies purchases of a larger number of machines and this is what causes more and more investment without improvement in productivity.

Under-utilisation of capital equipment has been brought out vividly by K V Subramanyam:

> When coal mines were nationalised, the public sector inherited an unenviable legacy to add to the grossly mismanaged chaos of the National Coal Development Corporation which provided the nucleus round which to plan a viable coal industry . . . The NCDC's collieries were mostly open-cast mines. The experience of its executives was very limited so far as mechanised underground mining was concerned. The emphasis after nationalisation was, therefore, on extending open-cast mining. The first two mines planned for underground mining were entrusted to Polish experts. These are the now notorious, Sudamdih and Monidih deep shaft mines. As was to be expected, both became problem mines. The first has been abandoned for all practical purposes and the second is being rehabilitated with massive aid from the National Coal Board of UK. No Indian personnel were available when the Poles were inducted, for sinking and equipping shafts for the new underground mines. The public sector has neither created an organisation for such specialised jobs as shaft-sinking and tunnelling nor has it encouraged experienced contracting firms in the private sector to enter this field . . . The Central Mine-Planning and Design Institute was created as a subsidiary of Coal India. But even its planning and design functions seem to have been subordinated to the will of foreign collaborators. First, it was design of open-cast mines by Russians. Now it has extended to underground mines also by them in the Bengal coal-field. One important fact to be noted is that the aid-givers make it an avenue for the supply of equipment manufactured by them irrespective of its suitability to Indian conditions. Both the Mining and Allied Machinery Corporation (MAMC) and the private sector have been more interested in securing collaborations for indigenous manufacture of these machinery than develop new designs of machinery to suit Indian conditions. Coal India has, therefore, to modify its mine plans to accommodate the imported machinery even if that has serious adverse effects on safety and productivity.
>
> The net result of this aid-given machinery has been to reduce, Indian coal mines into museums of international mining machinery, open-cast as well as underground. Inability to standardise such a varied collection of machinery, has led to the piling up of spare parts' inventories, irregular maintenance schedules, increase in idle hours and consequent underutilisation of costly equipment leading to purchase of more equipment . . . That matters should have been allowed to deteriorate to such an abominable extent is a sad commentary on the organisational set-up of Coal India and the progress-monitoring agencies in the Ministry and the Planning Commission (*Economic and Political Weekly*, December 3, 1983).

Of the three mitigating factors to the charge of investment going down the drain, the separation of investment into categories and period of gestation are very weak while the welfare expenditure has some degree of strength. This leads to the consideration of the last mitigating factor, *viz*, a proper price policy. The plea is that the revision of prices from time to time to take account of rise in costs was not based on the special characteristics of an extractive industry engaged in producing exhaustible natural resources. Important factors making for unremunerative pricing were inadequate provision in price for depreciation of plant and machinery, for loss on subsidised sale of solid fuel prepared from coal, for working of uneconomic mines, for starting unviable mines in selected areas with a view to establishing links with consuming projects, for maintaining high stocks to take care of sudden increases in demand or sudden disturbance in transport and to take care of welfare work.

It is further claimed by the industry that besides the above factors, prices fixed with reference to current costs inadequately, become highly inadequate in an inflationary situation and when, fixed for short periods, they remained operative for long periods also. It is quite correctly maintained further that when losses resulting from unremunerative prices were financed by interest-bearing loans, they functioned as a built-in cost escalator. When, recently the loans were made interest-free, the repayment liability continued to operate as an in-built cost escalator. This could have been avoided by allowing 'Grants' to meet these loan burdens as in the case of a number of developed countries like UK, France, W Germany and Belgium. The rapid growth of public sector undertakings, most of them having similar financial problems, stood in the way of the adoption of such a policy for the coal industry. Thus the financial problems of the coal industry become entangled with those of the entire public sector and also of the economy, whose unhealthy nature is symptomised by the growing volume of deficit financing. This is not the place to discuss the problems of the entire economy. It is however, essential to remember that in such an environment no single industry can solve its problem through raising of administered prices. Indeed, such price-rise attends to the softer option rather than to the harder and a more difficult but a surer one, *viz*, improvement of productivity. Even in respect of administered pricing not sufficient notice has been taken of product variation, cost variation and quality differentiation. Average pricing is a very inadequate instrument for a complex situation. It is differential pricing which needs to be introduced after a thorough assessment of the situation. It is learnt that the Bureau of Industrial Costs and Prices has done this exercise but the report has not yet been published.

The resort to raising administered prices brings back the picture of the pre-nationalised industry asking continuously for higher prices and the authority steadily preaching the need for improving productivity. In the post-nationalised era the industry is repeating its pre-nationalised clamour and is receiving a favourable response though with a time-lag, which keeps it permanently in the red. The nation is crying for improvement of productivity and the government too is aiming at the same. Yet the situation is almost at a standstill.

This is not to reduce the importance of administered pricing but to emphasise the need for a rational and dynamic price policy which will, take care of a proper balancing of output from depillaring and development areas, have clear short-term and long-term objectives in fixing prices, allow differentiation in prices between subsidiary companies to take adequate care of variation in grades and costs of production so that units yielding financial surplus become utilised to take care of units with financial deficits in the interest of the industry as a whole. A dynamic price policy has also to take care of conservation of scarce grades in the interest of development of the iron and steel industry using metallurgical coal.

Even a perfect pricing policy will fail if there is indifferent management. For, improvement of productivity can result from a proper pricing policy if the management is conscious of avoiding waste wherever it occurs. This needs an honest and sincere examination on the lines done by the Baweja Committee in 1978. The Report placed before Parliament on August 2, 1978 dealt with various aspects of the industry, e g, stores, equipment, technology, finance, manpower, marketing, organisation, etc, to explore possibilities of cost reduction and made a large number of suggestions to improve efficiency. Quite a number of the recommendations were accepted by the government on principle and further investigations were set on foot. Implementation of the recommendations was expected to result in cost reduction to the extent of Rs 10 per tonne over a period of 3/4 years.

The rise in costs from Rs 79.77 per tonne in 1977-78 to Rs 134.40 per tonne in 1981-82, that is, by about 67 per cent, with the general price level rising by about 60 per cent, indicates that little has been done with regard to the Committee's recommedations. This is not surprising because the report was never published after circulation among members of Parliament. Some impact is, however, noticeable from the improvement in OMS from 0.68 in 1977-78 to 0.78 in 1981-82.

There seems to be no lack of knowledge regarding measures for cost reductions and/or improvement in productivity. Committees and commissions, foreign experts and domestic experts have practically flooded the country with their suggestions since independence particularly since nationalisation.

For this flood of attention after nationalisation the industry owes a debt of gratitude to the Arab world and the oil crisis of the early seventies. The international glamour of oil and the immense potential of nuclear energy had converted coal to almost a Cinderella among the energy sisters in India. This was highlighted by the fact that whereas users of coal such as railways, steel and other industries and also labour, had Ministers of Cabinet rank to look after them, coal was, until recently, looked after by a Deputy Minister or a Minister of State.

Most countries of the world are gradually changing over from oil to coal. In this situation India has an advantage in that most of its industries are coal-based. The challenge of meeting growing international and domestic demand is not a question of securing more finance only but also of crucial non-financial factors. Despite the expenditure of funds of the entire Sixth Plan in the first three years itself the industry has seen no significant improvement in the OMS. And, if the twenty-first century has to start with 400 m tonnes annual output of coal the weight of these crucial non-financial factors acquire great importance.

The importance of these factors has been prominently brought to the fore by the popular statement of investment in the industry going down the drain. This partly exaggerated form of the statement has urged greater importance to the factors of labour and management. Government ownership with its traditional association of job security and general indifference of officers has generated irresponsibility in workers. Inducing the coal miner to give his best is no less important than to take the maximum from machines. Monitoring and reviewing work progress is essential to take quick action against hindrances to production. The existing monitoring system needs to be revamped.

For its present plight the industry's practice is to blame labour. But a large section of the people places a much larger share of the responsibility on management for widespread corruption, indifferent and haphazard working of schemes, and political interference and patronage of the anti-social mafia in the coalfields. It is the domination of powerful vested interests on Coal India Limited, involving the official cadre also, that has led to the warning for the bureaucracy to streamline the administration, to attend less to "extra-curricular activities", to curb official tour programmes and to revamp the marketing system. On this latest (1983-84) action of the authorities, a special correspondent of the *Economic and Political Weekly*, however, observes,

> After having granted coal miners a wage increase of about Rs 150 per month, the Central government (in the person of the CIL management) launched a campaign to increase production in the coal mines. The priorities in this campaign to increase production were soon revealed. The first step of the new Chairman, I S Gujral was to gift Rs 50 crore to CIL bureaucrats. Instead of going into the reasons for shortfalls in pithead stocks and punishing those responsible for stealing, these stocks were just written off. The second step was to make it clear that no 'indiscipline' on the part of the workers would be tolerated. No matter what the reason, any gherao or similar incident resulted in suspension and subsequent dismissal; while any work stoppage was penalised with a fine of eight days 'wages' (July 14, 1984).

In view of the losses, political patronage of the mafia activities, involvement of a sector of bureaucracy and of trade unions, it may be doubted whether clearing up of the coal mess can be done in today's India. Efforts however have to be continued.

Politicians and bureaucrats cannot overemphasise that restoring health to the industry will elude us unless society treats well the men in the field. However, despite the best possible efforts of men in the field and of bureaucrats and politicians, success will continue to be elusive if the inflationary situation is not brought under the strictest control for which the will and the ability seems to be weak in the extant social structure.

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# Infant Mortality in India

## Level, Trends and Determinants

Leela Visaria

*This paper aims at a critical review of the available data on the level of and trends in infant mortality and of the associated differentials during the last quarter of a century. An attempt is made to identify the gaps in our existing studies where future research efforts may be oriented.*

*The paper begins by setting out an approach to the analysis of data on infant mortality. Following that the national and the state level estimates of neonatal, postneonatal and overall infant mortality by sex and rural-urban residence are reviewed. Attention is then focused on the available evidence on the contribution of various prenatal, natal and postnatal factors to infant mortality during different time period. This approach is adopted to help identify and assess the possible role of different intervention programmes.*

[This is the third and final part of the paper. The first two parts appeared in the last two issues.]

### POSTNEONATAL MORTALITY

THE postneonatal mortality has been the target of the Expanded Programme of Immunisation (EPI) which began in January 1978. It seeks to control the infectious diseases which cause morbidity and mortality due to DPT, polio, childhood tuberculosis and typhoid. Subsequently, a measles immunisation feasibility study was launched by 36 medical colleges in the country to assess the need for and the administrative feasibility of introducing measles vaccine in the routine immunisation services. While the results of this study are awaited, some states such as Gujarat have reportedly decided to include measles vaccination in the EPI during the Seventh Five-Year Plan.

The official statistics show a steady rise in the targets as well as in the reported absolute number of immunisations against DPT, and in the number of mothers and children given "prophylaxis against nutritional anaemia". Table 21 summarises these statistics. Besides, the Maternal and Child Health (MCH) programme under the National Health Policy emphasises:

(a) protecting the children against Vitamin A deficiency, which can cause night blindness and/or blindness;
(b) promoting Oral Rehydration as a simple tool of preventing deaths caused by dehydration following diarrhoea; and
(c) supplementary feeding, through Balwadis and Anganwadis, of children whose physical growth reflected in weight gain falls below the norm.

Of these three only the oral rehydration scheme is likely to have some influence on the postneonatal mortality, because the other two programmes really cover children aged one year and above. The level of postneonatal mortality in the country and in the major states has already been discussed earlier. We need to examine the available data on the causes of postneonatal mortality, which are more environment-based than biological in nature.

Both the Khanna and the Narangwal studies have highlighted the importance of diarrhoea and gastroenteric disorders as a cause of postneonatal mortality. The association of competent medical professionals with these studies has contributed to a much better than usual identification of the causes of death. The data are summarised in Table 22.

The Khanna study, in the late 1950s reported a postneonatal death rate of 82, of which 32 per cent deaths were due to diarrhoea. The control villages of the Narangwal study (located at a distance of about 35 km from the Khanna study villages) had a PNMR of 53, some 14 years later. Diarrhoea, dehydration and related problems accounted for 40 per cent of postneonatal deaths. The medical literature also points to diarrhoea as a leading cause of postneonatal mortality.

The Khanna study reported a sharp increase in the death rate at the age of six months, particularly among children who did not receive solid food. The death rate per 1,000 persons years lived during the third trimester of the first year of age was 185 among children who did not receive any solid food and zero among those who did. The addition of solid foods to a diet of breast-milk led to weaning diarrhoea but lowered the risk of death, apparently through better nutritional status.

Diarrhoea and dehydration have been reported to be much more important causes of death among children at low levels of nutrition than among the better-nourished children (Narangwal Study, Vol 1, p 203). Malnutrition is precipitated and aggravated by diarrhoea through inadequate absorption

TABLE 21: TARGETS AND ACHIEVEMENTS WITH RESPECT TO IMMUNISATION AND NUTRITIONAL PROPHYLAXIS 1975-76 TO 1982-83

| Year | Tetanus Immunisation for Expectant Mothers | | DPT Immunisation of Children | | Prophylaxis against Nutritional Anaemia among Mothers Number of Beneficiaries | | | Prophylaxis against Nutritional Anaemia among Children | |
|---|---|---|---|---|---|---|---|---|---|
| | Target | Number Immunised | Target | Number Immunised | Target | Total Women | Expectant and Nursing Mothers | Target | Number of Beneficiaries |
| 1975-76 | 3.02 | 1.45 | 5.03 | 2.41 | 2.00 | — | 3.70 | 2.00 | 3.52 |
| 1976-77 | 5.00 | 2.14 | 10.00 | 4.02 | 4.00 | — | 3.29 | 4.00 | 3.05 |
| 1977-78 | 6.94 | 3.51 | 10.90 | 7.81 | 6.00 | 8.38 | 5.50 | 6.00 | 6.85 |
| 1978-79 | 5.00 | 3.72 | 8.94 | 6.80 | 10.00 | 10.04 | 6.41 | 10.00 | 9.08 |
| 1979-80 | 6.00 | 4.75 | 12.00 | 6.88 | 11.00 | 11.44 | 6.25 | 11.00 | 9.98 |
| 1980-81 | 6.84 | 5.28 | 13.55 | 7.15 | 11.91 | 11.09 | 6.24 | 11.91 | 9.56 |
| 1981-82 | 7.96 | 7.11 | 15.97 | 9.23 | 11.88 | 12.04 | 6.38 | 11.88 | 12.21 |
| 1982-83 | 9.00 | 7.49 | 13.97 | 10.14 | 12.00 | 14.71 | 6.66 | 12.00 | 13.98 |
| 1983-84* | 11.50 | 7.45 | 14.50 | 10.16 | 12.00 | 15.07 | NA | 12.00 | 14.19 |

*Note:* * Provisional.

*Sources:* Government of India, Ministry of Health and Family Welfare, Family Welfare Programme in India, Year Book 1982-83, New Delhi, pp 155-156.
Government of India, Ministry of Health and Family Welfare, 10th Joint Conference of Central Councils of Health and Family Welfare, New Delhi, July 9-11, Vol II, p 233.

of the nutrients from food. Therefore, even the morbidity due to diarrhoea merits closer investigation, with adequate recognition of the fact that the identification and reporting of diarrhoea in a retrospective survey is a problem not only because of recall lapse but also because a few loose motions are often ignored as a common routine event, unworthy of any fuss.

While it is necessary to obtain some data on diarrhoea as a cause of death in order to assess the possible impact of oral rehydration therapy, it is equally important to know the beliefs and practices with regard to food and fluids usually given to children during diarrhoea. A study in rural and urban areas of Haryana observed that 98 per cent of mothers restricted both food (any preparation of wheat and pulses) and fluid (mostly milk and to some extent tea and water) intake of the children during an acute attack of diarrhoea. Mothers believed that more fluid and food administered to the child would result in larger and more watery stools (Kumar, *et al*, 1981). Effective communication and education will yield rich dividends to improve the awareness and information base of the mothers about the proper treatment of diarrhoea.

Infections of respiratory tract (bronchitis, pneumonia, etc) are another leading cause of death among infants. The factors underlying these respiratory infections include malnutrition, crowded living conditions, inability to purchase the prescribed medicines, tenacity of the infection, the difficulty faced by the poor parents in finding the time to look after the children.

The diagnosis of these infections and their treatment are said to be more complicated than can be entrusted to the village health workers. However, recently the Foundation for Research in Community Health, Bombay, and the Community Health Department of the Post-graduate Institute of Medicine and Research, Chandigarh, have experimented with involving lower-level health functionaries in fighting respiratory infections as well. Apparently, their experience is to be documented and evaluated by the scientific community.

### MORBIDITY DURING THE WEANING PERIOD

According to the Narangwal Study, even in the relatively "healthy environment" of the Punjab, with comparatively few intestinal parasitic infections and good levels of child and adult nutrition, children were ill 11 per cent of the time with respiratory tract infections, 6 per cent of the time with diarrhoea and eye infections each and 4 per cent of the time with fever. Further, the prevalence of infectious diseases was the highest between 7 and 15 months of age, when the breast-feeding alone is not sufficient and therefore the child becomes nutritionally most vulnerable. According to Kielman, even a mild illness, induced by immunisation with live agents, caused a significant decrease in weight.

Episodes of diarrhoea, and infections of respiratory tract as well as malaria, etc, result partly from contaminated water supply, inadequate feces disposal and unhygienic home conditions. Transmission of bacilii causing diarrhoea and related illnesses is primarily by food and water. The solid foods given during the weaning period become a major cause of diarrhoea among the young children.

Proper handwashing after a bowl movement has been shown to reduce the spread of the infection in Bangladesh (Khan, 1982, cited by Black, 1983). Personal hygiene was found to be even more important than the amount of water available in a study in Madurai district in Tamil Nadu (Rajasekaran, et al, 1977).

### ACCESS TO HEALTH CARE

A major determinant of the survival of infants seems to be their access to health care. Despite the substantial improvement since Independence in the coverage of rural India through Primary Health Centres and Sub-centres, the facilities are far from adequate. To take a difficult case of labour or a sick child to a PHC or a Sub-centre requires an effort and expenditure that is beyond the capacity of many rural households. Under the circumstances, the parents exercise difficult choices and by tradition and custom they tend to discriminate against daughters. This is reflected in the higher IMR for female children in several years as shown in Table 1. Similar data at the state level show persistent and markedly higher IMRs for females than the males in the northern states of Haryana, Himachal Pradesh, Orissa, Punjab, Rajasthan and Uttar Pradesh. In Assam, Karnataka, Kerala, Maharashtra, the northeast region and Tamil Nadu, the excess of female IMR over the male is small and/or not consistent.

An estimate of the magnitude of discrimination against females in the Punjab is pro-

TABLE 22: PERCENTAGE DISTRIBUTION OF POSTNEONATAL DEATHS BY CAUSE OF DEATH, KHANNA AND NARANGWAL STUDIES, 1956-59 AND 1970-73

| Khanna Study | | Narangwal Study | |
|---|---|---|---|
| Cause of Death | Percentage of Postneonatal Deaths | Cause of Death | Percentage of Postneonatal Deaths |
| Diarrhoea | 34 | Gastroenteritis | 40 |
| Pneumonia | 13 | Diarrhoea and dehydration | 30 |
| Prematurity | 13 | Lower respiratory tract infection | 30 |
| Measles | 7 | Malnutrition | 6 |
| Typhoid | 4 | Other/unknown | 24 |
| Tuberculosis | 2 | All | 100 |
| All six causes | 72 | | |
| Other causes | 27 | | |
| Total | 100 | | |
| Postneonatal mortality rate | 82 | Postneonatal mortality rate | 53 |

*Sources:* Wyon J B and Gordon J E, 1971, "The Khanna Study Population Problems in the Rural Punjab", Cambridge, Harvard University Press, pp 185-186.
Kielmann A A, *et al*, 1983, "Child and Maternal Health Services in Rural India: The Narangwal Experiment", Vol 1, Baltimore, The Johns Hopkins University Press, p 197.

TABLE 23: PROPORTION OF CHILDREN RECEIVING EARLY MEDICAL CARE (IN THE FIRST 24 HOURS) FOR THEIR TERMINAL ILLNESS, BY SEX, NARANGWAL STUDY, PUNJAB, 1970-73

| Characteristics | Per Cent Receiving Care | Number in Receiving Care | Sample Total |
|---|---|---|---|
| (a) Sex | | | |
| Males | 64 | 29 | 45 |
| Females | 48 | 24 | 50 |
| (b) Caste | | | |
| Jat | 68 | 21 | 31 |
| Ramdasia | 49 | 22 | 45 |
| Other | 63 | 12 | 19 |
| (c) Age at death | | | |
| One month | 50 | — | NA |
| 1-11 months | 87 | — | NA |
| 12 months or more | 80 | — | NA |
| (d) Nutrition status | | | |
| Severely malnourished | 59 | — | — |
| 'Not' severely malnourished | 86 | — | — |

*Source:* Kielmann A A and Associates, 1983, "Child and Maternal Health Services in Rural India: The Narangwal Experiment", Vol 1, Baltimore, The Johns Hopkins University Press, pp 199-200.

vided by the Khanna study which indicated a female life expectancy at birth during 1956-59 in the 11 villages of the order of 45.6 years, 8.5 years below the male (54.1 years) (Visaria, 1971, p 71). The sex difference in the death rates (adverse to females) was higher during the second year of life than in the IMR (ibid, pp 45-47).

Khan has gathered evidence indicating discrimination against daughters in the duration of breast-feeding, other feeding and medical care (Khan, et al, 1983). The Narangwal data on the extent of "early care" in terminal illnesses, summarised in Table 23, also show discrimination against daughters.

Such discrimination is often subtle. The mothers internalise the cultural norms in their infancy and early age. It leads them to give priority to their sons and husbands over daughters and their own self in every respect. Such self-efficement partly contributes to the higher IMR of females.

## LINKS BETWEEN IMR, AND EDUCATION AND WORK STATUS OF WOMEN

Various dimensions of prenatal, natal and postnatal care get reflected in the socio-economic differentials in neonatal and post-neonatal mortality, which are discussed at length in the demographic literature on infant mortality. One of the most widely discussed and closely associated variables is maternal literacy and education. A negative relationship between the level of education of mothers and infant (and child) mortality has been observed in many developing countries including India. Tables 24 and 25 show quite vividly a markedly lower IMR among children if the rural mother is literate (90) relative to that among children of illiterate mothers (145). However, one knows little about ways in which literacy and education lowers mortality. Caldwell has postulated in the context of African countries that education has an effect on:

(a) the power balance between the spouses and between generations such that an educated mother has a say in devoting greater resources to children as opposed to parents and grandparents,

(b) the degree of fatalism with respect to children's ill health, and

(c) a confidence in the human capacity to manipulate the world, through knowledge of the location of facilities as well as access to an utilisation of them (Caldwell, 1979).

These hypotheses deserve to be explored in the Indian context as well. An interesting facet of the relationship between women's economic independence or status and IMR is also highlighted in Table 24 through the data on IMRs among children of working and non-working women. Of course, working women are not necessarily economically self-sufficient or independent. In fact, female participation in labour force seems to vary inversely with economic status (as reflected by the per capita expenditure) of the household. And given the general absence of creches it is not surprising that the children of working women suffer from a clear disadvantage in the form of a higher IMR. However, it is difficult to isolate the effect of the overall living standard of the household. Within the ranks of workers, the agricultural activities predominate in rural areas but the sample frequencies are large enough for the blue-collar production process activities (crafts, etc). Children born to rural women working in agriculture experienced lower infant mortality than those women working in other blue-collar production activities, presumably because agriculture tends to be seasonal and permits flexibility in work.

## CONCLUSION

The literature reviewed above justifies a basic questioning of the widely held belief that the level of infant mortality reflects the contemporary socio-economic milleu. Like the unprecedented declines in the crude death rates that occurred in many developing countries after the end of the Second World War, the IMRs have also declined rapidly to unusually low levels in many countries.

The data indicate that even when the IMR has declined in the last 20 years, the share of neonatal mortality has remained more or less constant and thus the applicability of Bourgeois-Pichat model is questioned in the context of India. The review in fact does indicate that the environmental or exogenous factors are important even in the neonatal phase of the child and account for high neonatal mortality. There is considerable scope for lowering neonatal mortality through simple antenatal care and through improving the

TABLE 24: INFANT MORTALITY RATES BY (A) EDUCATIONAL ATTAINMENT AND (B) WORK STATUS/OCCUPATIONAL GROUP OF MOTHERS, 1978

| Characteristic of Mother | India | | Gujarat | | Kerala | | Uttar Pradesh | |
|---|---|---|---|---|---|---|---|---|
| | Rural | Urban | Rural | Urban | Rural | Urban | Rural | Urban |
| (A) Educational Attainment | | | | | | | | |
| Illiterate | 145 | 88 | 138 | 89 | 55 | 29 | 188 | 125 |
| Literate | 90 | 50 | 101 | 81 | 37 | 25 | 132 | 86 |
| Below primary | 101 | 57 | 112 | 84 | 44 | 40 | 141 | 105 |
| Primary and above | 71 | 47 | 51 | 79 | 29 | 21 | 115 | 72 |
| (B) Work Status/ Occupation | | | | | | | | |
| Non-workers | 134 | 64 | 125 | 83 | 34 | 31 | 175 | 107 |
| Workers | 142 | 98 | 148 | 102 | 74 | — | 151 | 133 |
| Agricultural | 143 | 106 | 145 | — | 89 | — | 150 | 155 |
| Blue collar* | 150 | 129 | 203 | 143 | 50 | — | 236 | 164 |

*Note:* * Production and related workers, transport equipment operators and labourers.

*Source:* Office of the Registrar General, "Survey on Infant and Child Mortality", 1979, New Delhi, 1983, pp 30, 189, 382, 703.

TABLE 25: INFANT MORTALITY RATES BY EDUCATIONAL ATTAINMENT OF MOTHERS, 1978

| States | Illiterate | | Literate | | Below Primary | | Primary and Above | |
|---|---|---|---|---|---|---|---|---|
| | Rural | Urban | Rural | Urban | Rural | Urban | Rural | Urban |
| **All India** | 145 | 88 | 90 | 50 | 101 | 57 | 71 | 47 |
| **Andhra Pradesh** | 128 | 70 | 75 | 46 | 75 | 28 | 77 | 59 |
| Assam | 126 | 124 | 116 | 75 | 149 | 105 | 51 | 41 |
| Bihar | 104 | 58 | 65 | 20 | 71 | — | 38 | 30 |
| Gujarat | 138 | 89 | 101 | 81 | 112 | 84 | 51 | 79 |
| Haryana | 122 | 79 | 94 | 42 | 96 | 41 | 93 | 43 |
| Himachal Pradesh | 134 | 61 | 23 | 73 | 47 | 101 | — | 64 |
| Jammu and Kashmir | 81 | 33 | 41 | 23 | 76 | 32 | 26 | 21 |
| Karnataka | 90 | 90 | 73 | 28 | 77 | — | 63 | 38 |
| Kerala | 55 | 29 | 37 | 25 | 44 | 40 | 29 | 21 |
| Madhya Pradesh | 145 | 107 | 140 | 71 | 89 | 62 | 117 | 76 |
| Maharashtra | 89 | 73 | 73 | 40 | 81 | 55 | 54 | 33 |
| North Eastern Region | 102 | 99 | 56 | 31 | 61 | 66 | 50 | 21 |
| Orissa | 141 | 99 | 107 | 49 | 124 | 60 | 56 | 35 |
| Punjab | 128 | 95 | 61 | 45 | 87 | 63 | 48 | 40 |
| Rajasthan | 142 | 71 | 84 | 51 | 98 | 73 | 59 | 35 |
| Tamil Nadu | 128 | 85 | 76 | 44 | 89 | 53 | 50 | 37 |
| Uttar Pradesh | 188 | 125 | 132 | 86 | 141 | 105 | 115 | 72 |
| West Bengal | 84 | 84 | 76 | 67 | 68 | 69 | 89 | 47 |

*Source:* Office of the Registrar General, India, "Survey on Infant and Child Mortality, 1979", New Delhi, 1983.

sanitary conditions at the time of birth.

Our review supports the belief that simple and inexpensive technology of prenatal, natal and postnatal care is indeed available to bring about a substantial decline in the IMRs in India. However, few studies have documented the socio-economic and organisational problems involved in the diffusion of the known technology.

*A priori*, it should not be difficult to persuade parents to change their attitudes and practices when the very survival of their loved ones is at stake. However, centuries of deprivation has generated an apathy and fatalistic acceptance of a high IMR that are unlikely to be shed without a convincing demonstration of the available alternative. The speedy adoption of the new technology for agricultural production inspires hope that the proverbial conservatism of the Indian villagers can be overcome quite rapidly. Also, it should be easier to lower infant mortality than to raise the level of contraceptive practice, although success with respect to the former objective will generate pressures for accelerated progress towards the latter goal.

**(Concluded)**

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# Black Money and Effectiveness of Monetary Policy

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**K Sundaram**

IN their latest communication on the question of black money and the effectiveness of monetary policy (*EPW*, September 8, 1984), Acharya and Madhur (hereafter AM) have sought to defend their modelling of the question and, despite their own doubts about the robustness of their empirical results, have stated that they "continue to subscribe" to their earlier conclusions. Their faith in the one regression equation estimated by them must indeed be overwhelming. For their reply to our critique not only does not squarely face the questions raised in our critique but also fails to recognise the implications of their 'caveats' for the issues at hand.

Before we proceed further, let us get the question of data out of the way. We had built up the data set (which was presented in our paper) using the same data sources as stated to have been used by AM in their original paper and following exactly the same procedures that they had stated as having followed. However, we do not wish to get into an interminable debate on 'our' data *versus* 'their' data and let us accept in toto the data now provided by AM. As we shall show presently, the problem of robustness, or rather the lack of it, of their empiricial results persists our use of their data.

Without getting entangled with polemics let us restate, explicitly this time, the basic empirical and analytical issues which are at the heart of the present problem. These are,

(a) the notion of monetary-credit policy as it is usually understood in India;
(b) distinction between informal credit markets and financial transactions involving black liquidity;
(c) the distinction between rural and urban informal credit markets and relevance of the bazar bill rate to the former;
(d) market imperfection and market segmentation within the informal credit market; and,
(e) importance of changes in the price level and in the rate of inflation in financial transactions.

The position taken by AM in their earlier paper and reiterated in their rejoinder has implications which they do not seem to have fully realised. Let us, therefore, take up these issues sequentially.

Our critique of AM had drawn attention to a few sentences in our 1976 paper. But AM do not seem to have taken any note of these. Since in their earlier paper they had quoted from our paper somewhat out of context, it is useful to reproduce the relevant sentences. We had said " ... This [black] liquidity is immune to any monetary-fiscal policy ... it can move around in the economy creating excess demand in *several vulnerable sectors of the economy* ..." It should be obvious from this statement as to what notions of monetary-credit policy one is talking about. Of particular relevance in this context is a policy dominated by sector-wise credit-rationing in order to maintain intersectoral balances. The cost of credit, howsoever accurately measured, is only one part of such a policy.

In our critique we had stated that " ... there is a qualitative difference between the operations in black money and financial operations in what may be called the 'legal' informal credit markets ..." But, in their rejoinder, AM have nothing to say on this difference. As everyone knows the bazar bill rate relates to one part of the informal but 'legal' credit market. It is thus incapable of enlightening us on the significance of black money in the content of monetary policy even if it were an accurate measure of the cost of credit in the informal credit market as such.

In their rejoinder AM state tongue-in-cheek that they are looking at the entire informal credit market and not merely at its urban component. That such an important point should have been made in a one-sentence-note (or footnote!) shows how confident the authors must feel about it. It should be well known that data on the bazar bill rate are based on quotations from dealers in Bombay, Calcutta and Madras. About its ability to capture trends in the rural credit market, the less said the better.

An explicit assertion underlying the AM analysis is that the entire informal credit market—whether rural or urban, 'black' or 'white'—is (i) fully integrated, and (ii) perfectly competitive. These strong assumptions are necessary in order to justify that what matters to every lender and every borrower is the cost of credit and nothing else. It is further the case made by AM that the cost of credit for this market-clearing, perfectly competitive market can be represented by the bazar bill rate. AM do of course claim their awareness of the bazar bill rate being less than an ideal measure of the cost of credit in the informal market. We too are aware that all of us, in our empirical research, find it necessary to use proxy variables. But there is a substantive difference between a situation in which such a proxy measure represents only an incidental phenomenon and is introduced only to minimise specification bias and another in which the variable itself is being explained or, even more seriously, bears the entire burden of evidence. The latter case is like a trial in which the bona fides of the principal witness itself are doubtful.

The fact that all interest rates move 'together' makes a poor argument for using 'any' one of these as a representative rate. Moving together is a well known feature of most economic time-series including those on rates of interest. This clearly does not justify, for example, using national product where the relevant variable happens to be capital formation. When we say, or Timberg and Aiyar claim, that different interest rates move 'in sympathy' the implication is certainly not that the different rates are substitutes for each other. Hicksian composite-good theorem could not be applied less appropriately than has been done. What this theorem requries is 'constancy' of the ratio rather than mere movement in 'sympathy'.

Finally, about the relevance of price changes. It is simple textbook stuff that when we talk of money there is a transactions demand and an asset demand. Our remark about the transportation of the elephant might have sounded harsh but it was nonetheless called for. How can demand for money/credit be modelled with no reference whatsoever to changes in the price level? AM have chosen to say nothing in defence of their model which makes no reference to real magnitudes. They have instead dwelt upon a minor point, namely, whether the rate of inflation should or should not have a lag. We shall take this up later. Let us reiterate that a legitimate model of financial transactions must recognise not only the real volume of transactions but also the adjustment of money rates of interest to the real cost of funds. The simplest way to do this is to provide some adjustment to the expected rate of inflation.

From the foregoing discussion and our critique of AM it should be clear that we regard modelling of the bazar bill rate as a vacuous exercise. Despite this we had taken some pains to point out certain mistakes in the AM analysis of this problem only in the hope that they will come up with a more acceptable theoretical and empirical model—whatever be its relevance to the original issue. Instead of doing so AM seems to consider this to be a cross that we must carry. Let us therefore address ourselves to some of the important issues without being too elaborate.

Our basic contention about the determination of the bazar bill rate is three-fold. First, the demand for liquidity must be specified in terms of real incomes and real stock of credit. This prompts us first of all to re-estimate the AM model by using deflated values of KO, YO and YU, using entirely their data. The re-estimated equations in linear as well as semi-logarithmic forms for the sample period 1960-61 through 1976-77 are obtained as follows:

$$(1)\ \mathrm{RI} = \underset{(1.63)}{-\ 4.814} - \underset{(0.86)}{1.481}\ \mathrm{D70} + \underset{(2.89)}{0.497}\ \mathrm{RO} + \underset{(0.77)}{0.00058}\ \frac{\mathrm{KO}}{\mathrm{P}} - \underset{(0.02)}{0.00001}\ \frac{\mathrm{YO}}{\mathrm{P}} + \underset{(4.04)}{0.00068}\ \frac{\mathrm{YU}}{\mathrm{P}}$$

$$\bar{\mathrm{R}}^2 = 0.941,\ \mathrm{d} = 1.54$$

$$(2)\ \mathrm{RI} = \underset{(3.81)}{-126.181} - \underset{(1.40)}{3.599}\ \mathrm{D70} + \underset{(2.88)}{0.481}\ \mathrm{RO} + \underset{(1.45)}{8.176}\log\frac{\mathrm{KO}}{\mathrm{P}} - \underset{(0.84)}{6.222}\log\frac{\mathrm{YO}}{\mathrm{P}} + \underset{(3.58)}{12.835}\log\frac{\mathrm{YU}}{\mathrm{P}}$$

$$\bar{\mathrm{R}}^2 = 0.944,\ \mathrm{d} = 1.52$$

These estimated equations speak for the 'robustness' of the AM model and need no elaboration. All we have done is to take account of the elephants' weight.

The second contention is that the relevant income variable is that relating to the unorganised and non-agricultural sector. This is the obvious implication of the fact that the bazar bill market is entirely an urban phenomenon and is informal in character. This is borne out by a comparison of the following three equations. One each of these corresponds to YO, YU and YUNA. All of them are in a semi-logarithmic form because this gives us relatively better Durbin-Watson statistics. We have for the sample period 1960-61 through 1976-77 the following results:

$$(3)\ \mathrm{RI} = \underset{(13.72)}{-\ 37.153} + \underset{(20.13)}{6.041}\log \mathrm{YO}$$

$$\bar{\mathrm{R}}^2 = 0.962,\ \mathrm{d} = 1.34$$

$$(4)\ \mathrm{RI} = \underset{(13.92)}{-\ 48.772} + \underset{(18.87)}{6.634}\log \mathrm{YU}$$

$$\bar{\mathrm{R}}^2 = 0.957,\ \mathrm{d} = 1.52$$

$$(5)\ \mathrm{RI} = \underset{(14.34)}{-\ 38.358} + \underset{(20.83)}{6.226}\log \mathrm{YUNA}$$

$$\bar{\mathrm{R}}^2 = 0.964,\ \mathrm{d} = 1.47$$

In terms of the real income variables the corresponding equations are:

$$(6)\ \mathrm{RI} = \underset{(8.74)}{-\ 146.50} + \underset{(9.77)}{18.046}\log\frac{\mathrm{YO}}{\mathrm{P}}$$

$$\bar{\mathrm{R}}^2 = 0.855,\ \mathrm{d} = 1.03$$

$$(7)\ \mathrm{RI} = \underset{(8.46)}{-\ 240.209} + \underset{(9.06)}{25.691}\log\frac{\mathrm{YU}}{\mathrm{P}}$$

$$\bar{\mathrm{R}}^2 = 0.835,\ \mathrm{d} = 1.03$$

$$(8)\ \mathrm{RI} = \underset{(15.76)}{-\ 179.719} + \underset{(17.28)}{21.885}\log\frac{\mathrm{YUNA}}{\mathrm{P}}$$

$$\bar{\mathrm{R}}^2 = 0.949\ \mathrm{d} = 1.49$$

These equations show the inadequacy of YO as the determinant of RI. However, the equations with other variants of the income measure do also seem to be in need for improvement.

The third contention is that the nominal rate of interest must be influenced by the expected rate of inflation. But, before we pursue this final point any further, let us turn to some of the questions raised by AM regarding our model. These points relate to (i) the use of YUNA as a determinant of the demand for credit in the bazar bill market, (ii) assumption that all agents are endowed with perfect foresight as regards the rate of inflation, and (iii) specifying RO as a determinant of the supply price of liquidity. Let us consider each of these one by one.

Regarding the use of YUNA the comment by AM is baffling. As they should know there exist no estimates of income appropriate to the urban informal sector. In any case the measure used by us is less erroneous than YU as used by AM, whatever be the percentage of credit transacted in the bazar bill market. If they had any better alternatives in mind they have not spelt them but.

About the expected rate of inflation AM have, at least, a debating point. We had some results based on the lagged rate of inflation but we did not highlight these properly. We shall subsequently abandon the assumption of perfect foresight and assume instead that the expected rate of inflation is some multiple of the lagged rate of price change, which is known.

Inclusion of RO in the supply function for supply of credit is very close to a text-book discussion of supply behaviour. If the hypothesis is that credits in the two markets, formal and informal, are substitutes, a rise in RO will cause a leftward shift in the supply curve (cost on the vertical axis and credit on the horizontal). This is quite in line with the position taken by AM and was included only to test *their* linkage hypothesis. However, it may be recalled that in the equations reported in our critique of AM this variable did not turn out to be important. To avoid any further misunderstanding we are quite happy to altogether drop this variable from our model.

The foregoing discussion gives us the revised model in which RI is determined by $\frac{\mathrm{YUNA}}{\mathrm{P}}$ and $\hat{\mathrm{P}}_{-1}$. In case the credit markets are linked we have two more determinants namely, $\frac{\mathrm{YO}}{\mathrm{P}}$ and $\frac{\mathrm{KO}}{\mathrm{P}}$. The following equations are estimated for the period 1960-61 through 1976-77 on the basis of data given by AM (and in their units of measurement). We have

$$(9)\ \mathrm{RI} = \underset{(3.04)}{-4.109} + \underset{(15.18)}{0.00255}\ \frac{\mathrm{YUNA}}{\mathrm{P}} + \underset{(1.75)}{0.05317}\ \hat{\mathrm{P}}_{-1}$$

$$\bar{\mathrm{R}}^2 = 0.943,\ \mathrm{d} = 1.60$$

$$(10)\ \mathrm{RI} = \underset{(15.74)}{-174.702} + \underset{(17.18)}{21.287}\log\frac{\mathrm{YUNA}}{\mathrm{P}} + \underset{(1.73)}{0.04701}\ \hat{\mathrm{P}}_{-1}$$

$$\bar{\mathrm{R}}^2 = 0.955,\ \mathrm{d} = 1.89$$

$$(11)\ \mathrm{RI}\ \ \underset{(1.69)}{-5.232} + \underset{(4.93)}{0.00277}\ \frac{\mathrm{YUNA}}{\mathrm{P}} + \underset{(1.57)}{0.05041}\ \hat{\mathrm{P}}_{-1} - \underset{(0.04)}{0.00014}\ \frac{\mathrm{KO}}{\mathrm{P}}$$

$$\bar{\mathrm{R}}^2 = 0.939,\ \mathrm{d} = 1.74$$

$$(12)\ \mathrm{RI} = \underset{(6.05)}{-174.391} + \underset{(5.06)}{21.234}\log\frac{\mathrm{YUNA}}{\mathrm{P}} + \underset{(1.65)}{0.04706}\ \hat{\mathrm{P}}_{-1} + \underset{(0.01)}{0.01952}\log\frac{\mathrm{KO}}{\mathrm{P}}$$

$$\bar{\mathrm{R}}^2 = 0.952,\ \mathrm{d} = 1.89$$

$$(13)\ \mathrm{RI} = \underset{(1.75)}{-\ 5.519} + \underset{(3.31)}{0.00349}\ \frac{\mathrm{YUNA}}{\mathrm{P}} + \underset{(0.79)}{0.03171}\ \hat{\mathrm{P}}_{-1} - \underset{(0.20)}{0.00007}\ \frac{\mathrm{KO}}{\mathrm{P}} - \underset{(0.81)}{0.00065}\ \frac{\mathrm{YO}}{\mathrm{P}}$$

$$\bar{\mathrm{R}}^2 = 0.938,\ \mathrm{d} = 1.86$$

$$(14)\ \mathrm{RI} = \underset{(6.81)}{-\ 178.322} + \underset{(3.90)}{27.856}\log\frac{\mathrm{YUNA}}{\mathrm{P}} + \underset{(0.89)}{0.02889}\hat{\mathrm{P}}_{-1} + \underset{(0.22)}{0.32817}\log\frac{\mathrm{KO}}{\mathrm{P}} - \underset{(1.14)}{6.40306}\log\frac{\mathrm{YO}}{\mathrm{P}}$$

$$\bar{\mathrm{R}}^2 = 0.953,\ \mathrm{d} = 2.10$$

In case D 70 ia also included as a regressor we have the two equations:

$$(15)\ \mathrm{RI} = \underset{(1.70)}{-5.823} + \underset{(3.15)}{0.00347}\ \frac{\mathrm{YUNA}}{\mathrm{P}} + \underset{(0.73)}{0.03036}\ \hat{\mathrm{P}}_{-1} - \underset{(0.37)}{0.00027}\ \frac{\mathrm{KO}}{\mathrm{P}} - \underset{(0.55)}{0.00052}\ \frac{\mathrm{YO}}{\mathrm{P}} + \underset{(0.32)}{0.51823}\ \mathrm{D70}$$

$$\bar{\mathrm{R}}^2 = 0.933,\ \mathrm{d} = 1.90$$

$$
\begin{aligned}
(16)\ \mathrm{RI} = {} & \underset{(4.95)}{-162.893} + \underset{(3.42)}{26.047} \log \frac{\mathrm{YUNA}}{\mathrm{P}} \\
& + \underset{(1.01)}{0.03395}\, \hat{\mathrm{P}}_{-1} + \underset{(0.82)}{4.57105} \log \frac{\mathrm{KO}}{\mathrm{P}} \\
& - \underset{(1.37)}{10.1275} \log \frac{\mathrm{YO}}{\mathrm{P}} - \underset{(0.80)}{1.985}\ \mathrm{D70}
\end{aligned}
$$

$$\bar{\mathrm{R}}^2 = 0.951,\ \mathrm{d} = 2.04$$

However, this point needs a closer examination. The justification provided by AM for using the dummy variable D70 as a regressor is that the post-1970 series on organised sector credit is more inclusive than the one for the earlier period. This is thus a case of the 'mis-speicification' problem in econometries. With some assumptions on the type of mis-specification the problem can be dealt with by means of dummy variables. To be more specific, if the pre-1970 series understated the volume of credit by a constant amount an intercept dummy is adequate. On the other hand, if the understatement was by a fixed proportion of the observed amount we need a slope dummy. Since it is difficult to be certain either way, we have re-estimated the equation on which AM base their argument. We have also re-estimated equations (15) and (16) including slope dummy variables. The results are as follows. The sample period remains as before 1960-61 through 1976-77. We should note that any other mis-specification is harder to deal with and OLS estimates could be quite inappropriate.

$$
\begin{aligned}
(17)\ \mathrm{RI} = {} & \underset{(2.03)}{4.9186} + \underset{(3.94)}{9.9709}\ \mathrm{D70} + \underset{(1.49)}{0.8881}\ \mathrm{RO} \\
& + \underset{(1.96)}{0.00610}\ \mathrm{KO} - \underset{(2.74)}{0.00379}\ \mathrm{D70.KO} \\
& - \underset{(1.15)}{0.00195}\ \mathrm{YO} + \underset{(0.35)}{0.00004}\ \mathrm{YU}
\end{aligned}
$$

$$\bar{\mathrm{R}}^2 = 0.9583,\ \mathrm{d} = 1.83$$

$$
\begin{aligned}
(18)\ \mathrm{RI} = {} & - \underset{(1.18)}{4.2531} + \underset{(1.23)}{4.9699}\ \mathrm{D70} \\
& + \underset{(2.38)}{0.00284} \frac{\mathrm{YUNA}}{\mathrm{P}} + \underset{(0.99)}{0.04131}\, \hat{\mathrm{P}}_{-1} \\
& + \underset{(1.02)}{0.00232} \frac{\mathrm{KO}}{\mathrm{P}} - \underset{(1.20)}{0.00167}\ \mathrm{D70.}\frac{\mathrm{KO}}{\mathrm{P}} \\
& - \underset{(1.08)}{0.00115} \frac{\mathrm{YO}}{\mathrm{P}}
\end{aligned}
$$

$$\bar{\mathrm{R}}^2 = 0.9354,\ \mathrm{d} = 1.84$$

$$
\begin{aligned}
(19)\ \mathrm{RI} = {} & - \underset{(4.66)}{160.691} + \underset{(0.39)}{10.189}\ \mathrm{D70} \\
& + \underset{(3.09)}{25.138} \log \frac{\mathrm{YUNA}}{\mathrm{P}} + \underset{(0.99)}{0.0344}\, \hat{\mathrm{P}}_{-1} \\
& + \underset{(0.92)}{6.6250} \log \frac{\mathrm{KO}}{\mathrm{P}} - \underset{(0.47)}{1.503}\ \mathrm{D70} \log \frac{\mathrm{KO}}{\mathrm{P}} \\
& - \underset{(1.40)}{11.39} \log \frac{\mathrm{YO}}{\mathrm{P}}
\end{aligned}
$$

$$\bar{\mathrm{R}}^2 = 0.9473,\ \mathrm{d} = 2.05$$

We believe that the equations and empirical results which do not support *a priori* views are as instructive, if not more, as those that do support such views and should therefore be faithfully reported. That motivates our having gone through all these results, rather than presenting a couple of final equations as AM have done.

These results speak for themselves. Most equations are bad because they carry unnecessary excess baggage. The only two variables that consistently hold out are the real non-agricultural unorganised income and the rate of inflation. Thus, there is no reason why equation (10) should be rejected unceremoniously in favour of the one produced by AM in support of their hypothesis. This remains an unanswered issue now as it was when we wrote last. In their reply AM have said nothing to justify their model in the light of our criticism. Instead they have raised some minor points about our model all of which have now been replied to.

The concern that AM show for 'raising' the 'standard of analysis' is indeed commendable. However, estimating a couple of mis-specific regression equations is neither the beginning nor the end of rigorous research. Statement of qualifications and caveats does little to raise the level of research from that of 'casual empiricism' when such caveats and qualifications are basic to the very issues at stake.

[The authors are grateful to Manmohan Agarwal, K L Krishna and Suresh Tendulkar for comments on an earlier draft. The usual disclaimers apply.]

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## Usha Martin Industries

USHA MARTIN INDUSTRIES (UMI) is setting up a 100 per cent export-oriented unit at its existing site at Ranchi in Bihar for manufacture of 3,000 tonnes per annum of steel wire ropes, strands and slings at an estimated cost of Rs 190 lakh. ICICI has sanctioned a foreign currency loan equivalent to Rs 95 lakh to meet a part of the funds required for the project and the balance is proposed to be financed from internal resources of the company. The unit is expected to be commissioned during the fourth quarter of the current year. To meet the challenge of the coming decade, the company is currently implementing a major scheme of modernisation at an estimated cost of Rs 12 crore. To raise a part of the finance required for the scheme, the company is coming to the capital market on September 2 with a linked issue of 15 lakh equity shares of Rs 10 each at a premium of Rs 2.50 per share and 7.50 lakh 13.5 per cent secured non-convertible debentures of Rs 100 each at par. Existing equity shares are quoted on the market at Rs 46.50 each. The issue is being made partly by way of 'rights' and partly to the public. Applications from the public must be for both equity shares and debentures in the proportion of 25 debentures for every 50 equity shares applied for and in multiples thereof.

The company has a well diversified operation and its performance shows that the overall operations have remained satisfactory despite the recession encountered by the engineering industry in 1982 and 1983. The debentures offer a choice of two schemes for interest—a cumulative interest scheme and a non-cumulative interest scheme. The debentures will be redeemed at par on the expiry of 10 years from the date of allotment. UMI was established in 1960 in technical and financial collaboration with Martin Black and Co (Wire Ropes), UK. It has grown into a large diversified engineering conglomerate with current turnover exceeding Rs 58 crore. In addition to wire ropes, it manufactures a wide range of wires, wire rods, wire drawing and allied machines. The company's products are well established in over 30 countries. The company has also promoted joint ventures in Yugoslavia and Thailand. According to B K Jhawar, Chairman and Managing Director, during 1984 the company recorded a turnover of Rs 58.38 crore and earned a gross profit of Rs 3.04 crore. Its reserves and surplus stood at Rs 26.61 crore (including revaluation reserves of Rs 20.20 crore) as against equity capital of Rs 3.45 crore. Of this equity capital, Rs 165 lakh has been by way of bonus issues. The company has an uninterrupted dividend record since 1970. The last dividend was 16 per cent. The company expects to improve its profitability significantly as a result of the proposed programme of modernisation and setting up of the 100 per cent export-oriented unit. The issue is being managed jointly by the Merchant Banking Division of ICICI and J M Financial and Investment Consultancy Services.

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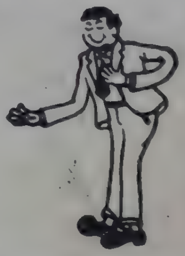

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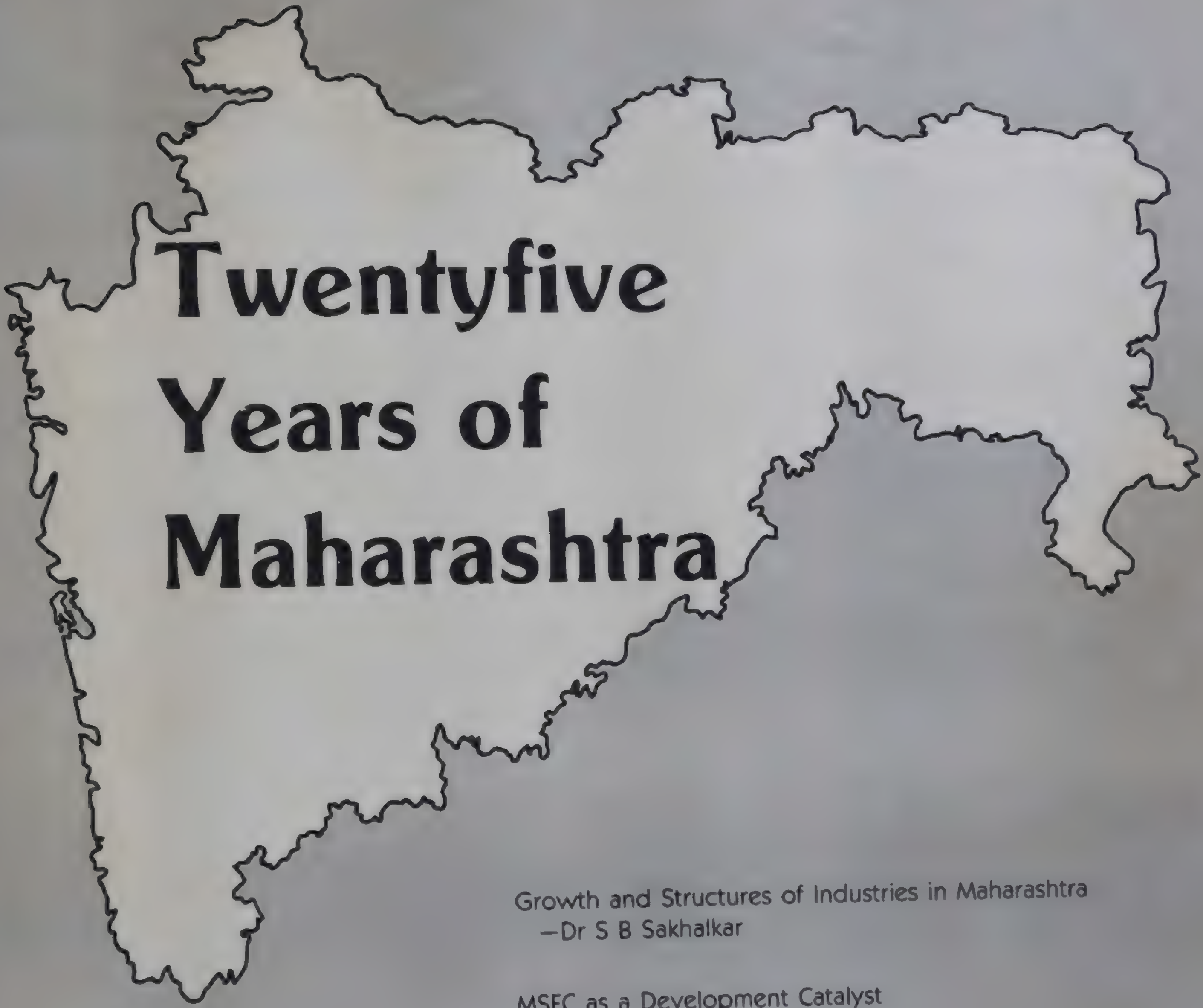
# Twentyfive Years of Maharashtra



Growth and Structures of Industries in Maharashtra
—Dr S B Sakhalkar

MSFC as a Development Catalyst
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Monopoly Cotton Procurement Scheme in Maharashtra

*Advertiser's Supplement*

# Growth and Structures of Industries in Maharashtra

**Dr S B Sakhalkar**

**Executive Director, Maharashtra Economic Development Council, Bombay**

MAHARASHTRA carved for itself a distinguished and prominent place on the economic and industrial map of India. Even though Maharashtra accounts for only 9.5 per cent of the national population it contributes 13.1 per cent to the national income. The per capita state income in Maharashtra was Rs 2,525 last year, i e, 1982-83, whereas the per capita national income was Rs 1,891. Maharashtra leads all other states in financial and commercial activities and Bombay, the capital of Maharashtra, is truly regarded as the financial capital of India. Even though the state has only 9.7 per cent of the scheduled commercial bank offices in the country, it accounts for 17.8 per cent of deposits and 21.1 per cent of advances.

The state leads in urbanisation and is a reservoir of educated and skilled manpower. It has all along been in the vanguard in the industrial march of the country. This is because of the excellent infrastructure and encouragement provided by the state to the investors and entrepreneurs. The government provides ample industrial land at suitable locations together with adequate water and power facilities. The state accounts for 16.9 per cent of the electricity generated in the country and 16.8 per cent of the total industrial consumption of power. Although the state has only 10.5 per cent of the total number of factories in the country, it accounts for 17.6 per cent of the total number of factory workers in the country. The number of factory workers per lakh of population is 1,044 in India as against 2,012 in the state. The productivity of workers in the state is also very high. The per capita value added in industry was Rs 457 in the state against Rs 167 in the country. According to the Official Economic Survey, the state accounts for nearly one-sixth of productive capital and employment and one-fourth of gross value of output and value added by the organised industrial sector in the country. Output per employee in Maharashtra is 38 per cent higher than that of India and value added per employee is 50 per cent higher.

### INDUSTRIAL GROWTH

The rates of growth and the emerging pattern of industry in Maharashtra during the last two decades reflect inspiring entrepreneurial efforts and the development policy and the promotional measures adopted by the state government within the overall framework of industrial policy of the Union government.

The total number of factories in the state more than doubled from 8,233 in 1961 to 16,594 in 1981. The productive capital in them recorded over eleven-fold rise from Rs 619 crore to Rs 7,096 crore. The rise in output was even higher. Output increased over thirteen-fold from Rs 1,078 crore to Rs 14,351 crore. Value added by manufacture recorded over nine-fold rise from Rs 317 crore to Rs 2,981 crore. The growth in employment was, however, smaller at 51.5 per cent from 7.87 lakh to 11.92 lakh. The data thus show a shift in favour of capital-intensive industries which, however, is a common national feature of this period. This has, however, contributed to higher productivity in Maharashtra than that in the country. Output per rupee of productive capital, as per latest available figures, is Rs 2.02 in the state against Rs 1.38 in India. Similarly, employment per crore of productive capital is 220 against 203 in the country. The expansion of factories employing more than 50 persons was smaller at 50 per cent during the last two decades while that of factories employing less than 50 persons was 120 per cent. Despite the increased availability of power, the growth-rate of power-operated factories was lower than that of non-power operated factories. In fact there was a decline in the number of factories employing more than 50 persons in the non-power operated group of factories.

The industrial growth in Maharashtra accelerated further in seventies. The number of factories increased by 62.0 per cent during 1971-81 against 24.3 per cent in 1961-71. Output increased by 275.3 per cent in seventies against 254.7 per cent in sixties. Similarly value added increased by 209.2 per cent in seventies against 204.0 per cent in sixties. Productive capital, however, recorded a lower growth of 204.0 per cent in seventies against 277.0 per cent in sixties. Consequently, the capital-output ratio declined and output per rupee of productive capital rose from Rs 1.59 in 1961 to Rs 1.64 in 1971 and Rs 2.02 in 1981. Growth in employment was also lower at 19.4 per cent in seventies against 26.8 per cent in sixties. Consequently, both value added per employee and output per employed recorded a higher rise in seventies than in sixties. The changing structure of industries also resulted in decline in the ratio of value added to output from 29.4 per cent in 1961 to 25.2 per cent in 1971 and 20.7 per cent in 1981.

### PATTERN OF INDUSTRIES

The composition of industries in Maharashtra has undergone considerable change in the last two decades in favour of chemicals and capital goods and intermediate goods industries.

Eight major industires, *viz*, (i) chemicals, (ii) electrical machinery, (iii) transport equipments, (iv) machinery, machine tools other than electrical, (v) basic metals and alloys, (vi) rubber, plastics, petroleum and coal products, (vii) cotton textile, and (viii) food products account for three-fourth of the value of output and value added by the manufacturing sector. Nearly one-fourth of value added is contributed by chemicals industry. The share of this industry in the number of employees is much smaller at 9 per cent and total emoluments at 16 per cent. Cotton textile industry maintains the leading position in employment accounting for 24 per cent of the total number of employees in the manufacturing sector. However, because of relatively lower level of emoluments, the percentage share in the total emoluments is 20 per cent.

The annual average of emoluments per worker, as per latest available figures, is the highest for chemical industry at Rs 14,367 and lowest for the food products at Rs 4,354. For the entire industrial group the average is Rs 8,463. The higher emoluments paid by the chemicals industry has been adequately rewarded in terms of value added. Emoluments in the chemicals industry form 28.6 per cent of value added as compared with the average of 44.7 per cent for the entire manufacturing sector. Even though, the average level of emolument in cotton textile industry at Rs 7,120 is one-half of the chemical industry, its net value added per employee at Rs 11,385 is less than one-fourth of the chemical industry. Emoluments form 62 per cent of value added for cotton textiles, 59 per cent for transport equipment, between 40 to 50 per cent for electrical machinery, appliances, etc, other machinery, machine tools and parts, basic metals and alloys and food products, 34 per cent for rubber, plastics, petroleum and coal products and 29 per cent for chemicals.

Productive capital per worker, as per latest available figures is Rs 53,000 for all the industries. The highest level is for chemical industry at Rs 1,29,000 and the lowest is for cotton textiles at Rs 12,000.

It is interesting to study the labour absorption capacity of various industries and the productivity per worker. Output per worker, as per latest available figures, is Rs 1,10,000, which gives an output capital ratio of 2.06. Output per worker is very high at Rs 3,08,000 in the chemical industry while for the cotton textile industry it is Rs 46,000. The output capital ratio ranges from 1.46 for transport equipments and parts to 4.76 for rubber, plastics, petroleum and coal products.

The input content, i e, percentage of input to total output is the highest for food products at 89 per cent and lowest for the cotton textile at 70 per cent, while the percentage for all industries is 75. The ratio is 72 per cent for chemicals and electrical machinery and appliances, 80 per cent of basic metals and alloys and 84 per cent for rubber, plastics, petroleum and coal products.

### DISTRIBUTIVE CHARACTERISTICS

Distribution of factories by size of capital shows that the large-sized factories (i e, those employing capital of Rs 10 lakh and above), constitute only 16 per cent of the number of factories but account for 72 per cent of employment, 91 per cent of productive capital, 82 per cent of output and 87 per cent of value added. Small-scale units employing less than Rs 10 lakh of capital account for 85 per cent of factories, 28 per cent of employees and 18 per cent of output and 13 per cent of value added.

The output per rupee of productive capital in the small scale sector at Rs 4.16 is 2.23 times that in the large scale sector, while for value added the ratio is 1.56 times. Productive capital per employee at Rs 12,583 for the small scale section is only 25 per cent of that for the large scale sector. It would thus appear that the efficiency as measured by the value of output and value added per rupee of capital is higher for the small scale sector than the large scale sector. About 47 per cent of factories employ less than 20 persons and 27 per cent between 20 and 49. Factories employing more than 500 persons form 3 per cent of total number of factories but they account for 46 per cent of productive capital, 49 per cent of employment, 52 per cent of output and 57 per cent of value added. As against this, factories employing less than 50 persons form 74 per cent of total number of factories but account for only 14 per cent of employment, 6 per cent of productive capital, 11 per cent of output and 8 per cent of value added. In terms of gross value of output per worker, the performance of factories employing between 100 to 199 is the best. This group has an average value of output of Rs 1.23 lakh as compared to Rs 1.11 lakh for factories employing more than 500 persons. Value added per worker is the highest at Rs 26,000 for factories employing between 200 to 499 persons.

About two-third of the factories in Maharashtra belong to the non-corporate sector. But they account for only 6.9 per cent of capital employed, 20.1 per cent of employees, 14.7 per cent of value of output and 9.9 per cent of value added. Partnership firms predominate in this group. Of the total number of factories, partnership firms account for one-half, contributing to 17.1 per cent of employment, 13.5 per cent of output and 8.9 per cent of value added and only 6.2 per cent of productive capital. Under the corporate sector, the number of factories controlled by private limited companies at 1980 is higher than the public limited companies with 1,224 factories. However the share of public limited companies is much higher in productive capital, number of employees, value of output and value added. Co-operative sector account for 3.0 per cent of number of factories, 6.2 per cent of number of employees, 4.3 per cent of output and 2.7 per cent of value added.

The efficiency measured by per employee indicators, such as productive capital, output and output per rupee of productive capital show that the performance is better in the non-corporate sector than in the corporate, co-operative and other sectors. For example, the ratio of productive capital per employee in this sector to that in the corporate sector is about 36.6 per cent but the corresponding ratio of output per employee is about 62.0 per cent. The corresponding ratio of value added is 39.6 per cent. The output per rupee of productive capital is also the highest in this sector. Output per rupee of productive capital is 4.38 for the non-corporate sector as compared with 2.58 for the corporate sector and 1.89 for the co-operative sector. Under non-corporate sector, the ratio is 4.45 for partnership and 3.72 for individual proprietorship. Under the corporate sector, the raito is 3.86 for private limited companies, 2.44 for public limited companies and 1.59 for public corporations.

### SPATIAL DISTRIBUTION

Though Maharashtra has been in the vanguard in the industrial development of the country, industrial activity has remained concentrated in three districts of Greater Bombay, Thane and Pune only. Though these districts together account for 25 per cent of total population of the state, they account for about 70 per cent of the factories. These districts account for 72 per cent of employment, 69 per cent of productive capital, 81 per cent of output and 84 per cent of value added by the factory sector. Per capita value added by factories located in these three districts has been estimated at Rs 1,651 as compared with Rs 82 for the rest of the state and Rs 475 for the state as a whole.

Between 1961 and 1975-77 the percentage of registered factories situated outside these three districts declined from 38.4 per cent to 31.3 per cent, but their share in productive capital increased from 19.0 per cent to 30.7 per cent. There was only a marginal improvement in the proportion of employment, gross output and value added of factories situated outside the three industrially developed districts. It may be, however, noted that while the share of registered factories located in Bombay district showed marginal rise, there was a sharp decline in the percentage shares of productive capital, employment, gross output and value added. Thane district showed substantial improvement in the percentage shares of number of factories, productive capital employment, gross output and value added. The improvement in the shares of Pune was smaller than that of Thane district.

In order to achieve dispersal of industries outside the Bombay-Thane-Pune belt and to attract them to the underdeveloped and the developing areas of the state, the Government of Maharashtra has been implementing since 1964 a package of incentives to units set up in the developing regions of the state. The package scheme of incentives was modified on April 1, 1983, rationalising the scope, various scales and mode of release of incentives to ensure that the intending units got these incentives promptly. Under the scheme, the state of Maharashtra is divided into four Groups A, B, C and D. Bombay Metropolitan Area and Pune Metropolitan Area, are considered as developed areas and covered under Group A, where no incentives are provided. Specific areas in the rest of the state are divided into three Groups B, C and D depending upon the extent of these three areas on a graded scale. Thus in Thane district, Thane, Bhiwandi, Kalyan, Ulhasnagar and Vasai (within BMR) are grouped under Group B; Palghar, Dahanu Wada, Shahpur, Murbad and Vasai (outside BMR) under Group C; and Talasari, Jawhar and Mokhade under Group D. As a part of the strategy to develop backward areas, 17 growth centres has been selected for concentration of efforts and with necessary institutional network to subserve the needs of industrialisation. In these growth centres industries can agglomerate. These centres, provide attractive infrastucture facilities, housing facilities, telecommunication facilities, etc.

With a view to providing all types of assistance to entrepreneurs interested in setting up small, village and cottage industries under one roof, 27 district industries centres have been established to serve as a focal point in the districts. They provide necessary guidance in the district, explain various assistance, incentive schemes of Central and the state governments to entrepreneurs and provide or recommend scarce and controlled raw materials and also the marketing assistance. The expenditure on these centres is borne by the Central and state governments on 50-50 basis. DICs helped the establishments of 37.5 thousand units in 1981-82, comprising of 30.5 thousand artisan units (26.5 thousand in rural areas) 7.0 thousand units in small scale sector (2.1 thousand units in rural areas). An outlay of Rs 550 lakh has been provided in the Sixth Five-Year Plan.

### LICENSING AND REGISTRATION

Out of 4,052 industrial licences issued by the Government of India for setting up industries in Maharashtra during 1960 to 1982, 1,772 or 43.7 per cent were for Greater Bombay, 1,277 or 31.5 per cent for other parts of Bombay region and 304 or 7.5 per cent for other parts of the state. However, the percentage share of Bombay declined from 52.1 per cent during 1960-70 to 41.1 per cent between 1971-75 and 24.2 per cent during 1976-82. The share of Bombay region other than Greater Bombay increased from 27.5 per cent during 1960-70 to 33.7 per cent during 1971-75 and further to 39.6 per cent during 1976-82. Pune region accounted for 22.5 per cent of industrial licences during 1976-82 as compared with 15.4 per cent during 1971-75 and 16.1 per cent during 1960-70. The share of other regions in industrial licences increased from 4.4 per cent during 1960-70 to 9.7 per cent during 1971-75 and further to 13.8 per cent during 1976-82.

Industrial units in the medium and large sector which do not need a licence are registered with the Directorate General of Technical Development, Government of India while the small scale units are registered with the State Directorate of Industries. The DGTD registrations also show considerable improvement in the industrial activity in the state. From an annual average of 21 DGTD registrations during 1964 to 1970, it increased to 106 during 1971-75 and further to 172 during 1976-82. The percentage of registrations granted to Greater Bombay declined sharply from 70.2 during 1964-70 to 53.9 during 1971-75. The share of Greater Bombay during 1976-82 was hardly 8 per cent. There was, however, a sharp increase in the share of the rest of the Bombay region from 9.3 per cent during 1964-70 to 27.5 per cent during 1971-75 and 56.6 per cent during 1976-82. The percentage share of Pune region after declining during 1971-75, reverted back to the 1964-70 position, during 1976-82. The share of Aurangabad and Nagpur regions taken together improved from 2.0 per cent during 1964-70 to 7.9 per cent during 1971-75 and further to 16.3 per cent during 1976-82.

The licences data would show that, the dispersal of industries has resulted in the shifting of concentration from Greater Bombay to other regions of the Bombay region. In recent years especially during 1976-82, the Aurangabad and Nagpur regions have also attracted more industrial units but still their share was only one-third of other Bombay region in respect of industrial licences. For DGTD registration, it was still lower. The share of Bombay, Thane and Pune districts in total number of registered factories has increased from 61.6 per cent in 1961 to 68.9 per cent in 1975-77, while the share in employment showed a marginal decline from 73.9 per cent to 71.5 per cent between 1976 and 1977. There was, however, a sharp decline in the share of these three industrially developed districts in productive capital from 81.0 per cent to 69.3 per cent.

Although the number of small scale units recorded a larger increase of 42,929 during 1970-81 than the increase of 24,929 during 1960-70, the percentage increase showed a sharp fall from 51.3 per cent during 1960-70 to 144 per cent in 1970-81. The share of Bombay region in total number of small scale units in the state declined from 79.4 per cent in 1961 to 67.2 per cent in 1970 and further to 43.9 per cent in 1981. The share of all other three divisions increased during 1961-70 as well as 1970-81.

## CONCLUSION

The rates of growth and the emerging pattern of industry in Maharashtra during the last two decades reflect inspiring entrepreneurial efforts in Maharashtra and the promotional measures adopted by the state government within the overall framework of industrial policy of the Union government. There has been appreciable increase in the total number of factories and their productive capital, output, productivity and value added by manufacture. The industrial growth in Maharashtra was further accelerated in seventies and there has been a significant shift in favour of capital-intensive industries. The composition of industries in Maharashtra has also undergone considerable change during the last two decades in favour of chemicals and capital goods and intermediate goods industries. Eight major industries, *viz.* (i) chemicals, (ii) electrical machinery, (iii) transport equipments, (iv) machinery and machine tools (other than electrical), (v) basic metals and alloys, (vi) rubber, plastics, petroleum and coal products, (vii) cotton textiles, and (viii) food products account for three-fourth of output and value added by the manufacturing sector. Average output capital ratio for all the industries is 2.06 and it ranges from 1.46 for transport equipment parts to 4.76 for rubber, plastics, petroleum and coal products. Large-sized factories (i e, those employing capital of Rs 10 lakh and above) constitute only 16 per cent of the number of factories but account for 72 per cent of employment, 91 per cent of productive capital, 82 per cent of output and 87 per cent of value added. About two-third of the factories in Maharashtra belong to the non-corporate sector in which partnership firms predominate. The government policy has no doubt helped in establishing industries in underdeveloped areas, but Bombay, Pune and Thane districts continue to account for the bulk of the industrial activity in the state

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# MSFC as a Development Catalyst

**S P Upasani, IAS**
**Managing Director, MSFC**

THE Maharashtra State Financial Corporation (MSFC) was formed after the re-organisation of states in 1962 and extended its operations to Union Territory of Goa, Daman and Diu in 1964. MSFC works for the cause of industrial development in the state by catering to the term loan requirements of small and medium scale industries for acquiring fixed assets like land, building, plant and machinery, etc. The Corporation extends financial assistance to industrial units by granting loans upto Rs 30 lakh to limited companies or registered co-operative societies and Rs 15 lakh to proprietary and partnership concerns. The bill raising this ceiling of financial assistance to Rs 60 lakh alongwith provision for several significant changes for SFCs working was recently passed by the Lok Sabha. These modifications are soon to widen the scope of the working of the Corporation.

Maharashtra holds a premier position in the field of industries in the country. The state today accounts for nearly a sixth of the productive capital as well as of employment and nearly a fourth of gross value of output and value added by manufacture by the organised industrial sector in the country. At the time of formation of the state, the industrial activity was not, however, spread evenly throughout the state, but was concentrated in the industrial belt of greater Bombay, Thane and Pune. The two constituent regions of the state like Vidarbha and Marathwada were not matchingly developed in regard to industrial progress. In order to reduce the regional disparities in industrialisation, the state government has been trying through its policy of industrial dispersal, to introduce locational flexibility among industries so as to promote growth of industries in backward areas. Promoting small scale industries is the sole responsibility of the state government. The state government channelises its efforts towards industrial dispersal and the promotion of small scale industries through the co-ordinated services rendered by the different state development agencies like MSFC, SICOM, MIDC, MSSIDC, Regional Development Corporations and DICs. From a humble beginning of sanctioning about Rs 2 crore to 160 cases and disbursing Rs 1.65 crore in 1962-63, MSFC has reached a stage where every year loans around Rs 60 crore are sanctioned and disbursements of Rs 40 crore are made. From a very small organisational set up to begin with, MSFC has considerably grown into a network of 9 regional offices and 20 branch offices spread all over the state and in Goa, Daman and Diu.

The two focal points of MSFC activities have been (i) encouraging small scale sector and (ii) promoting industrialisation in the 'developing' ('developing' areas include all districts in Maharashtra excluding areas covered by the three developed districts of Greater Bombay and some parts of Thane and Pune) and the 'backward' (there are 17 districts in the state notified as industrially 'backward') areas of the state. In the recent years over 80 per cent and during last year over 83 per cent (number-wise) of MSFC assistance has been directed to the industrial units from the 'developing' and 'backward' areas of the state.

MSFC has been working as the disbursing agency for the Central government capital investment subsidy scheme. With effect from April 1, 1983, the modified Central government capital investment subsidy scheme has made all 17 backward districts in the state eligible for subsidy. The industrial activities in the state have spread in the recent years to 'growth' centres like Nashik, Kolhapur, Nagpur, Aurangabad, Ahmednagar and to some new growth centres like Roha, Tarapur, and Chandrapur. MSFC alongwith other development agencies has rendered its best towards this industrial dispersal particularly in the small scale sector.

Since its inception the Corporation has sanctioned 27,887 loans for a total amount of Rs 504.12 crore and disbursed around Rs 331.41 crore by March, 1985. The significant aspects of the MSFC assistance are that, it has catalysed the total investment of over Rs 929 crore, which is estimated to have provided employment to 5.48 lakh persons.

## TYPES OF ASSISTANCE GRANTED BY MSFC

a) *Term loans*: The term loans are granted to industrial units for the creation/acquisition of fixed assets like land, building, plant and machinery. The assistance is normally given on a margin of 25 per cent to 40 per cent under various schemes and the repayment period for the loans is upto 8 to 10 years with a suitable moratorium of one or two years depending on the period required to implement the project.

b) *Composite loans*: The Composite loan upto Rs 25,000 is granted to meet both term loan and/or working capital requirements to certain categories of entrepreneurs like rural craftsmen and artisans. This enables the artisan to get his total requirement of finance from one agency only.

c) *Seed capital*: The Seed capital assistance is provided to the new entrepreneurs, if they are not in a position to raise adequate promoters' contribution. The maximum limit on seed capital assistance is Rs 2 lakh and the service charge is only one per cent. If seed capital required by the entrepreneur is more than Rs 2 lakh, his case could be considered under IDBI scheme of seed capital.

## SPECIAL SCHEMES

MSFC has diversified its operations in terms of several schemes to cater to the growing and changing needs of different regions, different industry groups and different types of entrepreneurs. To serve the specific needs of the entrepreneurs from the backward districts, Development and Assistance Services Cells have been set up by the Corporation to assist the prospective entrepreneurs from stage of product identification to the processing of their application.

*For the Technicians*: Two schemes have been devised for the technicians to encourage them to start their own manufacturing units by granting them financial assistance on 15 per cent margin.

Technicians' Assistance Scheme: Under the scheme, the Degree or Diploma holders from the recognised institutes with minimum 3 years industrial experience are provided assistance to set up their own industrial units. The proposals under this scheme are scrutinised by a High Level Technical Committee consisting to technical experts from various fields. With the recent liberalisation of the scheme, assistance can be granted beyond the previous ceiling of Rs 5 lakh.

Young Technicians' Assistance Scheme: Under this scheme loans upto Rs two lakh are given to young technicians, particularly those who are ITI trained and have 3 years experience.

*Modernisation Scheme*: The primary objective of the scheme is to encourage the industrial units in the small scale sector to adopt improved and up-dated technology. The scheme is meant for replacement or renewal of plant and machinery or acquisition of balancing equipments for effective utilisation of installed capacities. Cost of acquisition of technical know-how is also eligible for finance. Assistance will be need-based and as such, there will be no minimum or maximum limit of loan, but within the overall limits of sanction of the Corporation. There is no fixed norm for security and margin. The loan is granted at the rate of interest of 11.5 per cent per annum.

*Development Finance Scheme*: Assistance under the modified scheme is given to the entrepreneurs to meet the research and development cost incurred in the development of products/processes for commercial exploitation. The development finance is treated as a long term loan and granted on liberal terms in regard to the margin and the rate of interest. The proposed/existing proprietary/partnership/private limited companies, where development work is yet to be

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carried out are eligible for a loan upto Rs one lakh at a reduced rate of interest of 10 per cent only. However, in case where development work is already carried out, a loan upto Rs two lakh is eligible at same rate as referred to above.

*Assistance to Doctors/Medical Practitioners:* This scheme has been introduced to extend financial assistance to doctors/ medical practitioners for setting up X-ray units in rural and semi-urban areas.

*Other Schemes:* There are other schemes devised to meet the requirements of specific categories of entrepreneurs:

a) Assistance upto Rs 50,000 against low margin and at 10 per cent rate of interest is provided to young educated persons to become self-employed.

b) Assistance upto Rs one lakh is granted to Scheduled Castes and Scheduled Tribes entrepreneurs on soft terms.

c) Assistance upto Rs three lakh against the margin of 15 per cent is provided to the Retired Army Personnel enabling them to start new industry.

### SCHEMES TO HELP IMPLEMENTATION OF PROJECTS

The entrepreneurs are exposed to a number of difficulties in the implementation of projects as per schedule. MSFC has made an attempt to introduce some schemes to help the entrepreneurs in over coming these difficulties.

(i) *Loans against state and Central incentives*: Non-availability of incentives during the implementation of project resulted in time and cost overrun. The Corporation has started giving loan against Central Subsidy from 1977-78. With effect from April, 1984, the Corporation has also introduced similar scheme for granting short term loans against state incentives to help the assisted units to overcome the difficulties in the implementation of their projects on account of the delay in the disbursement of capital incentives.

(ii) *Bridge Loan*: Sometimes the implementation of projects is held up for want of completion of legal documentation and hence unable to get disbursement. In order to help the entrepreneurs to overcome delays of this nature, MSFC has introduced a scheme to sanction Bridge Loan against MSFC's loan to the assisted unit. Such a bridge loan is normally granted for the period of six months which could be extended upto one year during which the unit is expected to complete legal documentation formalities.

### REHABILITATION SCHEME

Besides the above schemes of helping the assisted units during their implementation the Corporation has accorded a high priority to the task of rehabilitation of units. Under this scheme, additional finance is made available for completion of the project, modernisation, technology upgradation and for procuring balancing equipment. This assistance is given at 10 per cent rate of interest and is need-based. MSFC also shares along with the other financial institutions upto 50 per cent of the cost of preparation of rehabilitation report from experts in cases where MSFC is convinced about the viability of the project and the entrepreneur is not in a position to finance study.

### EDP PROGRAMME

In order to tap the potential entrepreneurs in the backward areas, MSFC has implemented Area Development Approach in some selected districts. To facilitate identification, training and development of new entrepreneurs, the Corporation conducted Entrepreneurial Development Programmes (EDPs), one each in the selected districts.

### PROCEDURAL CHANGES AND IMPROVEMENTS

(i) *Quicker disposal of loan applications*: The Corporation has delegated powers for sanctioning loans to Branch Managers and Regional Managers. The Branch Managers of 20 Branch Offices spread all over the state have been given powers to sanction and disburse loans upto Rs 50,000. The Regional Managers can sanction loans upto Rs three lakh and disburse loans upto Rs ten lakh. A time bound programme is also being vigorously implemented so as to reduce the pendency of applications. Powers have been delegated to technical staff at Regional Offices to clear technical reports for loan applications upto Rs ten lakh.

(ii) *Bipartite agreement with MIDC*: MSFC and MIDC have recently entered into a bipartite agreement in respect of all loans given by the Corporation to the borrowers located in MIDC areas. In place of the earlier practice of executing a separate tripartite agreement between MIDC, MSFC and the borrower in each individual case, MIDC and MSFC have entered into an agreement specifying the conditions which automatically become binding on the plot holders in MIDC areas. The execution of tripartite agreement for every loan to the plot holders was cumbersome, required the plot holders incur expenses and involved inordinate delay. The bipartite agreement between MIDC and MSFC would help the entrepreneurs as the delay is avoided and extra expenses are dispensed with.

(iii) *Expediting disbursement*: (a) MSFC is organising workshop every month at Regional Offices for the entrepreneurs who have been sanctioned recently loans and entrepreneurs who have not yet taken substantial disbursement to understand and solve the procedural difficulties. (b) Powers have been delegated to legal staff at Regional offices to finalise legal documents upto Rs ten lakh in respect of units in MIDC area.

(iv) *Visits of technical/legal staff to branch offices*: In order to solve the difficulties of entrepreneurs, the technical and legal staff from the Regional Offices make regular visits to Branch Offices on a fixed day so as to be available to the entrepreneur to complete processing of applications and expediting disbursement.

### CO-OPERATION WITH OTHER AGENCIES

MSFC closely associates in the meeting of Udyog Mitra which has been set up in every district. Open-house sessions are held by all the development agencies in the state with the existing and the potential entrepreneurs at different places so as to solve their problems. The follow up action on these difficulties is taken in Zilla Udyog Mitra meeting chaired by Collector of the district.

Industrial scene in Maharashtra is undergoing rapid changes. The composition of the industrial activity has shifted towards modern industrial groups and the new growth centres like Nagpur, Aurangabad, Ahmednagar, Nashik have come up and other centres like Chandrapur, Satara, Patalganga have also made rapid progress. A big petrochemical complex coming up at Nagothane near Alibag is expected to develop a network of down stream projects in its vicinity. The electronic industry in the state is poised for a speedy development in the three industrial estates coming up exclusively for 'Electronics' one each near Nagpur, Pune and Aurangabad. As a part of the integrated programme for industrial development, MSFC has made specific efforts for ancillary development by assisting ancillaries around RCF and the commercial vehicles plant by Ashok Leyland in Bhandara district. MSFC intends continuing as a development catalyst in the ensuing programme for industrial development in the state.

## IEL

IEL is the new name of Indian Explosives with which the three companies of the ICI group, namely, Alkali and Chemical Corporation of India (ACCI), Chemicals and Fibres of India (CAFI) and Cresent Dyes and Chemicals (CDC) have been amalgamated. IEL now has a broad and well diversified business portfolio. Besides explosives and fertilisers, its product range now includes crop protection chemicals, polyester staple fibre, paints and rubber chemicals, pharmaceuticals and several others.

# Co-operative Movement in Maharashtra
## Retrospect and Prospect

G S Kamat

MAHARASHTRA carved out for itself a niche in the Indian co-operative movement over the years. Historically, the birth of co-operatives, particularly in the agricultural sector, was on account of the Deccan Riots of 1875 which brought to the surface the farmer's grievances against the exploitative moneylending groups. The Deccan Riots Commission recommended solutions in two directions: (i) putting a check on the activities of the moneylender, and (ii) instituting an agency that would compete with him in the supply of credit. The Deccan Agriculturist's Relief Act was passed in 1879 by the Government of India. But the setting up of co-operative credit societies was delayed till 1904 when the first Co-operative Societies Act was passed for the country.

Table 1 gives the overall position of co-operative societies in the state since its formation in 1960. It will be seen from Table 1 that there has been a steady growth of the co-operative movement in diversified directions. The predominance of credit co-operatives is clearly seen. All the villages have been covered by a network of 18,521 primary credit societies. Their number will show a gradual decrease due to increase in the size of primary societies under the scheme of amalgamation approved at the national level.

In totality, the co-operative sector in Maharashtra consists of 71,130 societies with a gross membership of 180 lakh and a paid up share capital of Rs 850 crore. Their owned funds are about Rs 1,625 crore and they have mobilised deposits of the order of Rs 3,300 crore. They had advanced loans amounting to Rs 1,850 crore (1984).

### CREDIT MOVEMENT

A comparison of credit societies of Maharashtra *vis-a-vis* the all-India position would reveal that there were 19 per cent co-operative societies with 13 per cent membership, having 16 per cent working capital in Maharashtra. They advanced 24 per cent of short-term loans and 14 per cent of medium-term and long-term loans.

The co-operative credit structure in the state consists of the State Co-operative Bank, operating through 28 District Central Co-operative Banks and their 2,000 branches. The latter serve the member primary co-operative societies. About 35 to 40 per cent of the credit requirements in agriculture are met through the co-operative sector. On the other side, the overdue loans at the primary level have been causing great concern because of its sizeable percentage at 48. Out of about 18,353 primary agricultural credit societies nearly 51 per cent were in losses. These deficiencies need to be corrected as they threaten to choke up normal credit channels for the ultimate weak borrower.

There is a separate co-operative credit structure for supplying long-term credit to agriculturists. Originally it was a federal, two-tier structure but was later converted into a unitary pattern with the Apex Land Development Bank working through its branches at the district level. Even this pattern is under review now for a variety of reasons. While the position of the overdue loans in this activity has been relatively more serious at 54 per cent, there appears a noteworthy diversification in the purposes for which the long-term loans have been advanced. About 69 per cent of loans have gone for minor irrigation followed by loans for tractor and other machinery, lift irrigation, horticulture, etc.

Under the multi-agency approach, commercial banks have also been providing finance to the agricultural sector. In 1983, 367 primary agricultural credit societies were adopted by commercial banks (transferred societies). About 48 per cent of these societies were in losses. However, according to the latest report of the committee of experts appointed by the Reserve Bank of India, this scheme has by and large failed. Nonetheless the co-operative banks have to face unequal competition from the commercial banks operating in the so-called priority sectors. This is a challenge which the co-operative banking sector must face on the basis of efficient and effective management of resources and customer services. At the same time, it cannot overlook its commitments to the weaker sections for whom it primarily exists. Further, the loans portfolio must also be developed in a balanced manner so as to meet credit requirements of marketing, consumers, industries and processing. This will take away the lop-sided nature of their business operations.

### URBAN BANKS

The performance of urban co-operative banks in Maharashtra has been commendable. Their number in 1984 was 358 and they had a membership of 17.81 lakhs. Their share capital was Rs 58 crore and they commanded deposits of Rs 1,172 crore. They advanced loans of Rs 1,500 crore and the overdue position was about 8 to 10 per cent. Only ten banks were reported to be in loss. While this is a very encouraging picture of the urban banking sector, these banks need to diversify their loaning operations which today are mostly restricted to meeting the consumption requirements of their members (60 per cent). Most of the urban banks seem to suffer from over-liquidity. There is need and scope for advancing loans to small industries and young educated unemplyed entrepreneurs. They can also enter into consortium arrangements with their counterparts in the co-operative sector so as to deploy their surplus resources in favour of small scale industries which are in need of working capital.

There is urgent need to develop and strengthen agricultural marketing and processing on co-operative lines to ensure a larger share in consumer price to the farmer members. This will also help to reduce the level of overdues in co-operative credit. There were in 1984, 500 central and primary marketing societies in the state. Their membership was 5,95,000 and they had Rs 11.40 crore as share capital. They handled agricultural produce worth Rs 230 crore of which marketing of foodgrains was Rs 30 crore. They supplied agricultural inputs worth Rs 305 crore of which 83 per cent was accounted for by fertilisers. They distributed essentials in the rural areas of Rs 120 crore. Nearly 130 societies were in loss. Table 2 shows the performance of marketing societies in the state between 1961 and 1984.

A noteworthy feature of the co-operative marketing structure in the state has been its contribution to procurement of foodgrains

TABLE 1: SECTOR-WISE NUMBER OF CO-OPERATIVE SOCIETIES IN MAHARASHTRA

| Sector | 1961 | 1984 |
|---|---|---|
| 1 Agricultural and non-agricultural credit societies (apex and central) | 39 | 33 |
| 2 Agricultural credit societies | 21,400 | 18,521 |
| 3 Non-agricultural credit societies | 1,630 | 6,359 |
| 4 Marketing societies | 344 | 501 |
| 5 Productive enterprises (e g, sugar factories, rice mills, etc) | 4,306 | 17,767 |
| 6 Social service co-operatives (e g, consumer socities, housing societies, etc) | 3,846 | 27,949 |
| All societies | 31,565 | 71,130 |

*Source*: "Co-operative Movement at a Glance in Maharashtra State", 1984.

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and cotton on government account. Especially, the monopoly cotton procurement scheme has been able to secure a fair price to the cotton growers in the state since its inception a decade back. Unfortunately it has had a faltering continuity because of lack of consistant support from the Government of India and Reserve Bank of India. The special feature of this scheme is the built-in arrangement provided for linking credit to marketing under the statute. A separate State Co-operative Cotton Marketing Federation has been set up for implementing the scheme on a more permanent footing.

### AGRICULTURAL PROCESSING

The progress recorded by the processing co-operative in the state has also been encouraging. Table 3 gives an idea of the processing co-operatives for important crops in the state.

Among the processing co-operatives, sugar co-operatives of Maharashtra have recorded remarkable achievements. Out of 351 sugar factories in India by 1982, 179 were co-operative units and of these 81 were located in Maharashtra. The 67 sugar co-operatives in production in this state produced 88 per cent of sugar of total production in the state and 36 per cent of that in the country. The average recovery percentage has been above 10.7. These co-operatives have collected deposits amounting to Rs 220 crore specially from rural areas. These have become growth centres leading to integrated rural development in their area of operation. Co-operative dairies, poultries, department stores, co-operative banks, women's co-operatives, public schools and colleges, polytechnics and hospitals have come up in these areas, and have halted the migration of the rural population to urban centres through generation of employment opportunities at the local level. By-product industries like distillery plants and paper factories have contributed to minimising the overall cost of production. This development has also thrown up a new leadership in the rural areas.

TABLE 2: CENTRAL AND PRIMARY MARKETING SOCIETIES IN MAHARASHTRA

| Item | 1961 | 1984* |
|---|---|---|
| 1 Societies | 343 | 500 |
| 2 Membership | 1,401 | 5,950 |
| 3 Share capital turnover (value) | 131 | 1,140 |
| 4 (a) Aricultural produce | 1,742 | 23,000 |
| *Of which:* Foodgrains | 280 | 3,050 |
| (b) Agricultural requisites | 986 | 30,500 |
| *Of which:* Fertilisers | 756 | 25,500 |
| Seeds | 44 | 1,850 |
| (c) Consumer Goods | 952 | 12,000 |
| 5 Societies making profit | 211 | 310 |

*Notes:* 1 All amounts in Rs lakh.
2 Members in hundreds.
* Figures are provisional.

TABLE 3: PROCESSING CO-OPERATIVES OF IMPORTANT CROPS IN MAHARASHTRA

| Commodity | 1961 | 1984 |
|---|---|---|
| 1 Cotton ginning and pressing societies | 30 | 129 |
| 2 Rice mills | NA | 97 |
| 3 Oil mills | NA | 15 |
| 4 Sugar co-operative | 29 | 97 |
| 5 Spinning mills | 2 | 84 |
| 6 Other processing societies | 78 | 85 |
| Total | 130 | 507 |

There were 84 co-operative spinning mills registered in the state by 1984, of which 21 were in production. The weavers co-operative spinning mills have performed better than the growers' co-operative spinning mills. Amongst other noteworthy co-operatives, reference may be made to dairy co-operatives and their unions whose number went up from 450 in 1961 to 10,024 in 1984, handloom co-operatives which numbered 741, powerloom co-operatives 247, forest labourers' societies 391, fisheries co-operatives 989, labour contract co-operatives 4,668 and consumer co-operatives with their 2,025 primary consumers stores, 80 wholesale stores and one apex federation. Many of these societies have yet to make an impact on their membership and on the business of which they are a part.

A reference also must be made to the contribution made by the primary housing societies in solving to some extent the housing problem of the middle and lower classes of the community. In 1961 there were 1,495 housing societies and their number went up to 19,678 in 1984.

The co-operative law of the state has been amended and revised from time to time to meet the requirements of the changing co-operative movement. However, it must be said that in the effort to simplify and elaborate its provisions, the law has become bulky and complicated for a simple co-operator to follow. Progressively, the powers of the Registrar have also been increased, reducing to that extent the scope for democratic processes in the working of the co-operatives. Another fresh law has been on the anvil. It is hoped it will solve the problems and facilitate fast growth of the sector.

The cost of management of the co-operatives working at different levels have been constantly increasing while their respective area of operation continues to remain small. There is need to increase the size through amalgamation for increased business with larger membership on a diversified basis at reduced costs. This need is felt in the agricultural credit sector, co-operative sugar factories, spinning mills, consumer co-operatives, etc. The co-operative sector in Maharashtra has still the potential and the capacity to provide leadership not only for the weaker sections in this state but also for the co-operative movement and its beneficiaries in the whole country.

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## Bannari Amman Sugars

BANNARI AMMAN SUGARS is putting up a Rs 9.5 crore modern sugar plant to crush 1,250 tonnes of cane per day at village Alathukombai in Periyar district of Tamil Nadu, where sugarcane is planted throughout the year and the plant can operate for 275 days in a year as against 150 days in the case of most other sugar mills. Production at the plant is expected to commence in November 1985 to synchronise with the start of harvesting season of the sugarcane crop. The company is coming out with a public issue on September 11, 1985 with an issue of 18.50 lakh equity shares of Rs 10 each at par, out of which 10 lakh shares have been reserved for allotment to NRIs. Subscription list for them will open on September 2.

The project has been promoted by two experienced sugar technocrats, S V Balasubramanian, executive Vice-Chairman of Sakthi Sugars, and K S Thirumalaiswamy. They have been encouraged by the monetary incentives announced by the Central government whereby the new sugar units are allowed to sell 93 per cent of their production as free-sale sugar in the open market for a period of four years and 60 per cent during the fifth year, as against the normal quota of 35 per cent of free-sale sugar. These incentives are estimated to amount to Rs 13.80 crore in the first five years, but may yield more if the current buoyancy in the sugar market persists.

According to Balasubramanian, on estimated crushing of two lakh tonnes in the first year and 2.75 lakh tonnes in the fourth year, the company expects to earn handsome profits from the very first year of its operations. The break-even point for the company's plant is only about 40 per cent in the first five years. The estimated sales value and profit before depreciation during the first accounting year commencing from October 1985 are placed at Rs 977 lakh and Rs 229 lakh, respectively, which are expected to rise to over Rs 1,418 lakh and Rs 505 lakh respectively by the fourth year. Net profit after providing for depreciation in the first year is estimated at Rs 157 lakh rising to Rs 429 lakh by the fourth year against an equity base of Rs 375 lakh.

The issue is managed by Merchant Banking Divisions of Canara Bank and Punjab National Bank. R K Garg and Associates is Consultant to the company.

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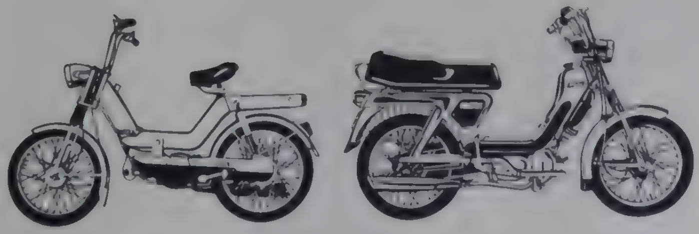

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# Monopoly Cotton Procurement Scheme in Maharashtra

MAHARASHTRA is a major cotton growing state in the country with more than 10 lakh cotton growers. The area under cotton in Maharashtra is about 26 to 27 lakh hectares while the production of cotton is about 16 to 18 lakh bales. This forms 30 per cent of the area under cotton and 20 per cent of the production of cotton in the country. 95 per cent of the area under this crop is rainfed and as such its yield in the state is lower than that in other states. Further, rainfed cotton is subject to the vagaries of monsoon, hence production of cotton in the state fluctuates from year to year.

In order to give a fair and remunerative price to growers by eliminating middlemen, the Government of Maharashtra, in consultation with the Government of India, enacted the Maharashtra Raw Cotton (Procurement, Processing and Marketing) Act in 1971 and implemented the Monopoly Cotton Procurement Scheme with effect from the 1972-73 season. Maharashtra is the only state in the country to introduce monopoly purchase of cotton from cultivators and its processing and marketing through co-operative agencies. The scheme is implemented by the Maharashtra State Co-operative Marketing Federation as the Chief Agent of the government assisted by Taluka Sale and Purchase Societies as sub-agents.

## BASIC OBJECTIVES

The main objectives of the Monopoly Cotton Procurement Scheme are as under:

(i) To ensure fair and remunerative price of cotton to the growers in the state.

(ii) To effect additional transfer of incomes to the cotton growers by eliminating middlemen and securing in full the advantage of terminal prices.

(iii) To bring about stability in the income of the growers and thereby stability and growth in the overall production of cotton in the state.

(iv) To supply scientifically graded quality cotton to the consumer mills.

(v) To strengthen the institutional framework of co-operatives by involving the co-operative institutions fully in the process of procurement, processing and marketing of cotton and to establish an effective linkage between marketing and recovery of co-operative dues.

(vi) To revitalise the rural economy by establishing a close connection between the various processes connected with cotton namely, ginning and pressing, oilseed crushing, spinning and weaving so that all workers and growers of cotton share the advantage of larger incomes.

The Monopoly Cotton Procurement Scheme is operated in the state by the Maharashtra State Co-operative Marketing Federation as the chief agent of the state government. For the purpose of implementing the scheme, the Marketing Federation has created three departments, *viz*, (1) Procurement and Processing; (2) Sales, and (3) Finance and Accounting. For operating the scheme in the field, the entire cotton growing area has been divided into 12 zones. Each zone is further sub-divided into sub-zones. There are in all 88 sub-zones. Each sub-zone has a number of procurement stations depending upon the arrivals of kapas. Each procurement station is a town or village having one or more number of collection centres. The collection centres are of two types, *viz*, (i) Facility centre, and (ii) Non-facility centre. The facility centre is a collection centre where ginning facility exists while the non-facility centre is a place where no ginning facility exists but is opened up to facilitate the cultivators to tender kapas not beyond 30 kms. Out of the total number of 614 collection centres in the 1982-83 season, 488 were facility centres and 126 were non-facility centres.

The Marketing Federation is assisted by the Taluka Sale and Purchase Societies who act as sub-agents to the Marketing Federation. There are in all 166 sub-agent societies in the cotton growing areas of the state. The functions of the sub-agents in connection with the Monopoly Cotton Procurement Scheme consist of the following:

(1) To maintain cultivator-wise ledgers and other records of tendering of kapas and its value at the guaranteed price.

(2) To effect various deductions from payment to cultivators on account of co-operative dues and Agricultural Produce Marketing Committee dues.

(3) To make payments to the cultivators through co-operative banks and prepare necessary hundies from time to time for the value of kapas tendered at guaranteed and final price as fixed by government.

(4) To submit various reports as prescribed by the Marketing Federation to assess the progress of the scheme.

(5) To maintain various registers as required for accounting purpose.

Under the Maharashtra Agricultural Produce Marketing Committee (Regulation) Act 1963, 230 Agricultural Produce Marketing Committees (APMC) have been established in the state, of which 159 APMCs are in cotton growing areas. These committees levy cess on the agricultural produce for carrying out their functions and are expected to provide basic amenities to the cultivators such as drinking water, shed, water for cattle, etc. To facilitate the procurement operation under the scheme all the cotton collection centres are declared as sub-marked yards of the respective APMCs. The APMCs thus get an assured income from the cess on cotton. The market cess on cotton charged by the APMCs is between 50 paise to 100 paise per Rs 100 worth of cotton.

## GREEN CARD

Under the Monopoly Cotton Procurement Scheme, the cotton growers in the state have to tender kapas produced by them at the collection centres. As an administrative measure, a green card was introduced which serves as the authorised identity card for the cotton grower to tender his kapas. This green card contains information regarding area under cotton, variety of cotton grown, the details regarding quantity of cotton tendered, its value and the recoveries effected from the value of cotton. This green card (now recovery card is used as green card) has been provided statutory basis subsequent to the amendment to Maharashtra Raw Cotton (Procurement, Processing and Marketing) Act 1971, in 1981.

The cotton grower brings his kapas to the cotton collection centre where the grader examines the variety and grade of kapas. The kapas is then weighed by authorised weighmen appointed by APMC. The weighment of cotton is done in the state with the help of 220 weigh bridges installed at the cotton collection centres or with the help of weighing pans.

If the cotton tendered is not consistent with the variety or grade given by the grader of the Marketing Federation or weighment made he can lodge a complaint with the 'Arbitration Committee' as per Section 10 of the APMC Act, 1963 which settles disputes according to the procedure laid down under Rules 97, 98 and 99 of the Act.

The kapas tendered at the collection centres is placed in the form of heaps separately for each grade and for each variety. This kapas is then ginned in the ginning factories, and lint and cotton seed are obtained. The lint obtained is then pressed into bales in pressing factories. The total installed capacity of the 488 ginning factories was 6,914 single rollers and 2,351 double rollers. Out of the total of 488 ginning factories, 185 were in the co-operative sector and the remaining 303 were in the private sector. There were in all 141 pressing factories of which 45 were in the co-operative sector and remaining 96 in the private sector during the season 1982-83. The kapas under the Monopoly Cotton Procurement Scheme is given for processing to co-operative as well as private ginning and pressing factories.

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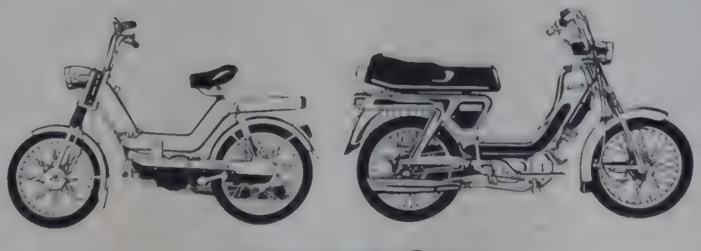

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### GUARANTEED PRICE AND MODE OF PAYMENT

The guaranteed prices for various varieties and grades of kapas are declared by state government before the commencement of every season. The Government of India considers the recommendations of the Agriculture Price Commission and fixes the support price of various varieties of kapas. The support prices so fixed for Maharashtra cotton varieties are considered at the time of fixing the guaranteed price under the Monopoly Cotton Procurement Scheme. The guaranteed price fixed for a particular variety and grade of kapas is the same throughout the entire season irrespective of time of tendering and fluctuation of cotton prices in the market. The Cotton Co-ordination Committee set up in 1981 recommends the guaranteed prices of kapas with effect from the 1981-82 season to the state government and the state government then fixes the guaranteed prices of kapas under the Monopoly Cotton Procurement Scheme. Prior to the appointment of the Cotton Co-ordination Committee, the state government used to fix the guaranteed price after taking into account relevant factors such as trend of cotton price, demand and supply of cotton and prices realised under the scheme in last season.

As per section 25 of the Maharashtra Raw Cotton Act 1971, the guaranteed price can be paid in two instalments. However, the government has paid the guaranteed price to the cotton tenderers at 100 per cent of the value of their kapas at the same time of tendering since 1977-78 season.

The present annual cotton crop in the state is about 16 to 18 lakh bales (about 80 lakh to 90 lakh quintals of kapas) involving a turnover of about Rs 450 crore. After processing of kapas, the cotton bales and the seed are sold in the market and the receipts are utilised for operation of the scheme as and when necessary. But there is some time gap between cotton purchases and sales. Hence the operation of the scheme requires massive institutional finance. The state government has contributed Rs 4.85 crore to the share capital of the Marketing Federation. But for getting institutional credit the Marketing Federation has to approach the Reserve Bank of India (NABARD) through the Maharashtra State Co-operative Bank to operate the scheme after providing the margin money of 25 per cent of total requirement.

The main financial resources for the margin money are the price fluctuation fund, capital formation fund, government loan, other resources of the scheme, etc. Due to heavy losses to the scheme in 1974-75, 1981-82 and 1982-83, the price fluctuation fund has been almost wiped out. But recently the capital formation fund has been established with the help of contributions from the cotton growers, the state government and the agent operating the scheme. The contribution from the growers was collected at the rate of one per cent of the value of the guaranteed price during the season 1974-75, 1980-81 and 1981-82 and at the rate of three per cent during 1982-83. Thus, the total contribution collected from cotton growers towards the capital formation fund was Rs 22.7 crore by end of 1982-1983 season. The state government is also committed to contribute Rs 25 crore towards the capital formation fund by March 30, 1985. The government had contributed Rs 20 crore upto March 31, 1983.

The scheme envisaged the recovery of co-operative dues through the value of cotton at the time of tendering according to the principle of linking of agricultural credit with marketing as advised by the Reserve Bank of India. The recovery of the dues is limited to 50 per cent of the value of cotton at the guaranteed price. Two-thirds of the total recovery is against short- and medium-term loans while the remaining one-third is against long-term loan. The total recovery of co-operative dues done through the cotton scheme since inception upto 1982-83 is Rs 342 crore.

### MARKETING OF COTTON

After processing of kapas, cotton seed is obtained as by-product which forms two-thirds of kapas by weight and the main product, lint, is pressed into bales. The cotton seed and bales are marketed by the Marketing Federation according to the following procedure:

(a) *Sale of Cotton Seed*: Under the cotton scheme about 50 to 55 lakh quintal cotton seed is available annually after processing the kapas. Out of the total quantity of cotton seed available, about two lakh quintals of quality seed are reserved for sowing purpose, while the remaining quantity is sold in open auctions. The seed for sowing purposes is processed and sold to the cotton growers through sub-agent societies at subsidised rates. Some quantity of cotton seed is also sold to the Maharashtra Oilseeds Commercial and Industrial Corporation according to their requirement and availability.

(b) *Sale of Cotton Bales*: The sale of cotton bales takes place in open competition in the free market in and outside the state. The cotton bales are sold either by negotiations with the buyers or by calling tenders or by giving quotations of expected prices. During 1975-76, the Government of India appointed the Bose Malik Committee for streamlining the sales of cotton by the Marketing Federation with a view to effecting stabilisation of cotton prices. This committee recommended direct sale of cotton bales to the textile mills. Accordingly, about 30 to 35 per cent of total sale of cotton by the Marketing Federation is made directly to the National Textile Corporation, State Textile Corporation, Co-operative Spinning Mills, etc. At the time of revival of the scheme in 1978, the Government of India desired that there should be co-ordination in the sale of cotton between the Cotton Corporation of India and the Marketing Federation. Accordingly, the Sales Policy Co-ordination Committee with the Managing Director of the Cotton Corporation of India as one of the members was set up under the Chairmanship of Minister (Co-operation). The state government then formed the Sales Promotion Committee to implement the guidelines of the Sales Policy Co-ordination Committee. However, as per the amendments to the Maharashtra Raw Cotton Act, 1971, the Cotton Co-ordination Committee, consisting of four officers of the Central government and four officers of the state government was appointed on September 24, 1981 and recommends the sales policy of cotton under the scheme. The guidelines given by this committee are followed by the Sales Promotion Committee.

(c) *Export of Cotton*: The pattern of cotton production in the country has changed in the last decade, with increase in the proportion of long staple and extra long staple cotton. As a result, the country, once a regular importer of long staple and extra long staple cotton, has become a net exporter of such cotton. In Maharashtra, the production of long and extra long staple cotton has increased considerably, i e, from 13 per cent in 1972-73 to about 60 per cent in recent seasons. However, the textile mills in the country are not in a position to consume the entire production of long and extra long staple cotton. Hence the long and extra long staple cotton is being exported. Maharashtra was the first state to export nearly two lakh bales of cotton procured during 1974-75 season. From 1975-76 to 1982-83, 14.31 lakh bales have been exported earning foreign exchange of about Rs 318 crore (including rupee payment under bilateral trade agreement) to various countries such as Hong Kong, Czechoslovakia, Rumania, Thailand, China, USSR, South Korea, Sri Lanka, Taiwan, etc.

### FINAL PRICES

The majority of the cotton bales obtained after processing kapas are normally sold during the same season. However, the almost entire quantity of cotton seed is sold in the same season. For working out final prices, the scheme accounts are closed when about 75 to 80 per cent of the total number of cotton bales are sold. For this purpose the variety-wise and grade-wise sale receipts of cotton and cotton seed are taken together

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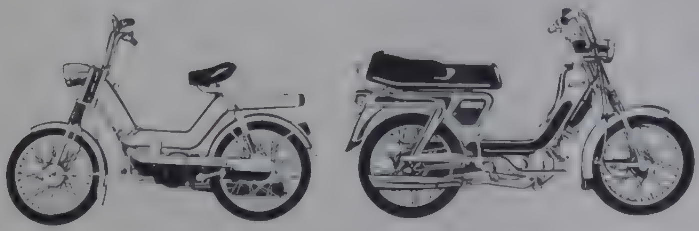

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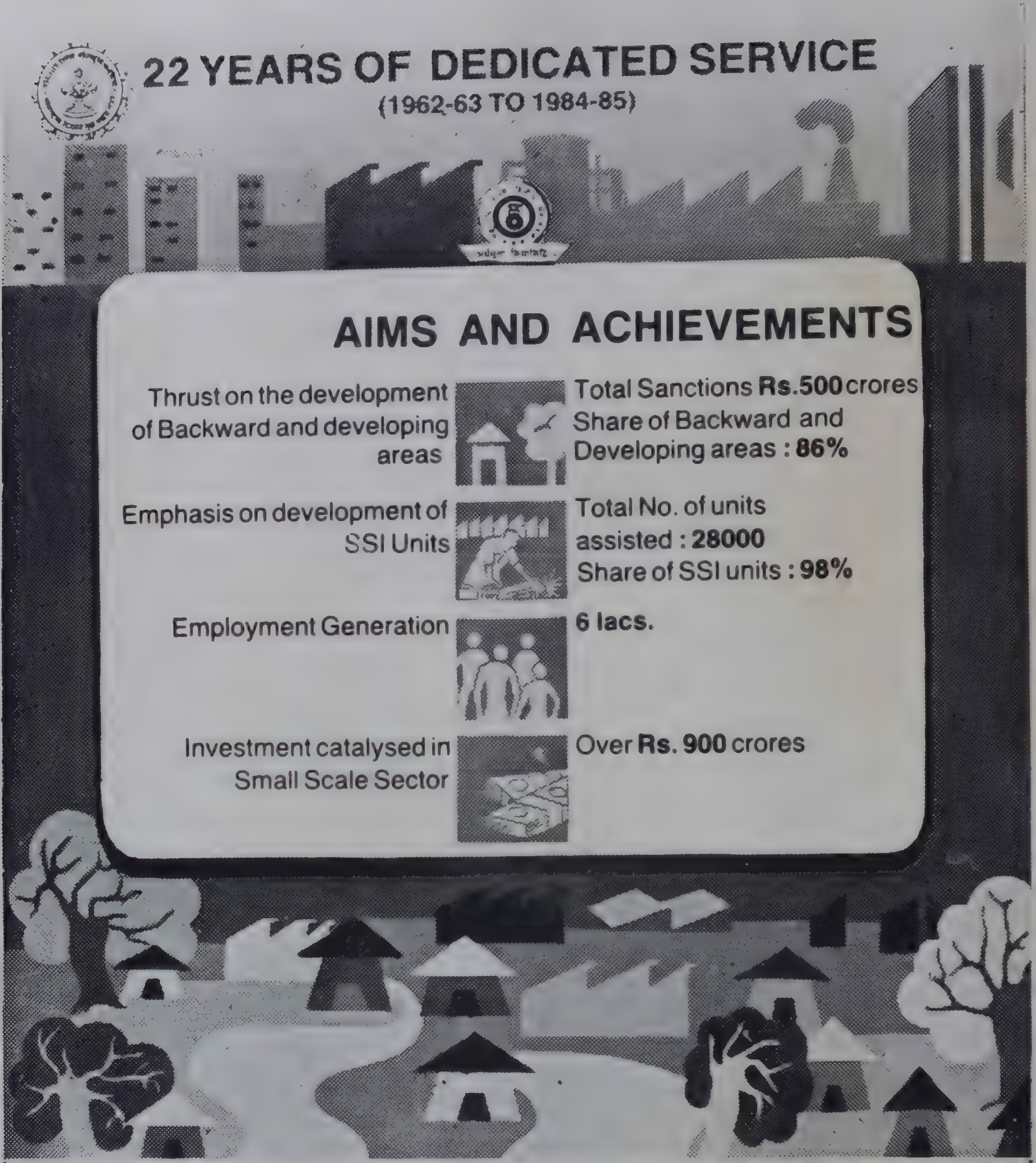

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and the value of the stock of cotton and cotton seed, done as per the provision of the Maharashtra Raw Cotton Act, 1971, is added to it. From this total, the expenditure incurred on processing, marketing and miscellaneous items is deducted. If the total receipts are more than the total expenditure, 75 per cent of the excess amount is distributed (variety-wise and grade-wise) to the cotton growers and the remaining 25 per cent is credited to the Price Fluctuation Fund.

The average final price of kapas which was Rs 266 per quintal in 1972-73 went up to Rs 468 per quintal in the 1982-83 season. During the period of the last ten years, the average final price of kapas was more than the corresponding average guaranteed price in all the seasons except 1974-75, 1981-82 and 1982-83.

As stated earlier, 25 per cent of the excess of final price over the guaranteed price is transferred to the Price Fluctuation Fund. The Price Fluctuation Fund has been so as to adjust the losses under the scheme whenever the final price is less than the guaranteed price. It is also used for providing margin money to the scheme as per Section 33(3) of the Maharashtra Raw Cotton Act, 1971. The state government has initially contributed Rs 10 lakh to the Price Fluctuation Fund. The state government also contributes to the Price Fluctuation Fund as and when necessary. Accordingly, it contributed Rs 11.58 crore to adjust the loss incurred during the 1974-75 season. The amount accumulated in the Price Fluctuation Fund was Rs 46.51 crore at the beginning of the 1981-82 season. But by the end of 1982-83, it had come down to Rs (–) 2.75 crore.

### PROGRESS OF PROCUREMENT

The Monopoly Cotton Procurement scheme has been in operation for more than a decade with suspension on two occasions. The scheme was suspended first partially during the 1973-74 season with effect from January 15, 1974; again it was suspended during the entire 1977-78 season and during part of the 1978-79 season, upto December 15, 1978. The procurement of cotton has increased from 57.77 lakh quintals valued at Rs 133.67 crore in 1972-73 to 89.92 lakh quintals valued at Rs 438 06 crore in the 1982-83 season. The procurement was the lowest at 40.92 lakh quintals in 1976-77 while the maximum was in 1974-75 season at 91 lakh quintals. The zone-wise procurement in 1982-83 season indicates that the maximum procurement was 17.56 lakh quintals in the Yavatmal Zone followed by 11.69 lakh quintals and 11.64 lakh quintals in Parbhani and Nagpur Zones, respectively. The minimum procurement was 0.22 lakh quintals in Ahmednagar Zone while in Dhule Zone it was 1.25 lakh quintals. The variety-wise procurement suggests that nearly 47 per cent of the toal procurement was of H-4 variety, followed by 14 and 10 per cent of 1007 and Varalaxmi varieties, respectively. This indicates that these three varieties account for 70 per cent of the total procurement. The proportion of long staple varieties in the procurement was about 58 per cent and that of medium and short staple varieties was 25 and 17 per cent, respectively. The corresponding percentages of long, medium and short staple varieties in 1972-73 were 13, 50 and 37, respectively. This clearly shows that the production of long staple varieties in Maharashtra has increased by 40 per cent in the last 10 years. The average guaranteed price was Rs 231 per quintal in 1972-73. This increased to Rs 487 per quintal in 1982-83. The recovery of co-operative dues through the scheme was Rs 16.59 crore in the 1972-73 season and it increased to Rs 73.05 crore in 1982-83.

The disposal of cotton under the scheme depends upon the domestic demand of cotton. The number of cotton bales sold by the end of the season in 1972-73 was 8.28 lakh out of 11.48 lakh bales pressed (i e, 72 per cent). During the 1982-83 season also out of 10.21 lakh bales pressed 72 per cent were sold by the end of the season. In some seasons, *viz*, 1975-76 and 1976-77, this percentage was 94 and 97, respectively. But in 1974-75, season, it was just 24 per cent as there was a considerable fall in demand while overall supply of cotton was very comfortable. The average realisation per bale was Rs 1,151 in 1972-73 which increased to Rs 2,095 in 1982-83. Buyer-wise sales during 1982-83 season indicate that 40 per cent were sold to public sector mills, 33 per cent to private mills, about 3 per cent to state undertakings in other states and about 24 per cent were exported. The quantity of cotton seed sold was 37.31 lakh quintals valued at Rs 41.31 crore in 1972-73 season while it was 57.34 lakh quintals valued at Rs 123.23 crore in 1982-83 season. Thus the average selling price of cotton seed per quintal was Rs 111 and Rs 215 in 1972-73 and 1982-83 seasons, respectively.

### BONUS TO COTTON GROWERS

Since the inception of the scheme, the scheme has made net profits in all the seasons except 1974-75 and 1981-82. During 1975-76, 1976-77 and 1980-81 the profit worked out to Rs 39.58 crore, Rs 100 crore and Rs 19.63 crore, respectively. But during 1974-75 and 1981-82 the scheme incurred heavy losses mainly due to the slackness in demand for cotton. In fact, the state government had to contribute Rs 11.58 crore towards Price Flucttutation Fund to meet the losses in 1974-75. Similarly, in 1982-82 the net loss was Rs 46.34 crore. Most of the long staple varieties such as Varalaxmi, RHR-253, MCH-1, CBS-156, Suvin, H-4, Nimkar-391 were sold at a loss in 1979-80, 1980-81 and 1981-82. The production of Varalaxmi variety has been on the increase in recent years and this variety has contributed much to the loss under the scheme.

While closing the accounts, profits and loses are worked out separately for each variety. Some varieties show profit while others show loss. 75 per cent of the profit shown by the concerned varieties is distributed to the concerned tenderers as additional price (i e, bonus) and the remaining 25 per cent is credited to the Price Fluctuation Fund. Such additional price paid to the cotton tenderers in 1972-73 was Rs 15.23 crore while in 1981-82 it was Rs 1.67 crore.

The life of the Maharashtra Raw Cotton (Procurement Processing and Marketing) Act 1971 was upto June 30, 1980 and its duration was further extended twice on yearly basis upto June 30, 1982 with the concurrence from the Government of India. The state government approached the Government of India to accord sanction for the extension of the Act by another 10 years, i e, upto June 30, 1992. However, the Government of India after reviewing the operation of the scheme sanctioned further extension upto June 30, 1984. While reviewing the progress of the scheme, the Government of India and the Reserve Bank of India made various suggestions for smooth implementatin of the scheme. After due consideration of these suggestions, the state government carried out necessary amendments to the Raw Cotton Act, 1971, and requested the Government of India to sanction further extension to the duration of the Act upto June 30, 1994.

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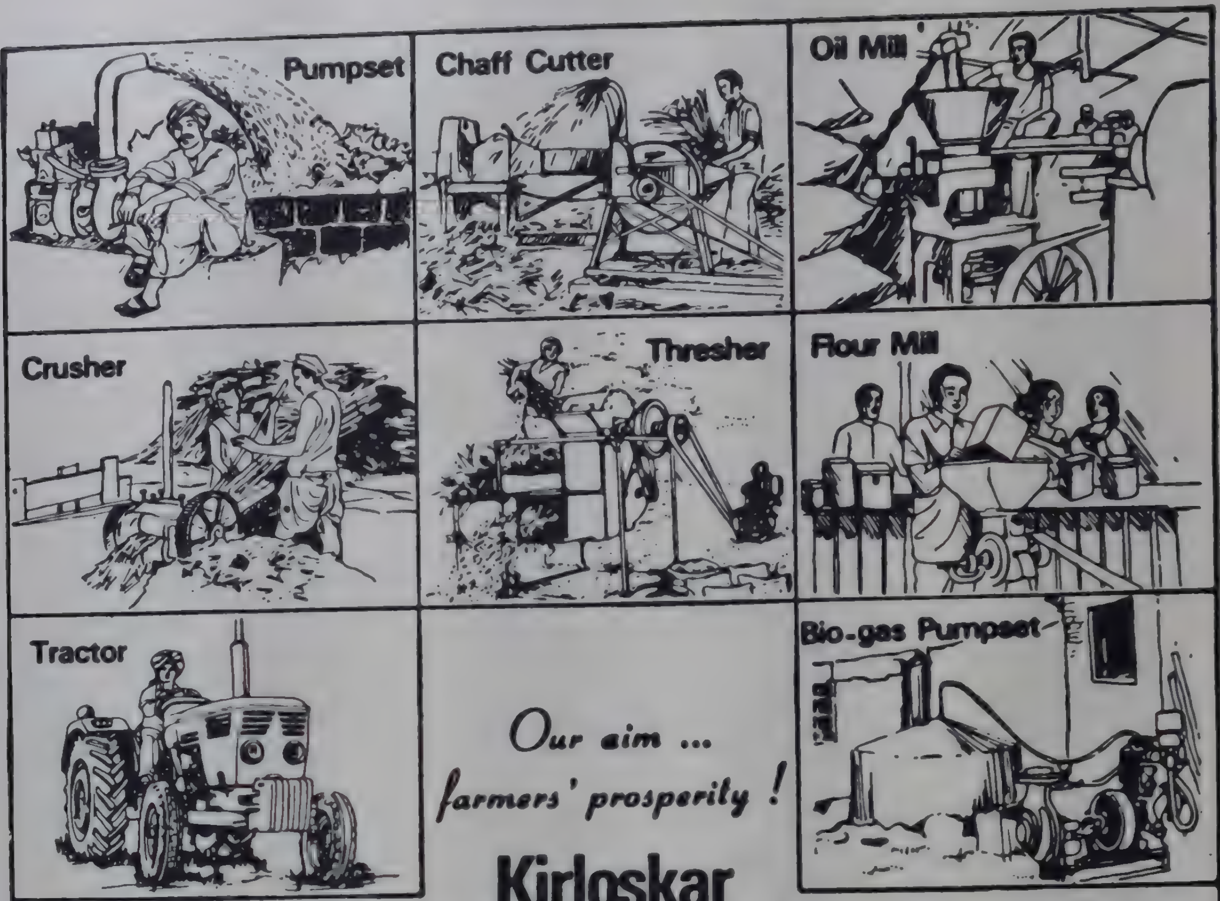
## Swan Mills

**SWAN MILLS has shown a higher trading** loss of Rs 3.68 crore for 1984 as against Rs 3.17 crore in the previous year despite an increase in turnover from Rs 38.20 crore to Rs 46.59 crore. After providing for depreciation, there is a net loss of Rs 5.08 crore (Rs 4.30 crore). After some write-backs and adjustments in respect of earlier years, the accumulated deficit carried to the balance sheet has amounted to Rs 4.79 crore. The directors attribute this outcome to a combination of several adverse factors such as recession in the domestic market, increase in the cost of cotton and other inputs and disturbed political conditions in Northern India for a major part of the year. Moreover, the closure of the Basanti unit throughout the year, except for a very short period in February 1984, contributed to the unsatisfactory working of the company. After prolonged negotiations with the Labour Unions and, with the blessings of the Government of West Bengal, a settlement has been recently arrived at and operations of the Basanti unit commenced from May 5 last.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# SHAVARA TRIBALS OF WEST BENGAL

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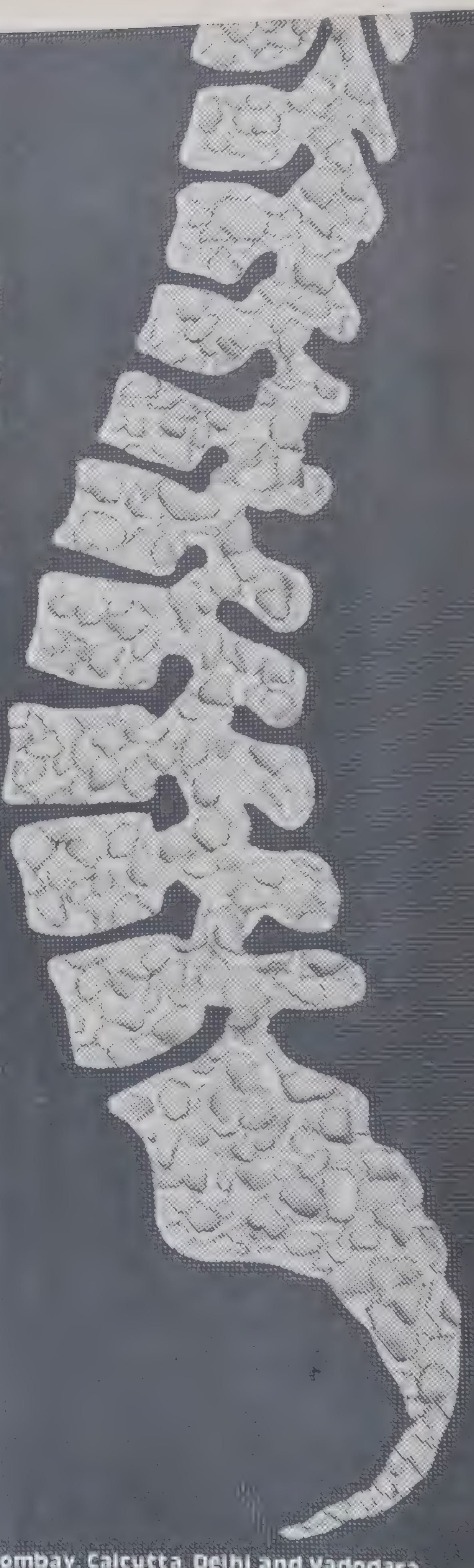

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# Trade Policies

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THE government has this week released the Report of the Committee on Trade Policies submitted on the very last day of the last year (the chairman of the committee concludes his preface with the remark that "if December had thirtysix days, the report would have been better"). Trade policies have been a major focus of the present government's efforts to give a new orientation to its economic policies and this particular committee's recommendations are believed to have influenced the import-export policy announced in April this year which, as an innovation, is to be in force for the next three years. So there is bound to be considerable interest in the committee's report. The committee, which consisted entirely of government officials, has sought to set out the economic rationale of the trade policies which it has recommended and it is this overall rationale rather than the specific policy changes which it suggests which it is most worthwhile to examine.

It is to the committee's credit that it emphasises right at the outset that the foreign trade sector cannot and should not be separated from the national economy. It is also stated categorically enough that in an economy where exports constitute 5-7 per cent of GNP, export-led growth is simply not on the cards. Growth-led exports are seen instead as the more likely scenario for India. Indeed, at one point it is even acknowledged that "it is unrealistic to expect that exports would grow significantly faster than real national income". The unfavourable international setting for the growth of India's exports, like those of other third world countries, is also not glossed over. The persistent recession has led to protectionism in the industrialised countries and stagnation in international trade flows. There are few signs of any sustainable economic recovery and even such short-lived recovery as there has been in some countries has not had a commensurate impact on the growth of world trade in general and of the third world countries' exports in particular.

But after sounding all these cautionary notes, when it comes to discussing policies for export promotion, the committee suddenly decides that "a quantum jump in exports is the most important means to attain the objective of self-reliance". Forgotten apparently is the aphorism about growth-led exports and the assessment that the country's exports could not be expected to grow very much faster than the rate of growth of real national income itself. Even the unfavourable international environment only means that "our export effort would have to be intensified much further". The committee's suggestions for such intensification are on the whole along very conventional lines: the duty drawback system should be 'rationalised' (an euphemism, of course, for raising the rates of drawback) so as to provide complete reimbursement of taxes paid on inputs entering into export production; the regime of cash compensatory support must be maintained and, further, the CCS payment should be exempted from income-tax (which means, at current levels of CCS, a tax-free income of approximately Rs 450 crore per year for exporters); the import replenishment scheme needs to be made more liberal; further, there should be an exchange entitlement scheme for exporters which would enable them to use a certain fraction of their foreign exchange earnings for the purpose of market development; 50 per cent of the profits from exports should be exempted from income-tax instead of the present 10 per cent; and, finally, export production should be exempted from capacity licensing provisions and restrictions on import of capital goods or technology. Emphasising the need for efficient import substitution in place of import substitution *per se*, the committee points out how necessary it is to weigh the domestic resource cost of a unit of foreign exchange saved through import substitution; it evidently ignores the need to keep the same wary eye on the domestic resource cost of a unit of foreign exchange earned through export promotion on the lines suggested by it.

It is, however, the part of the report dealing with imports which reflects the essence of the committee's thinking. Having rightly ruled out export-led growth, larger exports are for the committee a means of financing the larger imports which are expected to follow from the import liberalisation and phased reduction of protection recommended by it. The lowering of protection the committee regards as essential for infusing competition in the domestic economy and creating an economic environment conducive to lowering of costs and erosion of monopoly profits. At the present stage of our development, the committee opines, it is especially necessary "to provide for more liberal access to import of technology in most sectors of the economy". The government should not try to 'over-regulate' even multiple and repetitive technology imports since that would limit competition among firms in the economy. Along with liberalisation of imports, including of technology, the committee wants the removal of barriers to entry by new firms into industries and the relaxation of capacity licensing provisions. These measures are expected to ensure absorption of imported technology and to create conditions conducive to innovation, for then domestic firms would move from the stage of importation through absorption to innovation, spurred by expection of higher profits, fear of competition or threat to survival in the market.

There are, of course, a number of reasons why the committee's faith in liberal imports together with relaxation of industrial controls will not bring about either greater competition and lower costs or absorption of imported technology. In very many industries the limited size of the Indian market will constitute a natural barrier to the flowering of competition simultaneously with adoption of technologically optimum scales of production. Nor is the institutional framework of international supply and purchase of technology and capital goods, with large multinational corporations on the one side and a third world bourgeoisie on the other, propitious for the sort of passage from import through absorption to innovation which the committee anticipates (a subject to which the committee does not refer even tangentially despite all the mass of studies produced under the auspices of the UNCTAD and other very respectable agencies). The Indian capitalists' pursuit of profit may lead them in the opposite direction precisely, of virtual deindustrialisation to settle for assembly of or even straightforward trading in imported wares. It is true, as the committee notes, that the continuous technological upgradation necessary for rapid and efficient industrialisation has not taken place so far either through import of technology or through indigenous technological development. But without a careful probing of the roots of this malaise, which the committee was unfortunately not moved to undertake, it will be unwise to seek the corrective in liberal import of technology. The cure is likely to prove worse than the disease.

## *Seventh Plan*

### Saving Rate Puzzle

THE 'Approach to the Seventh Five-Year Plan' had calculated that "the Plan can be based on the assumption of a 26 per cent saving rate". It did not think this was ambitious since, according to it, such a rate of saving had "already been achieved". The Planning Commission's more recent reported decision to lower the assumed rate of saving in the Seventh Plan to 24 per cent therefore comes as a surprise, especially as no reasons have been offered for the revision.

Gross domestic saving as a proportion of gross domestic product rose from 16.8 per cent in 1970-71 to 22.4 per cent in 1976-77 and 24.7 per cent in 1978-79. In the next two years the ratio hovered around 23 per cent and in 1981-82 it fell to 22.1 per cent. In the following two years the ratio was 22.8 per cent and 22.6 per cent, respectively. It would appear thus that the highest saving rate achieved in any year so far is 24.7 per cent, contrary to what was suggested in the Approach document.

Total saving in the economy is made up of contributions from the household sector, the domestic private corporate sector and the public sector. The share of the household sector in total saving rose from 72 per cent to 75 per cent between 1970-71 and 1980-81. By contrast, the share of the public sector declined from 18.4 per cent to 16 per cent as did that of the private corporate sector from 10 per cent to 9 per cent. The public sector improved its share somewhat in 1981-82 and 1982-83, though this was from the rock-bottom touched in 1980-81 (see Table).

In the early seventies physical assets formed about 60 per cent of household gross saving, the balance being held in the form of financial assets. Now the household sector holds its saving in these two forms in roughly equal proportions. Bank deposits constitute the principal medium of financial saving by the household sector with a share of 40 per cent, followed by provident funds (17 per cent), currency (15 per cent), claims on government (8 per cent) and loans to companies (7 per cent). An increasing proportion of household saving has been channelled to finance public sector activities, whereas the private corporate sector's direct draft on household saving—in the form of borrowings, shares and debentures, units of UTI and trade credit—has been small, round 13 per cent.

There is no official estimate of the breakdown of saving between the rural and urban sectors. Non-official studies have, however, suggested that the rural household sector's contribution to total household saving tended to decline in the seventies. This may appear intriguing in the context of the sizeable rise in incomes in the farm sector since the beginning of the seventies. A field survey conducted by the Tata Economic Consultancy Services of a sample of rich farmers in the relatively affluent areas of Gujarat, Maharashtra and Andhra Pradesh found that these farmers deployed their saving in fixed and working capital for agriculture as also in postal saving deposits and bank deposits. The absence of other forms of saving has been attributed to insufficient infrastructure, absence of promotional effort and marketing agencies, etc. The survey suggests that there is considerable scope for improving the mobilisation of saving from rural areas.

The performance of the public sector in generation of saving has been plainly uninspiring. The bulk of this sector's saving is made up of the profits of the Reserve Bank of India, the LIC, and the other financial institutions. The contribution of public sector productive enterprises has been negligible. And the Union government administration was a dis-saver to the tune of Rs 1,600 crore in 1984-85 and Rs 582 crore in 1983-84.

To finance the proposed public sector outlay in the Seventh Plan of Rs 180,000 crore (at 1984-85 prices), the Approach paper had called for generation of larger internal resources by public sector undertakings through improvements in efficiency and productivity, more rational pricing policies, toning up of tax administration to increase tax collection and curtailment of the government's consumption expenditure. It had also underscored the need for more effective mobilisation of rural saving. Has the Planning Commission then lost faith in the efficacy of these measures or their feasibility? Why otherwise has it decided to lower the projected rate of saving in the Seventh Plan to a level which had been touched in the mid-seventies? And what about the implications of the lower saving rate? Will it mean a widening of the gap in the resources available to finance the public sector Plan outlay or is it assumed by the Planning Commission that the public sector will be able to preempt for itself a larger proportion of the reduced saving? If indeed the latter is the Commission's presumption, some explanation is called for to show how it can be squared with the drift of the government's economic policies.

TABLE: SECTOR-WISE CONTRIBUTION TO GROSS DOMESTIC SAVING

*(Per cent)*

| | 1970-71 | 1975-76 | 1977-78 | 1978-79 | 1979-80 | 1980-81 | 1981-82 | 1982-83 | 1983-84 |
|---|---|---|---|---|---|---|---|---|---|
| Household sector | 71.8 | 70.4 | 72.2 | 73.4 | 70.9 | 75.4 | 69.2 | 69.5 | 74.3 |
| Public sector | 18.4 | 22.4 | 21.1 | 19.8 | 20.0 | 15.9 | 22.3 | 22.0 | 18.0 |
| Private corporate sector | 9.6 | 7.1 | 6.7 | 6.6 | 9.0 | 8.7 | 8.5 | 8.5 | 7.7 |

## *Calcutta*

### A Different History

*A Correspondent writes:*

ON August 24, Calcutta celebrated the 295th anniversary of the city's foundation with seminars, meetings, exhibitions and so on, held at a number of venues stretching from St John's church, in the yard of which lie buried the mortal remains of Job Charnock, to an old palace in central Calcutta belonging to a Bengali family favoured by the early British marauders with the Raja title. The participants also included a wide spectrum—historians, novelists, poets, and politicians like the old Congress stalwart Atulya Ghosh, Left Front minister Prasanta Sur and mayor Kamal Basu, the last two belonging to the CPI(M).

The organisers of these celebrations obviously trace the history of Calcutta from the Kiplingian myth of the 'chance-directed, chance-erected' settlement arising out of Job Charnock's 'midday halt' in 1690. True history, however, is somewhat different. This would-be location of the British settlement in Bengal was well known to Charnock and he made his selection after mature consideration of its strategic advantages.

Indeed, in 1686, that is, four years before the commonly reckoned date of the foundation of this British settlement, Job Charnock, then Agent of the East India Company in the *suba* of Bengal, had retreated to Sutanati, one of the three villages later to form the nucleus of the city of Calcutta, after having ransacked the Hooghly township during a conflict with the Mughal power. Secondly, far from being 'chance-directed', this location was chosen by the shrewd servant of the John Company with an eye to its immense strategic value. "In selecting Sutanati", writes Firminger, "as the place for the chief settlement in Bengal, Job Charnock made his choice deliberately and well . . . On three sides the place was secured by the river, the salt lakes and the ancient channel of Adiganga . . ."

The point, however, is not really so much concerning history, as one of looking at history. Whether its beginning is traced from 1686 or 1690, for a long period, Calcutta as the seat of the predatory British power was the nerve-centre of heinous crimes against the people of Bengal and India. The Bengalis and other Indians who served and collaborated with the British marauders in this early phase were solely motivated by narrow self-interest and objectively betrayed the interests of their own countrymen, without any mitigating circumstance in their own favour.

While its importance as a subject of historical research cannot be denied, no Indian can, however, in any way identify himself with this early phase of Calcutta's history or feel nostalgic about it. Indeed a lot of research and discussions are still needed to pinpoint the precise period from which Calcutta can be said to have begun its career as a focus of India's regeneration. Once this question is settled, celebrations should be organised to commemorate this turning point of history. Any fanfare about Job Charnock's 'midday halt' is a display of servility.

The recent Calcutta celebrations, however, are not something out of character with or incongruous considering our post-independence national practice. The Indian army, for instance, still celebrates the raising of various regiments and battalions tracing their origin to 1746, 1839 and so on and gloats over their exploits in various battles against the Indian rulers. The overall attitude of our elite and ruling apparatus is really coloured by the denouement of our freedom struggle which ended in a compromise with the British colonial rulers, as a result of which Indian independence is seen as evolution with its continuity with the Raj, which it partly is.

## *Superpower Summit*

### How Serious Is the US?

THE hopes resting on the November meeting between Ronald Reagan and Mikhail Gorbachev seem to be dimming with virtually every passing day. Ordinarily one would have expected that with a superpower summit round the corner, both parties would go out of their way to create an atmosphere which is conducive to some positive outcome in the negotiations at the summit. But exactly the opposite seems to be happening.

This is particularly so judging by the stance the US is taking on various matters of US-Soviet concern, even though the major initiative for convening the summit came from the US. The Soviets have, on the other hand, tried to be accommodative, on the surface at least, by declaring a five-month moratorium on nuclear tests and inviting the US to join in a mutual moratorium for a more extended period. The Soviets have furthermore not only forsworn any further missile deployments in Europe but also publicly offered to negotiate a mutually agreed reduction in nuclear warheads by as much as 30 per cent. The US has either spurned these Soviet gestures or raised procedural objections. For instance, on the mutual reduction of warheads the US objection is that if the Soviets are serious why do they not place it on the table at the ongoing Geneva negotiations on strategic arms limitation.

What is quite intriguing is that having sought a summit meeting, the US now seems to be on a path that could lead either to the summit's cancellation or to the summit, even if held, resulting in little tangible progress in the easing of superpower tensions or perhaps in actually accentuating them.

One day the US national security adviser accuses the Soviets of hypocrisy on arms control and declares that, unless they change their attitude, "even incremental improvements will be extremely hard to reach". Next day the US Administration announces that the US would conduct its first test of an anti-satellite missile-borne weapon against a target in space, claiming of course that the test was meant to develop US capability to deter threats to its own and allied space systems. The third day, the US despatches a strong note of protest to the Soviet Union against the use, over the past ten years or so, of 'spydust', a chemical capable of causing cancer, to track the movements of US diplomats posted in the Soviet Union. The explanation for raising the issue at this juncture is that only recently has the Administration learned of the said chemical's possible health hazards, although from reports of the briefing of US residents in Moscow on the subject it would appear that US diplomats themselves felt that the chemical powder was being used in such small quantities that there was possibly no cause for alarm. Evidently, the immediate purpose of the protest was to score one more point or to reinforce further the line that the US seems to have decided to take in the remaining few months before the November summit.

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Does all this mean that the US Administration is having second thoughts on the advisability of a summit or even of engaging in any serious negotiations on issues of major concern? Or is it that all this is an exercise in preparing the US public for a possible failure of the negotiations, however seriously they are conducted? Suspicion now is gaining ground that the present US Administration is not, in fact never was, interested in serious arms limitation negotiations. And why should it be? It has more or less won the budget battle on defence, with practically all the weapon systems budgeted for left intact. So it can go full steam ahead with weapon-building. As for the threat to world peace, who cares? Certainly not the present US leadership.

## BUSINESS

# Blind Man's Buff

SEEN in the context of the latest cotton crop estimate of 101.5 lakh bales approved by the Cotton Advisory Board at a special meeting held on August 20, the 95 lakh bales target set for the Seventh Plan as also the various supporting programmes to achieve this target provide a telling example of the utterly futile exercises conducted in the Planning Commission, involving wasteful use of talented manpower. It was only about the middle of July that the Union agriculture minister Buta Singh convened a special meeting of state agriculture secretaries, agricultural production commissioners, vice-chancellors of agricultural universities, managing directors of national and state seeds corporations and agricultural scientists for evolving a national strategy to raise the overall production of cotton to 95 lakh bales (170 kg) by the end of the Seventh Plan. How could the agriculture ministry and experts who make up the working groups be so grossly misinformed about what is going on in the fields? What is true of cotton is perhaps equally true of other agricultural commodities. Not many outside the government have any illusions about the quality of our agricultural statistics.

The cotton season which ended with August is a stern reminder of the imperative need to improve the crop information system. Crop statistics put up at successive meetings of the Cotton Advisory Board, which is fully representative of all the interests concerned—the meetings are presided over by the Textile Commissioner—make an interesting study. CAB's first meeting of the season held on October 1 placed the 1984-85 crop at 79.80 lakh bales. This figure was revised to 84.75 lakhs at the subsequent meeting on February 2. CAB's third meeting held on May 10 placed the crop estimate still higher at 92 lakh bales. This figure was further revised to 101.5 lakh bales at the special—fourth and final—meeting of the Board held on August 20. The final estimate thus shows an increase of as much as 27.2 per cent over the first estimate put up at CAB's meeting on October 1. This brings into sharp focus the gross inadequacies in collecting crop information by the various interests participating in CAB meetings. Significantly enough, of all the estimates mooted at the CAB meetings it is the official estimates which are always very wide of the mark. The East India Cotton Association's estimates have been the closest to the mark.

Staple-wise and count-wise break-up of the final crop estimate submitted at the special CAB meeting in August is worth noting as it has a bearing on policy formulations. Staple-wise figures are: short 2.55 lakh bales, medium 41.95 lakh bales, superior medium 19.85 lakh bales, long 24.70 lakh bales and extra long 11.88 lakh bales. Countwise, 36.30 lakh bales comprised of cotton upto 24 counts, 17.50 lakh bales of 25s to 40s and 47. 13 lakh bales of 40s and above, making a total of 100.93 lakh bales.

Considering the progressive revision of crop estimates—these have had nothing to do with the weather conditions which could be described as ideal throughout, right from the time sowings to the harvesting of the crop—it is hardly surprising that cotton prices should have registered substantial declines from the highest levels recorded early in the season. The downward trend in prices continued upto the end of February and early March. Thereafter prices staged a sizeable rally which lasted until about the middle of April. Prices have been inclined lower since then. While short-medium varieties have slipped to the season's lowest levels, long and extra long staple varieties are currently quoted Rs 100 to Rs 300 a candy above the season's lows. By far the most significant aspect of the behaviour of cotton prices is the pronounced contra-seasonal weakness and that too despite record mill consumption of over 86 lakh bales during the 1984-85 season. In the absence of any dependable crop estimates, ad hocism marked the government's approach in dealing with the emerging cotton situation. Export quotas were released very reluctantly and were far short of the demands made by growers' representatives. The powerful industry lobby was successful in persuading the government to release an import quota for one lakh bales very late in the season, notwithstanding abundant indigenous supply of medium staple cotton. Belatedly realising that imports have had the effect of unduly depressing cotton prices, the government is reported to have decided to use imported cotton as buffer and even re-export it in the event of domestic prices declining below the support levels. Industry's purpose in importing cotton has apparently been well served as cotton prices have continued to display marked weakness even at the fag-end of the season.

The demand-supply balance-sheet of cotton for the 1984-85 season approved at CAB's special meeting on August 20 shows a surplus of 24.40 lakh bales at the end of August. Supply is placed at 118.50 lakh bales, consisting of carryover of 16 lakh bales from the preceding season, domestic crop of 101.50 lakh bales and import of one lakh bales. On the demand side, mill consumption is placed at 86.50 lakh bales— an all-time record—ex-factory consumption at 4.65 lakh bales and exports at 2.95 lakh bales, making a total of 94.10 lakh bales. The estimated carryover stock of 24.40 lakh bales is large enough to see the industry through till new crop supply becomes available. On current reckoning and expectations of normal weather, the 1985-86 crop has been estimated by CAB at 95/96 lakh bales. With many crucial weeks ahead, no forecast at this juncture can be taken seriously.

Perhaps the worst victim of the declining trend in cotton prices witnessed during 1984-85 is the Maharashtra State Co-operative Marketing Federation. Because of the relatively high guaranteed prices, the Federation is still left with an unsold stock of over eight lakh bales out of its total purchases of 17.50 lakh bales under the monopoly scheme. Reports are that the Federation is likely to incur very heavy losses this season, imposing a serious burden on the state exchequer. It is difficult to implement the monopoly scheme when the guarantee prices are fixed at well above the ruling market prices.

Under the new textile policy cotton has been assigned a pre-eminent role, or so the government claims. Utilisation of indigenous cotton is to be ensured by domestic consumption and by exports of cotton, yarn and other manufactures. Cotton growers shall always be assured off-take of their produce at remunerative prices. Cotton needed by the textile industry would be made available in adequate quantity and at reasonable prices. The role and functions of the Cotton Corporation of India would be reformulated to include price stabilisation operations and the Corporation would be allowed free access to international markets. The varietal imbalances of cotton is sought to be corrected by a mix of policies aimed at encouraging increased use of long and extra long staple cotton on the one hand and higher production of short and medium staple varieties on the other.

It is difficult to improve upon the objectives spelt out in the textile policy. But the basic question is how can one formulate appropriate policies for dealing with the various aspects of the cotton situation without reliable crop information? The need for strengthening the infrastructure for collecting reliable crop statistics can scarcely be over-emphasised.

## *Stock Market*

### Financial Institutions Take a Hand

THE stock market scene has undergone a profound change. Bulls who had been ruling the market for long, bidding up equity prices to levels which could not be justified in terms of any accepted norm—corporate profits/dividends, yield, price earning ratio or growth prospects—are now on the defensive. The magic of fluctuations which had of late become a major force behind the runaway boom has completely worn off. The unwinding of unhealthy bull speculation has uncovered many weak bull positions, converting paper profits into losses. The market which had never looked back after it undertook the historic bull campaign over seven months ago has been on the retreat since about the middle of August.

All this has come about because of massive institutional selling on August 12 and 16—this selling is still not over perhaps—causing the first major break in equity prices since the beginning of the upward trend in November. By the end of August, equity price indices had registered declines ranging between 11 per cent and 15 per cent from their all-time highs recorded in the second week of August; the all-time high in the case of Bombay was registered on July 22.

Considering the manner and the magnitude of the rise in equity prices over the past seven months or so, few could have had any serious doubts that speculative activity had assumed disquieting proportions. However, with speculative mania having firmly seized the market, bulls never bothered to take notice of unfavourable developments, including rigorous margins, exorbitant carry-forward charges and intermittent institutional sales in select scrips which, of course, were seldom large.

With its technical position rendered extremely vulnerable by the over-extended long account, the stock market was unable to withstand the pressure of institutional sales on August 12 and 16. It beat a quick retreat when it found all the major financial institutions—LIC, GIC and its subsidiaries, UTI and ICICI—emerging as keen sellers. These institutions placed orders with a large number of stockbrokers to sell a wide range of shares in the specified and non-specified list at market prices. Reports are that shares worth Rs 25 crore were off-loaded in two days. By the end of the month, institutions had effected total sales worth about Rs 35 crore.

It could not be just a case of all the institutions suddenly discovering the excellent opportunity the market offered to cash huge windfall profits—windfall profits, because nobody had dreamt of the rise that took place. Reports that behind these massive sales lay the government's unseen hand cannot be dismissed as wild gossip. The Union finance ministry had never made a secret of its concern over the runaway boom in equity prices. It was mainly at its insistence that the market authorities had taken a series of measures to enforce discipline on the market and contain speculation within manageable limits. These measures had not yielded the desired results. That the financial institutions had not acted entirely on their own is amply borne out by the manner in which the sales were effected—all the institutions emerging as sellers at the same time without specifying any price limits to the stockbrokers. This is not how institutions normally operate in the market. Nor is it desirable to do so. If price limits are not clearly indicated, the institutions would be easily outmanoeuvred by the stockbroking community.

Since all the major financial institutions are known to possess considerable investment expertise of their own, the propriety of the Union finance ministry dictating its decisions in such matters is open to question. Quite a few stockbrokers have been heard saying that not all the institutions have effected deliveries against their sales and that the sales have been carried forward. With the 'badla' rate of about 18 per cent (on an annualised basis) in their favour, institutions have everything to gain by carrying forward their sales. But if the financial institutions do not effect all the deliveries against their sales on schedule they would be exposing themselves to the charge of actively participating in stock market operations which ill becomes institutional investors. Indeed, the institutions would be setting a highly questionable precedent if they were ever to cover even a part of the sales effected by them. For their transactions would then acquire the status of speculative deals. This would add a new disturbing dimension to stock exchange dealings.

The overall behaviour of the market since about the middle of August indicates that the sharp break in equity prices that has taken place under pressure of institutional sales marks the beginning of a secondary correction that had been long overdue. Secondary reactions are as necessary to the stock market as safety valves to steam boilers. It is the most effective check on excessive speculation. It is difficult to say how long the corrective phase will last and how it will progress week by week. Odds are that the process of technical adjustment, which is now underway, could well turn out to be a long drawn-out affair. Seen in the context of the preceding staggering rise in equity prices, the current decline is still quite modest.

## LETTER TO EDITOR

# Struggle of Rural Women for Right to Education

SAKTI is a registered voluntary organisation working for the socio-economic improvement of women living below the poverty line in slums, rural and tribal areas. It has been running a women's development programme in about ten villages in Gingee taluk of South Arcot district in Tamil Nadu. The programme has enabled women to receive loans (from SBI) for purchasing milch animals and goats.

On March 8 the women attending the night schools celebrated International Womens Day. Since then 43 women attending the Nadupet women's night school and their supporters (both women and men) have been harassed by some anti-social elements from the Nadupet and the neighbouring villages to stop them from attending the night school. Physical intimidation and harassment from these goondas has increased during the last two months and they are insisting that the women's night school be closed down. During the last two weeks, the goondas have started beating up women attending the night school and their supporters. One of the night school teachers was also beaten up on July 17.

These anti-social elements have filed criminal cases against the women and their supporters. Police visited the area and have told the women to keep the night school closed. "Not even a lamp should be lit there", they were warned. Though complaints were lodged in the local police station, the physical harassment of the women and staff continues.

On July 16 the state legal aid board at Madras was contacted and petitions made to them. Some of the women MLAs and MPs of Tamil Nadu were also contacted and memorandums submitted to them. The main issues are:

(1) A move towards awareness and economic independence among the poor women and the scheduled castes is seen as a threat to the traditional powers in the village.

(2) Despite the physical harassment and intimidation the women are not demoralised.

(3) The developments require to be seen in the broader context of the struggles of the women and the poor.

JACINTHA S KUMARASWAMY

SAKTI, Bangalore.

# STATISTICS

| Index Numbers of Wholesale Prices (1970-71 = 100) | Weights | Latest Week (10-8-85) | Variation (Per Cent) Over Last Month | Over Last Year | Over March 30, 1985 | In 84-85⁺⁺ | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| All Commodities | 1000 | 364.3 | 0.9 | 5.2 | 5.5 | 7.0 | 9.5 | 2.6 | 9.3 |
| Primary Articles | 417 | 344.2 | 1.3 | 1.7 | 6.9 | 4.8 | 11.0 | 3.6 | 11.3 |
| Food Articles | 298 | 332.3 | 2.4 | 6.2 | 11.7 | 6.4 | 13.5 | 6.2 | 13.3 |
| Non-food Articles | 106 | 299.8 | −1.6 | −9.5 | −3.5 | 2.3 | 15.1 | 1.7 | 10.5 |
| Fuel, Power, Light and Lubricants | 85 | 567.0 | 0.2 | 9.9 | 2.2 | 2.6 | 7.6 | 7.5 | 20.7 |
| Manufactured Products | 499 | 346.7 | 0.8 | 7.0 | 5.2 | 6.0 | 8.7 | 0.6 | 5.2 |

| Cost of Living Index | Base | Latest Month | Variation (Per Cent) Over Last Month | Over Last Year | Over March 1985 | In 84-85 | In 83-84 | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| For Industrial Workers | 1960 = 100 | $606^6$ | 1.0 | 5.6 | 3.4 | 6.4 | 12.6 | 7.8 | 12.5 |
| For Urban Non-Manual Employees | 1960 = 100 | $552^5$ | 1.1 | 7.4 | 2.2 | 8.1 | 10.3 | 8.0 | 11.9 |
| For Agricultural Labourers | July 60 to June 61 = 100 | $530^6$ | 1.1 | 3.7 | 2.5 | 0.2 | 11.4 | 5.2 | 12.4 |

| Money and Banking | Unit | Latest Week (2-8-85) | Variation Rs Crore (Per Cent in Brackets) Over Last Month | Over Last Year | Over March 29, 1985 | In 84-85⁺⁺ | In 83-84⁺⁺ | In 82-83 | In 81-82 |
|---|---|---|---|---|---|---|---|---|---|
| Money Supply ($M_3$) | Rs Crore | 1,06,809 | −434<br>(−0.4) | 15,460<br>(16.9) | 5,096<br>(5.0) | 15,443<br>(18.0) | 13,031<br>(17.9) | 10,115<br>(16.1) | 7,037<br>(12.7) |
| Net Bank Credit to Government Sector | Rs Crore | 53,769 | −446 | 8,303 | 4,798 | 8,460 | 5,757 | 4,748 | 4,965 |
| Bank Credit to Commercial Sector | Rs Crore | 72,581 | 9 | 10,435 | 2,491 | 9,447 | 8,830 | 8,247 | 6,772 |
| Net Foreign Exchange Assets of Banking Sector | Rs Crore | 2,530 | −117 | 646 | −469 | 1,419 | −104 | −977 | 2,069 |
| Deposit of Scheduled Commercial Banks | Rs Crore | 76,986 | 850<br>(1.1) | 12,696<br>(19.0) | 5,800<br>(8.1) | 10,590<br>(17.5) | 8,550<br>(16.4) | 7,299<br>(16.6) | 5,762<br>(15.2) |
| Foreign Exchange Assets** | Rs Crore | 6,426 | −118 | 445 | 928 | 1,463<br>(26.6) | 943<br>(20.7) | 911<br>(27.2) | −1,468<br>(−30.4) |

| Index Numbers of Industrial Production (1970 = 100) | Weights | Latest Month | Average of Months* 1985 | 1984 | Variation (Per Cent) In 1985⁺⁺ | In 1984⁺⁺ | In 1983 | In 1982 | In 1981 |
|---|---|---|---|---|---|---|---|---|---|
| General Index | 100.00 | $193.1^5$ | 202.2 | 193.2 | 4.7 | 6.6 | 4.5 | 4.5 | 9.3 |
| Basic Industries | 32.28 | $280.9^3$ | 265.4 | 248.5 | 6.8 | 11.7 | 5.5 | 8.0 | 14.5 |
| Capital Goods Industries | 15.25 | $244.2^3$ | 222.9 | 232.8 | −1.8 | 9.2 | 4.3 | −0.9 | 8.1 |
| Intermediate Goods Industries | 20.95 | $168.5^3$ | 167.5 | 155.9 | 7.4 | 1.7 | 7.9 | 1.9 | 3.7 |
| Consumer Goods Industries | 31.52 | $174.8^3$ | 170.4 | 170.4 | — | 1.3 | 0.4 | 5.8 | 8.2 |
| Durable Goods | 3.41 | $213.3^3$ | 210.9 | 187.1 | 12.7 | 13.0 | 0.1 | 3.6 | −0.1 |
| Non-Durable Goods | 28.11 | $170.1^3$ | 165.5 | 168.4 | −1.7 | 0.5 | 0.5 | 6.5 | 9.3 |

| Foreign Trade | Unit | Latest Month (April 85) | Cumulative for* 1985-86⁺ | 1984-85⁺ | 1984-85 | 1983-84 | 1982-83 | 1981-82 | 1980-81 |
|---|---|---|---|---|---|---|---|---|---|
| Exports | Rs Crore | 783 | 783 | 525 | 11,297<br>(14.4) | 9,872<br>(10.8) | 8,908<br>(14.2) | 7,803<br>(16.3) | 6,711<br>( 3.9) |
| Imports | Rs Crore | 1,344 | 1,344 | 956 | 16,485<br>(4.6) | 15,763<br>( 9.8) | 14,356<br>(5.0) | 13,671<br>( 9.2) | 12,524<br>(40.6) |
| Balances of Trade | Rs Crore | −561 | −561 | −431 | −5,188 | −5,891 | −5,448 | −5,868 | −5,813 |

| Employment Exchange Statistics | Unit | Latest Month (March 85) | Cumulative for* 1985 | 1984 | 1984 | 1983 | 1982 | 1981 | 1980 |
|---|---|---|---|---|---|---|---|---|---|
| Number of Applicants on Live Registers (as at end of period) | Thousand | 23,744 | 23,744 | 22,603 | 23,547<br>(7.3) | 21,954<br>(17.7) | 18,646<br>(12.4) | 16,584<br>(8.3) | 15,317<br>(6.9) |
| Number of Registrations | Thousand | 454 | 1,362 | 1,681 | 6,220<br>(−6.5) | 6,655<br>(13.5) | 5,862<br>(−6.6) | 6,277<br>(2.0) | 6,156<br>(0.4) |
| Number of Vacancies Notified | Thousand | 49 | 150 | 180 | 707<br>(−15.5) | 827<br>(0.9) | 820<br>(−8.4) | 895<br>(6.6) | 840<br>(−4.1) |
| Number of Placements | Thousand | 29 | 86 | 111 | 407<br>(−16.3) | 486<br>(2.5) | 474<br>(−6.1) | 505<br>(5.2) | 480<br>(2.6) |

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* For current year upto latest month for which data are available and for corresponding period of last year.

** Excluding gold and SDRs.

+ Variation in current year upto latest month for which data are available over corresponding period of last year.

+ + Provisional data.

*Notes:* (1) Superscript numeral denotes month to which figure relates, e g, superscript¹ indicates that the figure is for January and so on.
(2) Figures in brackets denote percentage variation over previous period.

# The Awesome Costs of Correction

### Romesh Thapar

THE price of hasty, 'instant' management is sometimes awesome, almost destructive of the original intent. Sant Longowal's killing at the hands of some hopelessly misguided youth parading as 'avengers' shocks because it should not have been possible to do this to him. He was targetted for destruction by the hard core extremists the moment he signed the Accord. What do we make of our security systems, and all the other paraphernalia operating against such killers?

One question leads to another. Why was it necessary to hold elections in September when the more experienced in political life were urging a longer time-span to cool emotions in Punjab, to permit Longowal to consolidate his hold, to isolate the extremists from their bases, and to cut across the gulfs dividing Sikh and Hindu? Surely, it could not be a reluctance to amend the Constitution. Was it then Governor Arjun Singh's desire to move speedily to higher responsibilities at the centre of power? Terrible errors are rooted in calculations of this kind.

Maybe, this hasty election was just the normal apolitical manager's obsession with maintaining the deadlines mentioned in the Accord, to clear the decks and declare one problem out of the way. This simplistic explanation probably contains the truth. It would be churlish to maintain that power was sought for the Congress.

Longowal could not have been persuaded to agree to a September election without some new perspective on the sharing of power and responsibility. Rajiv Gandhi's letter to the Punjab Congress, if read carefully, prepares the way for this healing touch. The direction is clear. Only candidates wedded to Sikh-Hindu unity, appreciative of the need to rise above the collisions of the past, and a warning to the factionalists of the Zail-Darbara era.

The structuring of the corrective, admittedly healthy in many respects, was by its nature very fragile. It was not sufficiently sensitive to the layers of alienation in Punjab's Jat communities. The 'instant' solution and the 'instant' response is a dangerous simplification in the realm of politics. It might work in societies less traditional and more modernised than ours. Here, the passage of time is critical, and timing has to be researched and made very precise.

Without Longowal, the Accord which was acclaimed continentally, has lost its anchor. The Sikh community is leaderless, at the mercy of unthinking terrorism, opportunist politicians looking for the 'big chance', and sleezy, criminalised operators living on the earnings of smuggling, on unaccounted gurudwara donations, and other suspect funding. That the hard-working Jats have lost Longowal, a man of the people, without worldly possessions, devoted to the interests of Punjab and Punjabis, and to a viable Indian federal polity, is a disaster.

The argumentation on whether the September election should be held or postponed captures the dimensions of the disaster. Whatever the decision, the killers will keep striking. This is their way of establishing Khalistan. There is no Longowal to expose them, and there is no one around to pursue his perspectives. A postponement of the election will give the killers a sense of achievement. On the other hand, if the time-table is maintained, it will make the hard core of killers more desperate. The dilemma is real, and we don't know what the people want. We never have at the best of times.

But the vulnerability of our political life is fearful. Can the farmer Badal rally the thoughtful? Is that supposed guardian of the gurudwara funds, Tohra, moving to hegemony? Or will the dubious Talwandi come into the play behind his aged Baba? The Sikhs by and large now see their future in the Akali Dal, and not a Punjabi Dal. But what has the Akali Dal reduced itself to in these few years? Can it find new, more relevant moorings? Who will risk his neck in this endeavour? Are not the killers a political presence?

These issues have to be raised at this moment of deep gloom, bordering on despair. Today, it is Punjab. Tomorrow, it could be Assam. This second accord is apparently, like the Punjab settlement, motivated by a promise that there will be a sharing of power despite ethnic collisions in the state. The non-violent student movement is not an anti-Congress force. That is fairly clear from the vibrations being received in the capital. If Chief Minister Jyoti Basu and the CPI(M) are startled by the 'surrender' to the Assamese, it is because Bengali votes have to be gathered, maybe, even a new state based on Cachar and some adjoining areas will be projected for this purpose.

In the politics we have popularised, issueless and based so squarely on caste, community and ethnicity, such material is highly inflammable. Accords are necessary, but there has to be an adequate follow-up and understanding of the fresh tensions that surface with every agreement. We cannot be apolitical managers in the complexity that is India. The cost is awesome.

Shortly, very shortly if Longowal's assassination does not paralyse the process of normalisation, we will be witnessing a rapprochement in Kashmir which will restore the old relationship between the National Conference and the Congress Party in this region. A failure here is unlikely because all the signs suggest that a continuance of the Shah regime will only create a Punjab-style situation shot through with fresh Pak-inspired insurgent activities. We destroy ourselves with delays, but unprepared haste is destructive too.

The fear which from the beginning naturally gripped many seasoned observers, that the unavoidable fragility of the accords could return us to the old confrontations should there be a breakdown in verbal and unwritten agreements, is now escalating. The inexperience of the coterie that now rules, a plus point in getting over the rigidities of the past and the tendency to allow complexities to paralyse decisions, could make a mess of the handling of the details which are so vital in political management based on trust or there could be sabotage (wilful or otherwise) from within a ruling party which is really dependent on equally inexperienced persons, largely living on the notion that political power is an essential lever for self-aggrandisement.

Several factors are at play, but, fortunately, two are dominant. First, Rajiv Gandhi's new-found, simple, straightforward resolve not to live enmeshed in a murky, amoral past, even if it means taking risks. And, second, his success in returning the political dialogue between him and others outside the ruling party to a framework of trust, the verbal agreement, the quiet understanding. Only those who have participated in the normalisation process are conscious of the change.

However, much more is required to deal with the twists and turns, the duplicities, and the growing violence of Indian politics. Rajiv Gandhi, make no mistake, is learning. But there will be no breakthrough to democratic normalisation unless he works towards wider and more sustained federal consultation. Let us hope that Sant Longowal's martyrdom will be for our troubled times what Mahatma Gandhi's was for a maddened continent in 1947. But martyrdoms alone are not enough. The people must change.

*August 23.*

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## Larsen and Toubro

LARSEN AND TOUBRO proposes to set up a joint venture for the manufacture of electronic testing equipment in India in technical-cum-financial collaboration with Gould of USA, who is well known in this field in India and abroad. A new company will be registered for this purpose. The new company will have issued and paid-up capital of about Rs 6 crore, of which L and T will subscribe to Rs 4 crore and the balance will be held by the US firm. Under the licence agreement to be entered into by the new company, Gould will supply technical know-how for the manufacture of electronic testing equipment, train engineers of the company at its plant and depute its technicians in India to assist the company in the manufacture of these products.

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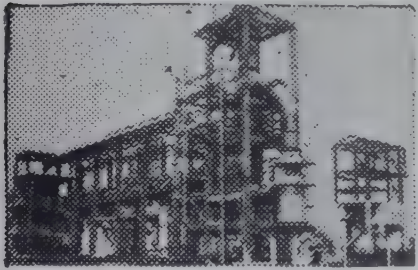
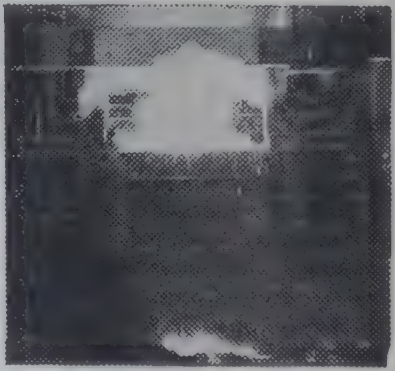
*TISCO modernisation : Charging molten metal into the 130-ton LD convertor*

*Superalloys Plant (Midhani), Hyderabad: Plant, general view*



*Sponge Iron Plant, Kothagudem : Direct reduction unit with waste gas cleaning facility*

*VSP—Rolling mill area : Roll shop column and equipment foundations*



*Alloy Steels Plant, Durgapur : Tapping of liquid steel from the 50-ton arc furnace (Stage-1 Expansion)*

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DASTURCO is the consultant to the Government of Oman for their first integrated steel plant (DR/EAF) and rolling mill. In Egypt, DASTURCO recently prepared a Master Plan for the development of the steel sector up to 2000 AD. And now, for the Government of Mongolia, DASTURCO is drawing up detailed plans for the establishment of the steel industry in the Republic.

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# The Sway of Censorship

**A G Noorani**

IT is remarkable how confidently the state in India proceeds to stop the flow of information to the citizen. It is too brazen for words. The inconvenience, let alone the injustice, is not even attempted to be minimised. The recent case of the film 'Maficha Sakshidar', virtually a documentary of the Pune killings, provides a telling illustration. Its shooting began on April 17, 1980 and the film was completed in August 1983. The Examining and Revising Committees of the Board of Film Censors gave it an 'A' certificate without any cuts. The Revising and Re-Revising Committees saw it five times and refused a certificate in December 1983. A revised version was submitted in April 1984. But, once again, a certificate was refused. That was in December 1984. The producer, Hiralal Shah, thereupon moved the Film Certificate Appellate Tribunal set up by the 1981 amendments to the Cinematograph Act, 1952. The amendments came into force in 1983 and the Tribunal was set up on June 1, 1983.

This Tribunal passed Shah's film after 11 cuts. But on July 11, 1985 the Central government overruled the Tribunal's decision and refused certificate on the ground that it showed "brutal murders" being committed "without any feeling of remorse or regret . . . The modus operandi of the criminals is also shown".

Hiralal Shah will, of course, have no difficulty in citing examples of other films which have passed the Board despite the fact that by the Board's own yardstick in the present case the murders are more brutal and the "perverse pleasure" of the murderers is more evident. The long and short of it all is that for two long years the film has been through the varied procedures of censorship with a totally negative result in the end.

Consider the Kerala government's refusal to the British TV film maker J Edward Milner to shoot a film on developments inside the Catholic Church. Milner had come to India with his production assistant to shoot the film entitled 'Faith under Stress' for British television. They and their crew had almost finished their shooting schedule in Goa and other places in the country and were about to leave for Kerala when the state government refused permission for the shooting. The Central government had given the clearance for their work in the country (*Indian Express*, August 19). Kerala alone refused. According to the *Indian Express* correspondent what 'Faith under Stress' focuses on are the developments in the Catholic Church the world over in the wake of the emergence of the radical clergy advocating 'the theology of liberation'. They are rightly fighting for a church of the poor and do not share the conservative and pro-rich bias of other clergymen.

True, there is an immediate situation but it is no worse than say in Punjab where the ban on visits of foreigners and foreign pressmen has been lifted. The *Express* correspondent has reported on the current agitation and so have others. Why should anyone be forbidden to film it? We see these evenings on the TV even scenes of agitation by the blacks in South Africa not to forget the killings in Lebanon. Why is the Karunakaran government so hyper-sensitive? As the correspondent describes it,

> The ongoing traditional fishermen's agitation in Kerala for limiting the number of mechanised trawlers and measures for conservation of marine resources was to serve as a backdrop for Milner's filming in the state. The agitation by the Kerala Swatantra Malsya Tozhilali Union, an affiliate of the National Fishermen's Forum, is led by the state's radical Catholic priests and nuns.
>
> Sister Rose, a 43-year old Catholic nun of the Order of the Immaculate Heart of Mary is on an indefinite Gandhian fast in the coastal town of Alleppey in support of the fishermen, defying a ban on indefinite hunger strikes by clergymen imposed by the Catholic bishops.
>
> Both the official church in the state and the state government have opposed the traditional fishermen's agitation led by the radical clergy. The church backs a smaller rival fishermen's organisation led by a loyalist priest, Fr Parasuvila.
>
> Chief Minister Karunakaran had alleged that the agitation led by the radical clergy was foreign-funded.

It is a puerile accusation, the standard refuge of Congress(I) politicians. But what has Karunakaran to say of the correspondent's charge that "the police had, a few months back, allegedly prevented another free lance Keralite film-maker, Sasi, working for the Delhi-based 'Sentits' television film company from filming a march by the agitating fishermen to the state government secretariat in Trivandrum"?

If true, this is a shocking action on the part of the police. But the sad truth is that it is fairly common to find policemen snatching cameras and even roughing up photographers. In law no citizen is required to seek any permission or licence from anyone in order to take a photograph or shoot a film in a public place. Nor does he need to submit the film for censorship unless he wants to 'exhibit' it to the public or a defined class of the public. Section 4 of the Cinematograph Act, 1952 makes the Censor's certificate mandatory only for public exhibition. No permission is legally required for shooting a film in public places—roads, playgrounds, etc—open to all.

Those who shoot films or take photographs have the same rights as those who see and write, the press reporters. They are all entitled to the fundamental right to freedom of speech and expression which includes within its ambit the right to know, the right to receive information.

There is another aspect, besides. The film-maker or/and the photographer is as much a surrogate of the public as the press correspondent. Any citizen or public body can ask for a writ against the state ordering it to forbear from interfering with the rights of photographers and film-makers.

## Union Carbide India

UNION CARBIDE INDIA and RELIANCE INDUSTRIES have announced that the agreement of sale signed by them on March 27, 1984 for sale of the former's chemicals and plastics unit at Chembur in Bombay to the latter has ceased to be in force. It may be recalled that on December 30, 1983, Union Carbide had signed a letter of intent with Reliance Industries for sale of the unit as a 'going concern'. The sale was subject to approval of Union Carbide shareholders, debenture-holders, Central/state governments, financial institutions and various other statutory authorities and was to have been completed by September 25, 1984. On account of the delays in obtaining the various approvals, the completion date was extended from time to time and the last such extension expired on July 31, 1985. The expiry of the agreement was on account of the inordinate delay and the continuing uncertainty relating to the remaining approval. The management of the chemicals and plastics business has continued to be fully with Union Carbide India during this period, which has witnessed a firming up of the market for LDPE and chemicals.

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# Fertiliser Project in the Bag

**Hansavivek**

*TATA CHEMICALS*, at long last, has received the letter of intent and MRTP clearance for the gas-based nitrogenous fertiliser project to be located at Babrala in Badaun district of UP. The fertiliser complex will be capable of producing 1,350 tonnes of ammonia per day which will be used for the manufacture of 2,250 tonnes per day of urea. The project will be implemented by Tata Fertilisers, which is at present a 100 per cent subsidiary of the company but which will be spun off as a widely held public company in due course. The company, either by itself or, if found necessary, together with its shareholders, associates and friends, will subscribe, on the basis of current estimates and subject to the final approvals of the government agencies concerned, Rs 75 crore to the equity share capital of Tata Fertiliser.

The company has turned in good working results for the year ended March 1985. The production of soda ash increased marginally by 2.5 per cent to a new high of 4,71,352 tonnes, representing a capacity utilisation of 94 per cent despite numerous handicaps. Production of densified soda ash increased by 22 per cent to 1,38,360 tonnes and placed the company in a better position to cater to the requirements of the glass industry and other users of densified soda ash. The production of refined sodium bicarbonate increased by 18 per cent to a new high of 21,669 tonnes. The production of salt during the year crossed, for the first time, the one-million tonne mark and at 10,23,288 tonnes, registered an increase of 36 per cent over the previous year. Correspondingly, production of bromine also increased by 52 per cent to 549 tonnes. Production of vacuum salt increased by 28 per cent to a new high of 90,118 tonnes, of which 15,100 tonnes were iodised. Production of caustic soda marginally declined by about 3 per cent and of pure salt by about 37 per cent due to sluggish demand. The benzene hexachloride plant was shut down for a month for complete overhaul and check-up to ensure maximum environmental safety. Production of BHC also declined by about 2 per cent.

The company has reported a gross profit of Rs 33.09 crore against Rs 31.97 crore in the previous year following increase in sales from Rs 105.16 crore to Rs 111.51 crore. These figures show a small decline in margins. With reduced provision for depreciation and a substantial saving in taxation, net profit has more than doubled from Rs 9.21 crore to Rs 20.97 crore. Unchanged dividend of 25 per cent on enlarged capital is covered 6.01 times by earnings as against 3.14 times previously.

The company could not meet the demand for soda ash and, sensing a shortage, unsuccessfully pleaded for import of this basic chemical. In the event, the company was once again reluctantly compelled to 'control' the distribution of soda ash. Subject to its contractual and moral obligations to those consumers who had stood by the company during the period of indiscriminate dumping of soda ash in the country, the company allocated the supplies on the basis of actual offtake during 1983-84 only among industrial consumers and had to cut off, once again, bulk supplies to the trade. The directors say that with the arrival of substantial quantities of imported soda ash now, the shortage situation is expected to disappear.

## The Week's Companies

*(Rs Lakh)*

| | | Tata Chemicals | | E I Hotels | | TRF | | Metal Box | |
|---|---|---|---|---|---|---|---|---|---|
| | | Latest Year 31-3-85 | Last Year 31-3-84 | Latest Year 31-3-85 | Last Year 31-3-84 | Latest Year 31-3-85 | Last Year 31-3-84 | Latest Year 31-3-85* | Last Year 30-9-83 |
| Paid-up Capital | | 1594 | 1405 | 1792 | 1326 | 132 | 132 | 976 | 976 |
| Reserves | | 7079 | 4906 | 4955 | 5126 | 270 | 228 | 1325 | 1325 |
| Borrowings | | 11660 | 6399 | 5367 | 4068 | 725 | 472 | 4493 | 5979 |
| *of which* Term borrowings | | 3321 | 3897 | 3937 | 2484 | — | — | 674 | 2009 |
| Gross fixed assets | | 15775 | 11688 | 13039 | 10698 | 953 | 770 | 4522 | 6237 |
| Net fixed assets | | 11512 | 8001 | 11591 | 9502 | 567 | 450 | 2432 | 4042 |
| Investments | | 5637 | 720 | 37 | 37 | 8 | 4 | 15 | 18 |
| Current liabilities | | 4964 | 2560 | 3174 | 2704 | 1356 | 1051 | 2697 | 2549 |
| Current assets | | 8474 | 6876 | 3839 | 3686 | 1909 | 1428 | 5545 | 5828 |
| Stocks | | 2230 | 1857 | 566 | 543 | 914 | 812 | 2504 | 3594 |
| Book debts | | 1964 | 1653 | 533 | 531 | 789 | 399 | 1910 | 1366 |
| Net sales | | 11151 | 10516 | 4233 | 4057 | 2173 | 1025 | 17660 | 11259 |
| Other income | | 935 | 737 | 334 | 299 | 67 | 53 | 47 | 26 |
| Raw material costs | | 2478 | 2379 | 669 | 659 | 1408 | 837 | 11108 | 7256 |
| Wages | | 1069 | 866 | 934 | 873 | 319 | 275 | 3396 | 2024 |
| Interest | | 750 | 653 | 438 | 386 | 76 | 82 | 1132 | 994 |
| Gross profit (+)/loss (−) | | 3309 | 3197 | 1172 | 1117 | 203 | 146 | −255 | −627 |
| Depreciation provision | | 1050 | 1516 | 268 | 214 | 61 | 45 | 308 | 350 |
| Tax provision | | 162 | 760 | — | — | 73 | 47 | — | — |
| Net profit (+)/loss (−) | | 2097 | 921 | 904 | 903 | 69 | 54 | −563 | −977 |
| Investment allowance reserve | | 717 | 261 | 113 | 71 | 25 | 23 | — | — |
| Transfer to reserves | | 1028 | 364 | 437 | 535 | 23 | 10 | — | — |
| Dividend | | | | | | | | | |
| Amount | P | 4 | 4 | 25 | 25 | — | — | — | — |
| | E | 348 | 292 | 329 | 272 | 21 | 21 | — | — |
| Rate (per cent) | P | 7.14 | 7.14 | 9.5 & 11 | 9.5 & 11 | — | — | — | — |
| | E | 25 | 25 | 20 | 20 | 16 | 16 | — | — |
| Cover (times) | | 6.01 | 3.14 | 2.67 | 3.60 | 3.28 | 2.57 | — | — |
| *Ratios* (per cent) | | | | | | | | | |
| Gross profit/sales | | 29.67 | 30.40 | 27.68 | 27.53 | 9.34 | 14.24 | — | — |
| Net profit/capital employed | | 24.18 | 14.59 | 13.05 | 13.99 | 17.64 | 15.00 | — | — |
| Inventories/sales | | 20.00 | 17.65 | 13.37 | 13.38 | 42.06 | 79.22 | 14.18 | 31.92 |
| Wages/sales | | 9.58 | 8.23 | 22.06 | 21.51 | 14.68 | 26.83 | 19.17 | 17.97 |

* 18 months.

*EAST INDIA HOTELS*' Chairman, M S Oberoi, estimates that 2.5 million tourists will visit India by 1990 and the country can earn Rs 15,000 crore in foreign exchange from tourism during the Seventh Plan. Oberoi says a meagre sum of Rs 187 crore was allotted for the development of tourism during the Sixth Plan, but foreign exchange earnings from tourism exceeded Rs 5,000 crore. Tourism thus accounted for 10 per cent of the country's foreign exchange earnings with a Plan outlay of less than 0.2 per cent. The grand old man of the country's hotel industry, however, notes with satisfaction that the Central government and the Department of Tourism have now directed all state governments to recognise tourism as a industry. The Planning Commission has also recognised the importance of tourism.

Meanwhile, the company's Bhubaneshwar hotel and the flight kitchen in Bombay are expected to open later this year. The extension to 'Oberoi Towers' in Bombay is expected to be fully operational in 1986. The renovation of 'Oberoi Intercontinental', 'Oberoi Grand' and 'Oberoi Mount Everest' is well underway. Further renovation programmes for the first two named hotels are also contemplated, including complete renovation of public areas. The management is also planning to renovate 'Oberoi Towers' and plans are under preparation. A part of the finances required for such renovation has already been raised by the company and additional financial arrangements will be made at the appropriate time.

The company has turned in satisfactory working results for the year ended March 1985. Gross profit has amounted to Rs 11.72 crore against Rs 11.17 crore in the previous year following turnover of Rs 42.33 crore against Rs 40.57 crore. With provision for depreciation requiring more, net profit is only a shade better at Rs 9.04 crore (Rs 9.03 crore). Dividend is maintained at 20 per cent on the capital enlarged by conversion of debentures and bonus issue. Equity distribution was covered 2.67 times by earnings against 3.60 times previously.

The issue of 15 per cent non-convertible secured 'rights' debentures of Rs 7.50 crore was oversubscribed and the company obtained a further sanction for an issue of Rs 7.50 crore. These debentures were allotted on July 17, 1984. In order to meet a part of expenditure required for refurnishing and renovation of its hotels, the board proposes to issue a series of 15 per cent non-convertible debentures aggregating Rs 6 crore on a private placement basis. An application to this effect has been made to the Controller of Capital Issues. The company earned foreign exchange amounting to Rs 28.56 crore and its wholly owned subsidiary, Mercury Travels (India), Rs 6.91 crore. The subsidiary showed a profit of about Rs 2 lakh against Rs 9 lakh last year.

*TATA-ROBINS-FRASER (TRF)* is diversifying its activities. It has obtained a letter of intent for manufacture of 50 each crawler-mounted side dump loaders and wheel mounted load haul dumpers as also approvals for technical collaboration with Thyssen Rheinstahl Technik-Deilmann-Haniel of West Germany for the manufacture of the former and with MAN Maschinenfabrik Augsburg-Nurnberg Aktiengesellschaft of West Germany for the latter. The management is initiating action to get the letter of intent converted into industrial licence. The company's diversification into manufacture of these underground mining machines at a time when coal mining activities are being substantially expanded is expected to pay rich dividends in the future. The company is also seeking an industrial licence for manufacture of stamping-charging-pushing machine and charging gas cleaning car and also for approval of collaboration agreement with Saarberg Interplan of West Germany. The management foresees substantial application of the stamp charging technology developed by its collaborator. The adoption of this technology by the steel industry in India will enable it to utilise inferior coking coal and yet obtain higher yields of coke of superior quality and consequently increase production of hot metal.

The company has turned in good working results for the year ended March 1985 with sales amounting to Rs 21.79 crore against Rs 10.25 crore in the previous year and gross profit rising from Rs 1.46 crore to Rs 2.03 crore. Margins, however, have shrunk noticeably. With both depreciation and taxation claiming more, the gap is narrowed and net profit is Rs 69 lakh (Rs 54 lakh). Dividend has been maintained at 16 per cent and is covered 3.28 times by earnings as against 2.57 times previously.

Efforts are being made to continuously update and modernise the plant facilities for achieving better quality of the products and higher productivity of operations. The company has been approached by some reputed companies abroad to take up marketing and after-sales service of their products in India. The feasibility of some of these offers is being considered. The company has initiated a foreign equipment sales cell with a view to emphasising this business.

*METAL BOX INDIA* extended its last financial year by six months to incorporate the sale of its bearings division as the Central government's approval under the MRTP Act was received only by the end of December last. Under the memorandum of understanding and arrangement signed with Tata Iron and Steel Company, this sale became effective from October 1, 1983. Consequently, accounts have been drawn up for 18 months ended March 1985. The company has shown a trading loss of Rs 2.55 crore against Rs 6.27 crore of the preceding 12 months ended September 1983 on sales of Rs 176.60 crore against Rs 112.59 crore. After depreciation, the loss has increased to Rs 5.63 crore (Rs 9.77 crore). With the fresh loss, the accumulated deficit has gone up to Rs 15 crore.

This outcome has been, in the main, due to the acute shortage and unprecedented increase in the cost of tinplate in the second half of 1984 and the inordinate delay in the finalisation of the sale of the bearings unit which caused enormous pressures on cash resources. The company's operations for the first five months, moreover, were subject to serious disruption as a prolonged strike at the Calcutta units ended only in February 1984. A change in government policy in March 1984 resulted in the imposition of heavy customs duty on the import of tin mill blackplate coils, which are required by the producers in India to manufacture tinplate. The problem was aggravated by the lack of timely decisions on the import of these coils, which led to periods of acute shortage of tinplate. The import duty on blackplate and tin free steel used directly by container fabricators was also increased by a steep 45 per cent. The cost of indigenous tinplate has increased by over 30 per cent since March 1984. To meet urgent customer requirements, the company had to import substantial quantities of tinplate by obtaining REP licences at a high cost. Another area of concern, according to Chairman Bhaskar Mitter, has been the import of processed food cans from Taiwan allowed to exporters of canned fruit products. These cans have been "virtually dumped" in the country, sometimes at prices below industry costs.

The 'Super Crown', a crown cork with a moulded liner, introduced last year, has helped the company to improve its market share in this product line. Further equipment for side seam welding of cans was installed at the units in the West and the North and this is expected to strengthen the company's position in the market. As was anticipated, sale of paper packages registered a healthy growth and a judicious marketing mix helped improve sales to major market segments like detergents, blades and confectionery. Furthermore, product modifications made to the Hermetet cartons helped in re-establishing this product firmly in the market. The company's machinery business is going through a difficult time. A breakthrough, however, has been achieved on exports to the USSR and this market is expected to expand in time to come. Export of third party items has more than made up the decline in packaging exports. The company has emerged as one of the largest exporters of fruit pulp.

The Chairman says that in the past several months the company has initiated various cost reduction measures, including management related costs, and the gradual impact of this is expected to commence from the current financial year. He feels that it is very necessary to contain employment costs of unionised employees as these are substantially out of line with wage costs in the packaging industry. Commenting on the prospects, he has said that the first quarter of the current year has shown a small estimated profit and, unless any major adverse factors intervene, it should be possible to consolidate this trend.

*INDIAN BANK* has shown impressive progress during 1984. It opened 77 new branches taking the total number to 1,041, of which 425 branches were rural, 237 semi-urban, 208 urban and 171 metropolitan at the end of the year. Further, the bank had 19 currency chests, 60 extension counters, 15 satellite offices and two mobile offices. Global deposits of the bank reached a level of Rs 2,371.7 crore registering a rise of 32.7 per cent over the year. Domestic deposits rose by 28 per cent to Rs 1,983.3 crore, which was higher than the rate of growth registered by all scheduled commercial banks. Global credit extended by the bank expanded by 37.7 per cent to Rs 1,592.1 crore and domestic credit by 30.6 per cent to Rs 1,171 crore. Advances to priority sectors recorded a commendable growth. The proportion of priority sector credit to total 'net bank credit' reached 40.3 per cent. Priority sector credit rose by 44.5 per cent to Rs 456 crore under 6,01,133 accounts as against 4,45,574 accounts at the end of 1983. Of this, agriculture accounted for Rs 165.2 crore, small scale industry Rs 192 crore and 'other' priority sectors Rs 98.8 crore.

Assistance rendered under the 20-point programme rose by Rs 37 crore to Rs 116.5 crore covering 2,13,736 accounts, of which Rs 27.2 crore covering 1,38,000 accounts were extended under IRDP, of which again Rs 6.9 crore were extended to 39,330 persons belonging to scheduled castes/tribes. The bank supported upto the end of 1984 some 5,389 self-employed persons with sanctioned limits aggregating Rs 9.3 crore. The bank earned a profit of Rs 1.41 crore against Rs Rs 1.40 crore previously. Out of this, Rs 110 lakh was transferred to contingency account for payment of bonus to employees and staff welfare, Rs 30 lakh to reserve fund and Rs 0.64 lakh to the government.

*UNITED LEASING*, New Delhi, is making a public issue on September 16 of 70,000 secured redeemable non-convertible debentures of Rs 100 each carrying interest at 15 per cent per annum and 3.50 lakh equity shares of Rs 10 each, both at par, to augment long term resources for meeting the requirements of its expanding activities. The company was one of the first to enter into specialised vendor leasing and has earned good success in this field. During 1984, it earned a gross profit of about Rs 33 lakh on a gross income of Rs 38 lakh. Its after-tax profit was about Rs 19 lakh on an equity capital of Rs 48 lakh and it paid a dividend of 15 per cent. Its gross assets as at end of 1984 stood at Rs 137 lakh. The company has signed an agreement for leasing of imported Skoda generators in India, which has further brightened its future prospects. According to R K Khanna, Chairman, the current year's working is even better with an estimated after-tax profit of Rs 8 lakh for the first quarter. The company expects to pay a minimum dividend of 16 per cent. Investors have to make applications for both debentures and shares in the proportion of 50 equity shares for every 10 debentures and in multiples thereof. The issue is managed by the Merchant Banking Divisions of Punjab National Bank, V B Desai, Bombay and Sikanderlal and Company, New Delhi. New Bank of India's Merchant Banking Division is advisor to the issue.

*NG EXPORT INDUSTRIES*, an existing solvent extraction company, is coming to the market on September 11 with a public issue of 7.40 lakh equity shares of Rs 10 each at par to raise a part of the finance required for increasing the capacity of its solvent extraction plant from 100 tonnes to 200 tonnes per day and of oil refinery from 30 tonnes to 50 tonnes per day. The project, estimated to cost Rs 106 lakh, is being implemented at the present plant site at Manavadar, a centrally declared backward area in Junagadh district of Gujarat. It is expected to be completed by the end of November 1985. The company is marketing its refined vegetable oils under the brand name of 'Rajhans'. It exports de-oiled soya cakes to Poland, West Germany, USSR, Denmark and Holland, among other countries. Owing to plough-back of profits, the accumulated reserves and surplus as at April 20 last were Rs 25 lakh against equity capital of Rs 24 lakh. A dividend of 12 per cent was paid for the Samvat year 2040. During the current year, the company is performing well. As compared to gross sales of Rs 373 lakh and profit after tax of about Rs 5 lakh during the Samvat year 2040, gross sales for about 6-month period ended April 20 last were Rs 384 lakh yielding a profit after tax of over Rs 7 lakh. The expansion of capacities will result in reduced overheads and other economies of scale, thereby further enhancing the profitability. The board thinks that the company will be able to pay dividend at the rate of 15 per cent on the enlarged capital for the accounting year commencing from November 13, 1985. The issue is managed by the Merchant Banking Divisions of Bank of Baroda and V B Desai.

*TRI-STAR SOYA PRODUCTS* is doubling its soya processing capacity to 400 tonnes per day with corresponding increase in the refining capacity to meet the anticipated increase in demand for soya refined oil and meal. The management expects the expanded capacity to be commissioned by the end of December 1985. To raise a part of the additional finance required for financing the expansion programme and augmenting the long-term resources, the company proposes to make a Rs 3.64-crore issue of 15 per cent secured redeemable convertible debentures of Rs 140 each, subject to the consent of the Controller of Capital Issues. A sum of Rs 40 out of the face value of each debenture will be instantly converted into four equity shares of Rs 10 each at par on allotment. The directors have decided to offer for subscription 1.20 lakh debentures as 'rights' to the existing shareholders on the basis of one debenture for every 10 shares held, 70,000 debentures to non-resident Indians and balance 70,000 to the public through prospectus. Meanwhile, the company has fared well during the year ended July 1985, the first year of full operations. It achieved capacity utilisation of 77.7 per cent and a turnover of Rs 15.28 crore, including exports of Rs 4.60 crore, according to unaudited preliminary figures. Gross profit is estimated at around Rs 1.30 crore. On expansion, turnover is expected to rise to Rs 25 crore in 1985-86 and to Rs 40 crore in 1986-87.

*HINDUSTAN ELECTRO-GRAPHITES (HEG)* is issuing 6 lakh 15 per cent secured non-convertible debentures of Rs 100 each on 'rights' basis to the existing shareholders of the company. The issue is being made partly to finance the cost of a spinning project set up in Jammu and Kashmir and partly for meeting working capital requirements of the company. The issue opened on August 28 and will close on October 10, 1985. As part of diversification programme, HEG has set up a spinning unit in J and K for the manufacture of cotton and synthetic yarn from man-made fibre filament and blends. The plant has an annual licensed capacity of 25,000 spindles, out of which about 8,000 spindles have already been installed and production started. The company is modernising its plant by updating the latest technology and also installing facilities to manufacture Ultra High Power (UHP) grade electrodes as well as longer length electrodes, which will be produced for the first time in the country and are in demand in the developed countries. The programme is expected to be completed by March 1986. HEG is also planning to set up a project for manufacture of newsprint and glazed/calendered newsprint from imported waste-newspaper and pulp with de-inking technology which will be introduced in India for the first time, having an annual capacity of 60,000 tonnes. This project is estimated to cost over Rs 100 crore and is planned to be set up in next two/three years. The company is working on a technical collaboration tie-up with a renowned foreign firm. During the past seven years ended April 1985, the company's turnover has increased from Rs 3.24 crore to Rs 42.69 crore. Turnover this year is expected to exceed Rs 60 crore. At full capacity, the newsprint project is estimated to generate a turnover of Rs 85 crore per annum.

# The Shavara Tribals of West Bengal

## I—Shavaras of Midnapur

**Mahasveta Devi**

THE Lodha and Kheria tribals are both mentioned in the census as Lodha-Kherias. The Lodhas are mostly concentrated in Midnapur. The Lodha concentration extends beyond Nayagram on Midnapur's border to Mayurbhanj district of Orissa. In 1983-84 I went to Mayurbhanj to attend a Munda conference where a benign looking tribal MLA told me smilingly that everything was being done for the Lodhas who were nothing but ungrateful wretches and thieves. Anyway, I can only talk of my state. The Kheria tribals of West Bengal are mostly concentrated in the district of Purulia. Some are to be found in the forest areas of Ranibandh (Bakura) and Banaspahari area under Binpur in Midnapur too. Even in the present days of dwindling forest belts, the Lodhas and Kherias live near forests.

The Lodhas far outnumber Kherias. Both were once known as criminal tribes. At least the Lodhas were denotified in the fifties. But the stigma of 'criminal tribe' haunts them. In 1983, while attending the bonded labour choupal in Palamau, I came to know that the Parhayia tribals too were looked upon by the neighbouring society as criminal tribes and were treated thus. It is to be noted that only the minority jungle-centred tribes were thus branded and the stigma persists. How deep the stigma is was nakedly exposed when Chuni Kotal, a Lodha girl, became graduate this year. While Chuni was praised skyhigh, almost all the journals reported that she came of a criminal tribe named Lodha. Chuni herself protested and her letters were published in some newspapers. How to remove this stigma from social conscience which lies dormant? In a children's journal one reads that a certain place in Jhargram is unsafe since criminal Lodhas haunt it. How to save the Lodhas from the onslaught by the mainstream if they do not become alert? A few months back the secretary of the Lodha-Shavara Samaj Kalyan Samiti wrote to me asking for my advice as one Sengupta had approached him with the bait of making a film on the Lodhas provided the Lodhas came forward with monetary help. A cheap but widely circulated journal has just printed a story about Lodhas raping other tribal women and the majority tribe being justified in killing the Lodhas.

The Lodhas remained a callously neglected minority tribe till 1982 when they revived their hitherto defunct Lodha-Shavara Samaj Kalyan Samiti and *Bortika* published a special Lodha supplement in which Lodhas and a Santhal contributed articles. *Bortika*'s aim is to remove the intermediary role of the intelligentsia between the man of the soil and the printed page. So *Bortika* prefers to publish what the grassroot level people have to say for themselves rather than an erudite article by someone learned. *Bortika*'s main aim is to document.

### UNHEEDED DEMANDS

In that supplement the Lodhas came out with their many grievances. First they held a meeting and sent an open letter to the chief minister of West Bengal with mass signatures and thumb-prints. We printed it. From 1979 to 1982 thirty-five Lodhas were killed in Patina, Khejurkuti, Shakpara, Ganua, Nunnunigerya, Saro, Baghjhanpa and Chakua. The first demand was for a judicial inquiry into the killings and suitable punishment for the culprits (nothing was done). The second demand was for legal punishment for the receivers of stolen goods and others who kept a small section of the Lodhas engaged in criminal activities (no result). The third demand was for employment for the educated Lodha boys and girls (a complete list with employment exchange numbers of the candidates were repeatedly sent to the appropriate authorities by this correspondent). The fourth demand was for compensation to the families of the slaughtered Lodhas, either employment or cultivable land (D Bandopadhyay, the then Land Reforms Commisssioner of West Bengal initiated an irrigation project for Patina Lodhas). The fifth demand was for residential schools for Lodha children (no result). The sixth demand was allotment of such land to landless Lodhas as was free of dispute and jotedar's hostility since some killings took place over land distributed to the Lodhas. The seventh demand was for making the Lodha community self-supporting through cottage industries, fishery, goat-keeping, piggery, poultry, etc, all on strictly co-operative basis. The eighth demand was for making the educated Lodhas belonging to the Samiti responsible for handling the money meant for Lodha development. The ninth demand was for letting the Lodhas live like human beings and freeing them from the dungeon to which they had been confined after thirty-five years of independence. The date was August 3, 1982, two months after the gruesome Saro-Baghjhanpa-Chakua killings.

The Lodhas had revived the Samiti in sheer desperation for physical survival. The awakening of the Lodhas surprised the state government. The sluggish serpent eternally in winter hibernation covering the Lodha name seemed to stir a little. Six Lodhas were appointed as Lodha cell social workers, including Chuni Kotal. And three boys were appointed as village welfare supervisors in Chakua, Chandabila and Pranabpalli, on contingency basis, at ten rupees a day. All were employed in September 1983.

This encouraged the Lodhas. Chuni went for college studies. Boys who had left school in the higher classes were persuaded to complete school. The need was for at least a hundred social workers in different thanas. It was physically impossible for six workers to cover more than three hundred villages. Since the village welfare supervisors were working in a smaller area, their usefulness was soon established. Through their devotion and dedication Lodha and some non-Lodha children came to the community centre for studying. These workers could persuade the Lodhas to give up drinking, to save from their wages, to live hygienically. They felt that the state government was coming forward with schemes for development and the Lodhas should be prepared to reap the full benefit of such schemes.

A tribe, hitherto disunited, mercilessly exposed to the onslaughts of the mainstream, was emerging for the first time ever as human beings. The tribals needed, and still need, these supervisors. They are easily cowered, easily thwarted, guiless people, they play into the hands of the wily tribal neighbours. Eager to please one and all, they will do anything to earn a friendly smile. How different is the picture in Chakashapur village under Debra (Midnapur) where I had the privilege of witnessing a ceremony in honour to a dead Lodha social worker. There the Santhals and Lodhas and Mundas and other castes were joint sponsors. I saw how freely the Lodha women joined in the community dances. How could they do it? Because there the Lodhas are now free from fear with help from their neighbours. Fear of others is deeply ingrained into Lodha existence.

In 1985 the picture is different. This year the three contingent posts have been abolished and the three boys, Krishnaprasad Bhukta, Tarun Bhukta and Jadunath Mallik, are without a job and the villagers are dumb spectators. What an incentive for the Lodhas to go for education and social work. An advising committee on Lodha development does not have a single Lodha among the members. If one employee from the Lodha cell gets included, it cannot help the Lodhas as such a member will not have any voice. Thus the Lodha sees that things get done in his name but he has no voice to say what he needs. He cannot even say how haphazardly Lodha development projects are being implemented. It is time that an outside agency is entrusted with the task of seeing and evaluating whether such projects are helping the beneficiaries to the intended extent.

### PERSECUTION OF TRIBALS

And how are the Lodhas being treated? Saro under Jhargram thana witnessed a brutal Lodha killing in 1982. On June 30, 1985, there was an incident of thievery at nearby

Andharisol village. The village worthies came and threatened two Lodhas of Saro to come out with the names of the culprits, else their houses would be burnt and possessions looted. The two hid in the forest, which they always do. Do they pray to the guardian gods and goddesses of the forest to hide them? I don't know. I hear that they were arrested, their homesteads along with other Lodha homesteads were looted. Now the wives of the two Lodhas trudge wearily from Jhargram thana to the Lodha cell office and go back home. Saro I visited in 1982. Quite a distance from Saro to Jhargram and to the Lodhas of Jhargram, sub-division Jhargram town administration is as inaccessible as New Delhi. About a month ago or so the Lodhas of Jaralata village were returning home after purchasing rice. The thana police accosted them and seized their cycles.

The persecution story of Radhanath Shavara, a retired armyman, will bring the picture into more clear relief. Radhanath, a man of keen social conscience, a resident of village Chandabila came back home after his retirement about eleven months ago. The Lodhas started to come to him whenever disputes arose or quarrels broke out and they accepted his judgment. If a man from their own community could solve matters, why run to others? On September 16, 1984, Radhanath was asked by the Lodhas of village Kundalia to settle some quarrel or dispute. Radhanath settled the matter. The controllers of Lodha life did not like it. They must have felt threatened. Were the Lodhas becoming too independent? Usually a Lodha in a scrape always has to run to others either with bribe or with a vow of allegiance. This is not the time for teaching the Lodhas a lesson by unleashing a lynch mob upon them. Methods more sophisticated, more wily are needed; best to punish a Lodha through another Lodha, thus keeping the names of other castes clean.

At Jaralata village a tank was being dug. Radhanath was the supervisor. On July 23, 1985 he was going to the block office with the muster roll, for only the work-supervisor was responsible for payment to the workers. It was under the Lodha development project. Near Patharnalla village Radhanath was approached by some Lodhas who requested him to accompany them to the thana to clarify points a of land dispute. No sooner than Radhanath entered the thana, he was arrested. The charges against him are many. All criminal ones. After much pleading the persuasion by some he was released on bail on July 28/29, 1985. But the case remains baffling. Only an impartial investigation can solve the mystery, but who bothers for a Lodha, even if he be a former jawan of the Indian army? What an encouragement to the Lodhas to advance their ways!

But the story of the two villages, Pataghar and Laljaal, is a fit subject for film-makers and playwrights who speak for social justice by portraying social injustice to the weak. The background story. The Kheria Shavaras of Pataghar wrote to me pleading for a well. The panchayats in West Bengal are doing such glorious work for the villages that till November 1983 many Kheria villages of Purulia like Pataghar did not have a single well for drinking water. Scums of the earth, the semi-dry streams were all they had. A well was sanctioned for Pataghar, a Kheria village. And it was allegedly snatched by an influential resident of Laljaal, a comparatively well-off village dominated by land-owning other caste people. Well, the Kherias ran here and there and another well was sanctioned for them. This was unforgivable, this effrontery of the hitherto submissive Kheria people who are threatened by starvation, landlessness and marauding elephants of Banapahari forest.

Madhu Shavara, according to the almost illegible letter from his son, Manik, was poor, a drink addict, and the unending battle of trying to eke out a living slowly affected his brain, already weakened by starvation. Father of a son and daughter, both teenagers, one day he beat his wife and drove her out to her parent's house. Then he became a suicidal maniac. Many times he tried to steal away to the forest and hang himself from a tree. Each time his son or a relative or a villager rescued him. Hekim Shavara, his uncle, was a comparatively well-off person, possessing some land and some heads of cattle. Hekim tried to help his nephew as much as he could. It was well known in many villages that Madhu was mentally deranged, and he was suicidal.

On June 16, 1985, Madhu took a 'lota' of water from his daughter, went to the forest and hanged himself with a rope made from strips torn from the lungi he was wearing. In the villages, fields and forests are people's latrine. Manik grew panicky when his father failed to return for quite a time, went to the forest, found his father, called the villagers and they brought the dead Madhu home. Perhaps the panchayat member or pradhan was informed. He and others advised Manik to cremate Madhu. The correct procedure would have been to inform the Binpur thana but that would have meant too much harassment for Manik. So Madhu was cremated.

On June 17, 1985 police from Binpur thana came and took Hekim Shavara and his sons to the police station on the charges of first murdering Madhu and then trying to conceal the fact by hanging him and assist in the cremation. Manik's letter is very pathetic. He tells me that neither his grandfather nor his uncles could have had a hand in Madhu's death. It baffles Manik why the police do not believe the residents of Pataghar who are in the know of the facts and why they believe the influential thirty-one other caste people of Laljaal who have allegedly filed the case and who do not know anything. He pleads that the case is a fabricated one and if Binpur police do not stop harassing his relatives, the result will be disastrous for all concerned. For his grandfather has already tried mediation by other people and failing in that, is pawning his possessions and cattle to appease you know who. Another Shavara writes with desperation that the Laljaal people are boasting that they want to teach a lesson to the Kherias who have become swollen-headed with all the attention they are receiving from the government.

### CLASS MOTIVATED

Why this vindictive attitude towards the Lodhas and the Kherias? Does the state government want it? No. But the neighbouring society, the controllers of village life, mostly belonging to the affluent class, cannot simply tolerate that the hitherto submissive people want to live like human beings. The treatment these unfortunates are receiving is basically class-motivated. In Midnapur the political picture is very muddled and the minority communities have always tried to survive by being loyal to the ruling party. But the major constituent of the Left Front in this district may show lip-sympathy for them but does not come to their succour when they suffer. It is also a fact that in the village hierarchy the controllers and operators have changed flags just to hold on to land. These days the controllers operate with wilier machination. The government's policy for Lodha development has roused the people who treated Lodhas as expendable. Midnapur, Purulia, Bankura, tribal inhabited districts should have administrative heads in Midnapur and Jhargram who understand the tribal question. But officers trying to do their duty and trusted by the people are always transferred. No one stops to ponder and think whether the government's declared policy is actually benefiting the Lodhas-Kherias or not. That a policy has been declared is enough to launch repressive actions.

Nor can the district administration be absolved of responsibility for the Lodha-Kheria question. When there is a special budget for them, why retrench the three boys? Why cannot a portion of that money be used to create more posts of social workers and village welfare supervisors? Narayangarh police station has the largest concentration of Lodhas. Is it all hearsay that schemes were made for tribal development, money allotted per scheme and nothing has been done in the last fiscal year? What is the role of the much lauded panchayats? If finance is released at the last moment how can schemes be implemented?

It is a matter of great shame that on the one hand the state government declares its policy for Shavara development and in actuality the people concerned are threatened, thwarted, harassed and pushed back to those days of the prison. This prison lies within the Lodhas and Kherias. Fear psychosis keeps them imprisoned within.

Who will help them? Surely not the political parties. Till date not one party has issued an official statement against the Lodha killings. Bigger issues interest them, not the oppressed tribes.

Saro people. Radhanath, Manik, Hekim, the names are endless. Midnapur district, at the core, politically and class-wise, is divided between Pataghars and Laljaals. An outside agency survey of the various rural and tribal projects will further reveal the role of the village panchayats in alleviating rural poverty. Who benefits from such projects? People on the paper, but in reality who?

And, to conclude the Midnapur Shavara story, has the Lodha-Shavara Samaj Kalyan Samiti (for that matter any grassroot level Samiti) been recognised as a responsible agency? The answer is 'no'.

The Purulia Shavara story is similar with shades of difference.

[To be concluded]

## LABOUR

# Textile Workers' Strike in Tamil Nadu

**Gnana Surabhi Mani**

**R Shenbagavalli**

ON July 15 the dispute between textile workers and mill owners in Tamil Nadu was referred to the Industrial Tribunal by the government of Tamil Nadu under section 10-B of the Industrial Disputes Act of 1947. When bilateral negotiation fails, section 10-B of the Industrial Disputes Act is invoked. The Joint Action Council comprising the CITU, AITUC, INTUC, HMS, DMK, AIADMK and Janata unions had already given strike notice and, if the bilateral negotiations then going on were to fail, the workers were to go on strike from July 16. When the workers heard that the government of Tamil Nadu was going to invoke section 10-B and refer the dispute to the tribunal, they got indignant and absented themselves from work right from July 14. The reference to the tribunal was viewed by the workers as a pre-emptive move on the part of the government to undermine the collective bargaining power of the workers through their unions.

More than two lakh textile workers were involved in the strike. The official estimates put the number of mills at 529, but the unions claim that there are over 600 mills in Tamil Nadu. Perhaps mills where unionisation has not taken place were left out from the official statistics.

Immediately after the official announcement referring the dispute to the tribunal, the INTUC and AIADMK unions officially backed out of the strike. However, the indignation of the workers over the reference to the tribunal was so much that a vast majority of even INTUC and AIADMK workers stayed away. Even with no party, person or unions exerting any pressure on them, workers belonging to these unions took an active part in the strike. The strike lasted only a few days. However, the workers still feel indignant over the reference to the tribunal, foreclosing other options.

The earlier settlement having expired on July 16, 1984, the Joint Action Council of all the textile trade unions presented a 28-point charter of demands to the mill owners. The mill owners responded with a 14-point charter of demands as a countermove. The mill owners seem to have insisted on the acceptance of their demands as a precondition for any negotiations. While the demands of the workers were for revision of basic pay and for safe working conditions, the counter-demands put by the mill owners amounted to a drive towards reversal of earlier established policies and conventions.

The 28-point charter of demands of the Joint Action Council of unions included, among other things, revision of basic wages, increase in dearness allowance, annual increment, night shift allowance, casual leave benefits, employment opportunities for women, abolition of substitute system and contract system, safeguard against retrenchment, and safety measures to be adopted in the mills.

Now let us have a look at the 14-point charter of demands insisted upon by the South Indian Millowners' Association (SIMA). The first demand is that work-load has to be fixed scientifically in order that productivity may be raised. When work conditions and types of machines vary from mill to mill, it is indeed absurd to prescribe a uniform work-load for all the mills. Then SIMA insists that the management should have the right to shift workers from section to section in the mill. The implication is that the unions should not interfere even where a transfer is found to be a case of vendetta against the worker. The third demand is the age-old one that wages should be linked with productivity. The Supreme Court has given its ruling against this years back. Productivity gets affected when mill owners do not re-invest in the mills the profits they make. The mill owners divert the profits into investment in various other sectors and this affects productivity in the textile industry for which the workers are in no way to blame.

The fourth demand is that the price of food items in the mill canteens should be fixed according to the fluctuations in the consumer price index (CPI). The fifth demand is that fixation of dearness allowance should be made on a half-yearly basis rather than on a monthly basis as is being done now. The sixth demand is that a DA of only 26 paise should be paid per point exceeding 3,000 points. The present position is that within 1,000 points 30 paise is being paid per point and 32 paise is being paid per point beyond 1,000. There is a contradiction in the fourth, fifth and sixth demands of SIMA in as much as it wants fixation of DA to be done on a half-yearly basis while prices of canteen items are to be fixed according to the fluctuations in cost of living index. The sixth demand wants to limit DA within a certain level for a period instead of it varying according to fluctuations in the CPI. These are all a push towards reversal of policies now followed.

The next demand seeks to lower the age of retirement. SIMA wants to retire workers at 55 whereas they are now retired at 58. The eighth demand is that skill and regular (240 days minimum) attendance should form the criteria for awarding a wage increment. And that too, upto the 40th year of age only. The demand implicitly acknowledges that a worker in a textile mill loses his health rapidly due to the health hazards he is exposed to while at work. Instead of trying to improve the working conditions and make the work atmosphere healthier and safer, SIMA proposes to freeze all increment in wages to workers after 40 years.

That promotion should be based on merit and skill and not on the service experience of the worker is the ninth demand. This implies that any worker can be penalised and not be promoted on a vague charge that he lacks merit and skill for which an objective assessment is not at all possible.

The next demand that SIMA has put forward is that bonus should be paid on the basis of 1965 Act. The 1965 Act prescribes a minimum bonus of 8.33 per cent and a maximum bonus of 20 per cent. In 1979, SIMA itself entered into an agreement with unions to pay a minimum bonus of 20 per cent. The bonus paid in various mills in Tamil Nadu from 1978-79 to 1981-82 exceeded the maximum and reached 32 per cent. When huge profits are being made by the mills, is it not right on the part of the workers to bargain for a higher rate of bonus? SIMA wants to reverse this trend and put an end to collective bargaining in respect of bonus.

SIMA wants to subject the workers to medical fitness tests frequently. That is its eleventh demand. That lay-off compensation should be paid only for the first 45 days of lay-off is the twelfth demand. (The demand of the workers is that full wages should be paid for lay-off exceeding 45 days.)

The thirteenth demand states that recruitment of workers should be done on the basis of merit and skill only. The implication is that the workers' heirs should not as a right claim to be recruited in the place of their fathers. Also it is sought to be ensured that the unions should have no say in the matter.

That 10 per cent of the total permanent workers will be substitutes is the last demand. This demand makes clear that the mill owners are bent upon exploiting cheap labour. While the unions want only two categories of workers, namely, permanent workers and learners, and demand the abolition of all other types of labour, SIMA wants to keep a high percentage of workers on a temporary basis all the time.

Most of SIMA's demands strive to put the clock back. A reversal of all that has been secured by the workers so far is attempted. In these circumstances, the workers have come to view the reference to the tribunal with suspicion and anger. They strongly feel that they cannot get justice from the tribunal. This is because earlier references to the tribunal had produced unfavourable results for the workers. Coimbatore mill workers who had been getting 12.33 per cent bonus previously got a reduction in bonus after the bonus dispute was referred to the tribunal. The bonus awarded by the tribunal was only 8.33 per cent. In the case of Pandian Sugar Mills where the workers were fighting against retrenchment reference to the tribunal resulted in retrenchment of workers. Industrial tribunals sometimes take more than two to three years to give their award. This sort of delay harms the interest of the workers.

After the talks the unions had with the minister concerned, the government agreed to constitute a Special Industrial Tribunal for settling the dispute. Only 12 demands of the workers were referred to the tribunal. The unions saw to it that the demands of learners, casual workers and contract labourers were also included. Demands pertaining to labourers working in mills having less than 2,000 spindles have also been referred to the tribunal. Though the unions have thus succeeded in making some changes in the terms of reference by insisting on the inclusion of more demands, the fact remains that the collective bargaining power of the workers through the unions has been bypassed by the reference to the tribunal.

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**PUNJAB**

# Sant Longowal: Some Recollections

**Harji Malik**

SHOCK and grief at Sant Longowal's assassination indicate how desparately the country needs men of integrity and goodwill. When such a leader appears, who shows no signs of personal ambition, whose incorruptibility is beyond question, we reach for him like drowning men cling to the last spar. That is the only explanation for the widespread sorrow at the death of a man who, until just about five months ago, was considered to be merely one of several prominent Akali leaders, totally regional, judged to be more limited in vision and experience than those who had served in the Janata state and Central governments, a religious leader, not a political heavyweight. In those five months he attained the stature of a national leader, a man of peace, in many ways the torchbearer of hope for those who are deeply concerned, not about mere political advantage, but about the very survival of the nation.

When he met the Nagrik Ekta Manch volunteers on his first visit to Delhi after his release from jail, he refused to sit down because he said that to do so in front of those who had rendered such heroic service to his people in the November terror would not be befitting. The young volunteers, cynical about politicians, had not been enthusiastic about the meeting arranged so that the Sant could thank them for their help and succour, but his simplicity and sincerity won them over. For he was a man who behaved according to his truths, free from any need to make gestures for the sake of appearances.

Perhaps that is why the ceremonial trappings following his assassination, the formal, often fulsome tributes, some from those who all along had maligned and undermined him, were such an ironic contradiction. The real tribute and love came from the hundreds of thousands who covered all the fields around the village at his cremation. For he was of the village people, a man of essential humility in the finest sense, a man without pretensions, a man who was always himself.

Until recently many had called him weak and ambiguous, others a coward who had been unwilling to stand up to the extremists for fear of his life. Today he is being talked of as akin to Gandhi in the ultimate sacrifice of his life in the cause of communal harmony. His death, like those of Gandhi, of Martin Luther King Jr, was no surprise assassination. All three men deliberately took up the gauntlet of peace in the face of violence and hatred, all knew what was at stake, all stood steadfast to death.

The qualitative difference is that in Longowal's case it is only in death that we have recognised the worth of the man, his deep sense of humanism and compassion, his courage and integrity, his abhorrence of violence, all qualities which, had he received national support earlier, both popular and political, while alive, could have served the country so well, and saved it much tragedy. The man of peace was to be appreciated only after the assassin's bullet, the man of goodwill, too late. For with earlier recognition the August Accord could have been signed before June 1984. That is the failure of our present polity.

On April 25, 1983 I met him for the first time in the Akali Dal office in the Golden Temple complex. I had expected a typical politician, 'diktator' of the Akali Morcha, tough, facile in his answers, aggressive, populist in manner. Instead there was the Sant with his serene expression, the gentle smile so quick to come, the mixture of quiet dignity and innate authority. The austerity of the room, furnished only with the barest essentials, reflected his style. We were punctual, so was he, dressed in his usual spotless, fresh white kurta and churidar, wearing the bright blue Akali turban, his face thoughtful above what was then a beard with many more black streaks than after his jail experience. Soft spoken—another surprise—he answered our questions briefly, to the point, with patient courtesy. He categorically denied that the Akalis had ever demanded Khalistan, warned that unlike the Assam situation, the Punjab crisis would be uncontrollable if it went out of the hands of the Akali Dal, and explained that religion must be part of politics in the interest of human welfare. He did not raise his voice, but at any mention of Bhindranwale a grim expression came over his face and when I asked if Sant Jarnail Singh was a member of the Akali Dal, Longowal replied tersely "You must ask *him* that". He uttered no word of ill-will against the Hindu community and we left with the conviction that this was a good man, certainly no fanatic, a leader in a category apart from the dominant majority of politicians.

Sixteen months later, after the trauma of the assault on the Golden Temple, I heard about him from a lawyer who had met Sant Longowal in Udaipur, where he had been 'detained' since June 8, 1984. The lawyer described the conditions of his detention in the Legislators' Guest House. The building was surrounded by about 200 men of the armed forces camped in tents pitched in the compound. Bunkers had been dug all around the building, and sandbags positioned, with armed men stationed everywhere, guns ostentatiously at the ready, according to the advocate. The curtains of the guest house had been replaced by heavy tarpaulins to prevent anyone from seeing inside and *vice versa*. Nor presumably could fresh air or light penetrate. The public road before the building had been blocked off, and the front doors of houses situated on the road sealed. The army was in control outside, the police inside.

Longowal told his lawyers that they were the first persons he had been allowed to meet since his solitary confinement started on June 8. It was now August. He was permitted no radio and the only newspaper he had seen till that day was on July 3, a Punjabi paper dated fifteen days earlier. No member of his family had been allowed to visit him. (After his release in April this year Longowal told the *Illustrated Weekly of India* that two members of his family visited him some weeks earlier. He also said that "six or seven armed men" kept encroaching on his privacy all the time.)

While the two lawyers who were representing him in the appeal against his detention in the Supreme Court were talking with him, the Jail Superintendent and a plain-clothed CID officer insisted on being present throughout. The lawyers protested that according to written rules a conversation between lawyer and client is 'privileged', the two men paid no attention and refused to leave, refused even to stay out of earshot, stating that their orders were to 'listen in'. The lawyer-client interview became a written question-answer interchange, in Gurmukhi and Urdu scripts. But after half an hour the government men objected and conversation was resumed, in Punjabi.

Yet this man, treated like the most dangerous national enemy, incarcerated in solitary confinement for ten months with no charge against him, cut off from the rest of the world in every way in a deliberate effort to break his spirit—he was allowed to walk in an enclosed courtyard outside his room once a day—showed no sign of bitterness when he was finally released, no sign of anger, of personal resentment. Not even the pain and shock of the news he received about what had happened in Punjab during his confinement and the reports of the post-assassination savagery in Delhi and other cities, provoked anti-Hindu sentiments from him. Angry and anguished, he only repeated what he had consistently asserted, that the Akali fight was against the government and the ruling party, both of whom he held fully responsible for what had happened.

In the unique circumstances in which he found himself on his release, politically on the defensive with his own people, thanks to the deliberate campaign to defame his name by describing his arrest as a 'surrender' and to the equally deliberate tactic to weaken him politically by removing him from the scene by a long, unjustifiable incarceration, Longowal's initial reactions to Indira Gandhi's assassination and the death of Bhindranwale led to misgivings in many circles but later events put all this in a proper perspective. In the interests of the community's welfare and the unity of the nation he generously overcame his deep-rooted mistrust of the government and the ruling party, and extended the hand of conciliation to meet the Prime Minister's initiative for an accord.

In late April when he visited Delhi I was curious to see if the past dramatic, tragic months had changed the Sant. He came to Tilak Vihar to talk to the many hundred widows of the November killings. The meeting place was overflowing with men, women and children, curious to see him, hungry for solace. The ground before the dais was crowded with the seated widows, old and young. Longowal looked different from the man I had met in April 1983. The serenity was there, but the face reflected a sadness that had not been present, there was sorrow in the eyes and the gentle smile was missing. He spoke very briefly, quietly, expressing his grief. He assured his listeners that the 'quam', and the Akali Dal were behind them, that they were not alone. "*We* will become strong" his voice carried conviction "But the ruling party will never be able to remove this stain from its forehead."

One of the widows rose to tell her story. She started quietly, but soon tears streamed down her face through the words. Longowal listened to the harrowing tale, related without dramatics, tears in his eyes. Another widow described how her husband and sons had been brutally done to death in front of her and the other seated women wept quietly at their own memories. Compassion is a rare quality in politicians, but one could sense strongly Longowal's deep sense of compassion, could instinctively feel that he shared one's own sense of terrible helplessness in the face of such pain and suffering. His sharing of grief came through in his few simple words, in the very diffidence of his bearing, in his eyes, throughout that pilgrimage of grief in Sultanpuri and Mongolpuri. He walked through the lanes of burned homes, some with heaps of ashes just over the threshold, visited homes where survivors had returned just to share their grief with him, sat in Gurudwaras which bore the marks of insensate hatred. He made no dramatic gestures, spoke no passionate words. But those who had suffered felt he shared their anguish and their anger, that he was with them.

At Sapru House a couple of days later, his first public exposure in the capital, he impressed everyone with that same simplicity, that great gift of conviction and sincerity without oratory, the sense of quiet strength and determination, touched always with the diffidence of humility. Unlike most public leaders he had no convenient images to suit different situations. He was always himself.

That was only the starting point of the emergence of Sant Longowal as the one Sikh leader who could restore to the community its sense of pride and honour, through the assertion of his own courage, his commitment to Hindu-Sikh amity and to the nation's integrity along with his commitment to non-violence. In a few short weeks he transformed the picture of the future, built up credibility, emerged as a national figure with a national role to play, and in spite of those who opposed his call for communal amity and condemnation of violence, there was hope that, given time, he would overcome.

Had the elections been postponed as he advised, he would have consolidated his strength, mobilised the vast majority of Sikhs in Punjab and in the rest of the country who welcomed this sea change in Sikh politics. It would not have been an easy struggle but there was every chance for success. He could have interjected a desperately needed credibility into the Indian body-politic. Tragically, political expediency once again dictated otherwise, elections were announced, 'Longowal, Man of Peace, Is Killed' read the headline in *The Statesman*, and India's future once again teeters on the razor's edge.

## Standard Equity Fund

STANDARD EQUITY FUND, engaged in leasing, hire-purchase and other allied financial activities like providing venture capital to non-resident Indians, is now diversifying into manufacturing. It will bring to India, for the first time, hi-technology diagnostic kits for detection of heart attacks, as well as sophisticated medical instruments. The project is being set up by Stangen, a division of the company, in collaboration with Immuno Diagnostic Corporation, USA, which will provide complete know-how. The project cost is estimated at Rs 25 lakh. Based on the detection of an enzyme released during heart attacks, the diagnostic kits, named CPK-MB kits, provide accurate and highly reliable tests for early detection and evaluation of coronary damage and for infarct size determination. According to Dr K Anji, Chairman, presently these kits are being imported and are 'expensive'. The kits manufactured by the company will bring these tests within the reach of the common man. The projected sale of kits during the second year of operation is estimated at 20,000 which should generate a turnover of Rs 60 lakh. The turnover of medical instruments is likely to be around Rs 40 lakh. Stangen being a division of the company, SEF will be able to take advantage of depreciation and tax benefits. SEF is entering the capital market on September 19 with a public issue of 6 lakh equity shares of Rs 10 each at par to raise additional finance for its expanding activities. The company commenced operations in October 1984 and in just eight months earned a profit of over Rs 2 lakh. It paid a maiden dividend of 12 per cent. The shares of the company will be listed on the Bombay and Hyderabad Stock Exchanges. The company is confident of maintaining 12 per cent dividend on the enhanced capital in the current year also. The public issue is managed by Champaklal Investment and Financial Consultancy (CIFCO).

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REVIEW OF MANAGEMENT

# Effectiveness and Efficiency in Public Administration

## A Theoretical Framework

**Satya Deva**

*Western theorising about effectiveness and efficiency has reached an impasse; also, it is hardly relevant to underdeveloped countries.*

*The legacy of colonialism consists of emphasis on the maintenance of law and order, neglect of people's languages, weak local administration, acceptance of Westernisation with all its faults, and higher status and salaries of the loyal generalists who control and discipline specialists and the populace.*

*Monopoly capitalism and the building of the nation state lead to centralisation ('unity and integrity'), unbalanced growth and preference to loyalty over merit. The conflict and balancing of land-owning and capital-owning sections of the bourgeoisie lead to autonomisation of the state and rule by the bureaucracy unchecked by a legislature (as in contemporary Punjab).*

*The acceptance of the domination of international monopoly capital by the ruling class in its own narrow interest leads to dependency, and hinders the growth of science and technology. All these factors together lead to increasing pauperisation, and ineffectiveness of the programmes of poverty removal.*

THE success of an organisation is often said to be measured in terms of its effectiveness and efficiency. Effectiveness refers mainly to goal-fulfilment, and efficiency to output per unit of input. Efforts to apply these concepts in Western society have, however, met with serious difficulties which can be explained by contradictions inherent in this society. Painstaking research has led to conclusions such as the following: "Single prescriptions for effectiveness are like mirages: desirable but distant, receding, unreal."[1] Considerations like those of moral acceptance and professional ethics, and the need for human involvement and creativity, which have generally been sought to be ignored in classical theory are ultimately seen to be important: "Selection of the appropriate decision-making structure is influenced by the legitimacy of the alternative structures, the proportion of professionals on the staff, whether or not an emergency exists, the degree of improvisation involved in the work, and so forth."[2] Researchers find that, "In any organisation the personal needs that workers most want fulfilled are the very needs whose fulfilment facilitate (*sic*) organisational effectiveness."[3] And yet, management values and perspectives often remain "at odds" with the psychological satisfaction of workers. Western theory-building efforts may, thus, be said to have reached an impasse: Nor does there seem to be a practical way out of this impasse. If this is the state of the science and art of administration with regard to developed countries, application of the same paradigm to underdeveloped countries with far more complicated problems can only be described as ridiculous. In the following we shall try to build a theoretical framework consisting of testable hypotheses deriving from various aspects of the socio-economic reality as it has been unfolding itself under the impact of historical forces in underdeveloped countries like India.

Large scale organisations have arisen in the world only in modern times. Merchant capitalism and the nation state arose in Europe around the sixteenth century. The nation state then needed large civil bureaucracies and standing armies. The industrial revolution led to mechanised production by large numbers of workers. Trade unions and political parties now emerged. These organisations needed functionaries with certain kinds of information and orientations to provide with colleges appeared in large numbers; the mass society needed mass-circulation newspapers.

Modernisation came later to countries of South Asia, Latin America and Africa. The nature of large scale organisations in these countries may be studied under the following headings, in rough chronological order: (1) colonialism; (2) monopoly capitalism, state and nation building; (3) autonomisation of the state; (4) dependency; and (5) pauperisation. We shall see how these processes have influenced the effectiveness and efficiency of large scale organisations. It is notable here that while conceptually the processes mentioned above may be distinct, in practice they have often worked together; also while they may be roughly chronological they have been telescoped into each other. Hence our hypotheses are the results of abstraction from a complex and changing reality.

## I

## Colonialism

In most of the underdeveloped countries, modernisation came through colonialism. The imperial power imposed and maintained its rule through large civil and military bureaucracies. Their effectiveness, therefore, came to be judged in terms of the maintenance of the *status quo* despite popular discontent. Insofar as popular discontent has remained, together with poverty and political ineffectiveness of the mass, the role of the bureaucracy has remained much the same, as evidenced by the frequent use of police and military forces for curbing protest and maintaining law and order. Dispersal of power would lead to search for positive methods of dealing with causes of discontent, and to the use of minimum force by the state. In the near absence of these concerns, the effectiveness of bureaucracy has been judged by the *maintenance of law and order*. In view of this emphasis, *cultural development has had a low value* as a contributor to government effectiveness. One of the important continuities between the colonial period and the present is the use of foreign languages for administration, education and research—the failure to develop and use people's languages is rarely seen as an indicator of the ineffectiveness of the organisations responsible for these functions.

One of the important aspects of colonial administration was the strengthening of central institutions and the neglect of local ones.[4] Thus central services were well-staffed and well-paid while local services languished. By contrast, in countries like the UK and the USA local governments are powerful and their services well-staffed. In India, however, the colonial pattern has, by and large, continued. Municipal and Panchayati Raj bodies remain weak and their services under-staffed and poorly paid. The *efficiency of local services, therefore, remains low*. Rural areas, by and large, remain without public utilities such as the supply of clean drinking water and social services for health, education, and welfare of the needy. *Local administration, except in a few metropolises, remains highly ineffective.*

Imperial rule required a civil service consisting mainly of Indians, who would, however, identify with the rulers. This was achieved by two interrelated means—higher education and higher status for the civil service. Higher education was made compulsory for entry into the higher echelons of the civil service. It is notable, by contrast, that in England entry into the Administrative Class for a non-graduate was always permitted through one of the two methods of recruitment. In India, however, education upto graduation at least was required. This education, given through the English medium and consisting of a study of the achievments of litterateurs and scientists in the West, had the effect mainly of developing among the students identification with the West. It rarely inspired or equipped them to find solutions to the problems of their own society; they were mainly expected to recapitulate what Western writers had said. Hence the needs of imperial rule created an elite whose education consisted mainly in orientation favourable to the West, and which tended to be dependent upon Western science and technology. The nature of the education and the character of the elite has remained much the same after Independence. Hence, development, as defined by this elite consists mainly of Westernisation: *effectiveness comes to mean aping the West with all its faults*—importing the latest technology for a few organisations, while the majority remains in the bullock-cart or the bicycle age; the building of costly showpieces like the city of Chandigarh; spending large sums on television; and what is most symbolic, showing commercials, which can be avoided in India because television is in the public sector, in contrast to the USA where it is in the private sector and finds its sustenance through commercials.

The imperial civil service had to be paid highly and given a high status to make it a dependable instrument. Hence salaries and perquisites in colonial administration came to be not merely 'compensation' for services performed, but the price of loyalty. Loyalty was the prime quality of the administrator who controlled the specialised operatives. Hence the salaries and status of administrators, who were mostly generalists, came to be higher than those of specialists. Insofar as the emphasis on loyalty has not lessened, the salaries and status of generalist administrators continue to be generally higher than those of specialists. Hence, interestingly enough, *in the higher echelons efficiency is said to be related to salaries, while in the lower ones this relationship is considered to be weak*. Thus an agricultural scientist may often be drawing a much lower salary than a younger administrator who may have studied only literature but who advises the minister on policy formulation and implementation, while involves controlling and disciplining scientists and farmers.

## II

## Monopoly Capitalism, State Building and Nation Building

Capitalism came to India with colonialism. The first 'factories' were set up by the British at sea ports. British firms had special privileges which none else had. When Indian firms were established, they could not compete with British firms on an equal footing. Hence British firms came to be large and sprawling monopolies. Thus colonies like India never knew classical capitalism with large numbers of competing entrepreneurs; here it was monopoly capitalism from the beginning. This monopoly capitalism, with foreign capital to begin with, was foisted upon an agricultural society by force. It was not an indigenous growth: only in isolated pockets like Bombay and Calcutta did some Indian entrepreneurs arise and set up textile and jute mills around the end of the last and the beginning of the present century.[5] Hence economic development in the pre-Independence period was oriented towards fulfilling the interests of the British monopolies. The growing of cash crops, the networks of transport and communication, the production of electricity, and fiscal policy were all aimed at supporting these monopolies. Growth was not balanced regionally: the vast sub-continental hinterland was to support the industries in coastal metropolises. Hence, *effectiveness of administration was judged by the support it provided to monopolistic business, and not to balanced regional growth*. Insofar as monopolies have flourished after Independence also, this has continued to be the criterion of effectiveness. Our so-called planning has made little change in this pattern because (i) resources have remained mostly in private hands, (ii) the inherited infrastructure such as the railway network continues partly to determine the pattern of business, and (iii) monopolistic interests have influenced political decision-making in their favour.

Monopoly capitalism has fostered centralised state power in the erstwhile colonies. Large scale industries often get their fuel from one place, raw materials from a second place, labour from a third place and sell their products in a fourth place. Centralised political control over a large area, ensuring security and a single system of legal and financial institutions, is, therefore, essential for the development of large scale industry. Hence the building up of centralised state power (often called 'unity and integrity') becomes the paramount political objective: *centralisation per se comes to be equated with effectiveness*.

Political centralisation necessarily produces strong central leaders. Owners of capital see to it that leaders favourable to them become powerful. Donations to political parties by companies, which have now been legalised in India, and image-building through mass media, leavened with subtle religious appeal, lead to the creation of leaders who then become symbolic of the nation. The emotional bonds of nationalism are used to strengthen the state. Hence, *national integration comes to be another goal in terms of which effectiveness is measured*. Backward sections of the society and backward areas tend to suffer in any case in the course of capitalistic development which channels resources to those who can give the highest returns. *The emphasis on national integration further helps to de-emphasise measures for the protection of the interests of poor minorities, low castes and backward regions.*

*Powerful central leaders make themselves effective through a network in which* power flows from the top downwards. This is ensured by the flow of election funds downwards and of loyalty upwards. Hence loyalty becomes an important value in itself. Appointment of politicians and administrators to high positions tends to be made primarily on grounds of loyalty. Insofar as effectiveness comes to be defined in terms of stability, and stability is ensured through loyal functionaries, *loyalty comes to be seen as a highly important factor in the achivement of effectiveness*.

Monopoly capitalism, a dominant party, and powerful leadership do not leave much scope for competition; hence, *efficiency suffers in both production and administration*. In a situation where industrialists are dependent for their survival more upon political support for obtaining licences, raw materials and import quotas, than upon the quality of their products, the need for good political contact-men is greater than that of good engineers. Similarly, if a minister finds that winning an election depends primarily upon the support of loyal politicians and administrators (who collect election funds, control the leaders of vote banks, and browbeat voters) and not so much upon the efficiency of the agencies under his charge, he prefers functionaries who are loyal, to those who are merely better as scientists or other professionals. The achivement of effectiveness (in terms of the survival of the leaders) thus conflicts with the achievement of efficiency: *loyalty of functionaries is preferred to their merit*.

Loyal civil servants, on deputation as managing directors of public sector undertakings, often become the instruments for the exercise of patronage. Since recruitment here is direct, and not through the Public Service Commission, constituents of politicians can easily be appointed. Similarly, contracts can be given to businessmen who give donations to the ruling party. *The effectiveness and efficiency of the public sector thus are seen by ruling politicians mainly in terms of strengthening themselves politically.*

## III

## Autonomisation of the State

Most underdeveloped countries nowadays tend to be under dictatorial rule. In India also Emergency rule (1975-77) was of this kind: the fundamental rights of citizens were suspended, strikes and other forms of protest were disallowed, judges were transferred and superseded, there was press censorship, restrictions were placed on the publication of proceedings of Parliament, elections were postponed and there were indiscriminate arrests of citizens. Dictatorships in contemporary underdeveloped countries are comparable to absolutism in Europe in the 17th and 18th centuries. Marx[6] and Engels[7] pointed out that such absolutism results from the balancing of two powerful classes: in this situation the civil and military bureaucracy comes to rule, with an adventurer at its head.

In sub-continents like India conditions vary from area to area. Wherever the capitalist class holds together, it rules through a democratic system. If, however, capitalism develops in agriculture, the land-owning and capital-owning sections of the bourgeoisie may become almost equally balanced. In this situation democracy gets abrogated.[8] Thus in contemporary Punjab the interests of big farmers and big industrialists are in conflict: the outputs of industry (such as tractors, fertilisers and pesticides) are the inputs of agriculture; and the outputs of agriculture (such as cotton, sugarcane and cereals which workers eat) are the inputs of industry. Hence if prices of industrial products rise faster than those of agricultural commodities, the farmer suffers. This conflict of interests between the two powerful classes (which is given religious colour to obtain the support of the poor) makes democratic rule difficult: the civil and military bureaucracy now comes to rule. When state power becomes autonomised in this manner, *the test of the effectiveness of the administration becomes the avoidance of overt conflict and violence.*

The bureaucracy becomes very powerful in such a situation. This explains the great power of the bureaucracy in almost all contemporary underdeveloped countries—it comes to play a dominant role in policy formulation and implementation. With the increase in power, the status and income of the bureaucracy also tend to rise. Thus in contemporary Punjab, civil servants are functioning as advisers to the Governor, in place of ministers. *In the absence of checks by the legislature, bureaucrats tend to corner greater benefits for themselves and claim that this is essential for efficiency.*

In areas which are 'disturbed', *better equipment of the police and the paramilitary forces* is said to lead to greater effectiveness in terms of the curbing of the violent activities of extremists representing one or the other section of the bourgeoisie.

## IV

## Dependency

Insofar as capitalism came to underdeveloped countries with colonialism, it was from its inception moribund. It lacked the competitive spirit; did not help to develop new technology; did not allow the fruits of prosperity to reach the workers for these fruits were transferred to the imperial power; and engendered attitudes of inferiority and dependence upon the West.

By the time the colonies got their political independence, international monopoly capital had been much strengthened. The entrepreneurial spirit had remained underdeveloped in the erstwhile colonies in any case; the entrepreneurs now find that it is less risky to join the transnational corporations as junior partners, than to try to compete with them, even in the protected home market. Hence the industrial bourgeoisie of the underdeveloped countries tends to be an appendage of transnational corporations.

Since the industrialists thus are dependent upon foreign technology, growth of indigenous technology suffers. Engineers and other technologists now find that there are 'better' openings in administration and sales than in research. In the public service also, engineers have been preferring jobs in administration rather than in their speciality. *Engineers who function as engineers tend to have a lower morale and lower efficiency than those in administrative positions.*

Dependence upon the West in science and technology makes researchers in underdeveloped countries overlook problems of their own societies and focus on those being faced in the West; for the test of their eminence is recognition in the West. Hence universities fail to attend sufficiently to problems of the society which finances them. *While public money is used to maintain universities, their faculties refuse to accept evaluation of their contribution: their effectiveness remains highly doubtful, if effectiveness be defined in terms of the growth of knowledge needed by their own society.*

## V

## Pauperisation

Increasing poverty is the result of all the processes discussed above. Thus colonialism leads to the transfer of wealth to the imperial country. Monopoly capitalism leads to an increasing gulf between the rich and the poor. Autonomisation of the state is often associated with social turbulence and lack of employment and production. Dependency implies an inferior status in international economic relations. Hence, *while governments of underdeveloped countries often claim to be fighting poverty, in fact poverty is generally spreading* there. With the rise of industrial capitalism large numbers of artisans are continually being thrown out of employment. With the rise of capitalism in agriculture, small and marginal farmers tend to sell their lands, and to join the ranks of landless labourers.[9] Resources channelled through programmes for poverty removal are often cornered by the rich and powerful sections. Expenditures on the personnel employed for these programmes are in any case large and disproportionate; what is worse, they are often able to coerce the beneficiaries to share the benefits with them: the ineffectiveness of anti-poverty programmes is writ large in vast rural areas and urban slums.

## CONCLUSION

Modern capitalist society functions characteristically through large scale organisations. Hence the success or failure of these organisations is deeply related to economic, political, social and cultural aspects of the society. The quest for universally applicable generalisations, as for example in the behavioural approach, is therefore a futile one; if any generalisations are found they are likely to be trivial in character.

Our discussion has shown that in the underdeveloped countries the nature and role of organisations is shaped by factors deriving from colonialism, monopoly capitalism, state and nation building, the tendency towards the autonomisation of the state, dependency and, flowing from these factors, widespread poverty.

It is notable that our exceptation from an organisation differs with our class position: for the employer it consists in saving on salaries and wages, while for workers it consists in being well-paid. In other words our conceptions of effectiveness are different because our goals are different.

Colonial institutions were effective from the point of view of the imperial power; similarly, the concentration of wealth and power in the hands of a few capitalists and politicians is considered to be effective by them and those who benefit from these structures. Strengthening of the bureaucracy in an autonomised state is said to lead to effectiveness and efficiency of this bureaucracy; however, those who suffer in this authoritarian system would not agree. Even dependency may be designated as 'liberalisation' by a ruling class which derives support from its connections with transnational corporations, while poverty becomes more widespread. It is all a matter of definition.

## Notes

1 Paul E Mott, "The Characteristics of Effective Organisations" (New York: Harper, 1972), p 184.

2 Ibid, p 185.

3 Ibid.

4 Cf S N Eisenstadt, "Modernisation: Protest and Change" (New Delhi: Prentice Hall, 1969), p 109 ff.

5 A I Levkovsky, "Capitalism in India: Basic Trends in Its Development" (Delhi, 1972), p 69.

6 "The struggle seems to be settled in such a way that all classes, equally impotent and equally mute, fall on their knees before the rifle butt." Karl Marx, "Eighteenth Buramire of Louis Bonaparte" (Moscow: Progress Publishers, 1977), p 103.

7 F Engels, "The Origin of the Family, Private Property and the State" (Moscow: Progress Publishers, 1977), p 168.

8 Satya Deva, 'Administration in Developing Societies' in Susheela Kaushik (ed), "Public Administration: An Alternative Perspective" (Delhi: Ajanta Publications, 1984).

9 Satya Deva, "Problems of Rural Development in 'Green Revolution' Areas", *Social Scientist*, March 1984, pp 55-6.

# Evaluating the Evaluators

## Performance of Bureau of Public Enterprises

**Prajapati Trivedi**

*This paper analyses the performance of the Bureau of Public Enterprises (BPE). It argues that the source of the ineffectiveness of BPE lies in its inability to measure the performance of public enterprises in a way that is both fair to the managers and to the nation. The institutional set up of BPE too significantly contributes to its ineffectiveness. Finding the present system of performance evaluation used by BPE severely lacking, the paper suggests three axioms of public enterprise performance evaluation against which all future efforts of BPE should be judged.*

THERE is no other governmental institution in India which has been subjected to such a consistent barrage of criticism as the Bureau of Public Enterprises (BPE). It has been referred to as a fifth wheel which is completely redundant. In its present form, most critics feel, it is neither useful nor ornamental.[1]

As far back as 1974 the Committee on Public Undertakings (COPU) of the Fifth Lok Sabha had this to say in its 40th report:

> The Committee gathered the impression during their visits to public undertakings as well as during the evidence tendered by the chief executives of the public undertakings that the Bureau has not been able to discharge its role and functions to the entire satisfaction of public undertakings. Not only have its guidelines or advice not found ready acceptance with the undertakings, it has also not been able to resolve the problems facing some undertakings in any tangible manner. In the circumstances, the Committee cannot but look askance at the heavy expenditure which is being incurred on this top heavy Bureau ...

A decade later not much has changed. Another committee evaluating the BPE could use these lines verbatim to describe the situation as it exists now. However, this paper will try to show that the critics have missed the main point. That is the reason why, in spite of this hostile environment, BPE has survived and even prospered over the years. But, first, a word about BPE's background.

### THE HISTORY OF BPE

To evaluate BPE's performance it is essential to know its goals and objectives. For this one has to go back in time and examine the original intentions. A proposal to set up an entity like BPE in the Ministry of Industry, the only ministry with many public enterprises at that time, was floating around as early as 1960. However, it never came to fruition. Instead, BPE was set up in 1965 in the Ministry of Finance. It was briefly transferred to the Cabinet Secretariat in Janaury, 1966 (see Exhibit) but by June 1966 it was re-transferred to the Department of Co-ordination, Ministry of Finance. By 1969 it had come to exist as a separate entity under the Ministry of Finance.

### THE OBJECTIVES OF BPE

During this turbulent formative period two committees deliberated on the nature and functions of BPE. First, the Estimates Committee of the Third Lok Sabha in its 52nd Report in 1963-64 recommended the setting up of BPE. Its recommendations were accepted and BPE was set up in 1965. Second, this issue was taken up by two study teams of the Administrative Reforms Commission, which presented its final report in 1968.

A survey of the proposals by these committees shows, quite convincingly, that one of the main objectives envisaged for the BPE was for it to be a monitoring agency for collecting information and evaluating the performance of public enterprises (Basu, 1984).

Following the Estimate Committee's report the Bureau of Public Enterprises was set up with the objectives of: (a) Reviewing periodically the working of public undertakings; (b) Presenting reports and reviews of the operations of public enterprises to the Parliament or government agencies; (c) Devising steps to improve productivity and profitability; (d) Providing a central point of reference and consultation on important aspects of management; and (e) Exploring avenues of the economy in capital costs.

The final report of the Administrative Reforms Commission also consisted of a similar but expanded list of objectives.

### REASONS BEHIND THE PERCEIVED FAILURE OF BPE TO ACHIEVE ITS OBJECTIVES

As mentioned earlier there is no dearth of criticism levelled against BPE. However, they suffer from two major weaknesses.

First, the critics have adopted a very partial approach with a restrictive perspective. They have, in general, looked at a specific function of BPE and found it lacking, without looking at the total picture. Second, in most cases the solutions offered are equally unconvincing. Therefore, BPE has continued to survive in its original form without being effective.

This paper, in contrast, argues that problems associated with various aspects of BPE's functioning are inter-related. It also delineates the conceptually sound method to search for an alternative. It argues that the source of all the trouble with BPE's functioning lies in its inability to evaluate public enterprise performance. If one cannot distinguish "good" performance from "bad" performance then the public enterprise game is all over. If a "good" manager and a "bad" manager are treated in the same way because of one's inability to distinguish between them, then the former will have no incentive to strive as hard and the public enterprise system will be eventually loaded with overwhelming mediocrity.

The other objectives of BPE, mentioned above, cannot be achieved either under these circumstances. It cannot act as a "central point of reference and consultation" if it does not know what exactly should be pursued by the public enterprises. Nor will it have criteria to hire competent people and fire incompetent people, or, suggest ways of improving performance. In short, the inability to evaluate public enterprise performance is the cause and all other alleged problems of BPE are mere symptoms.

In fact the problem has a dynamics of its own. Since BPE does not have a convincing criterion or framework for performance evaluation it is not effective. And, because it is ineffective it does not attract very talented and highly trained professionals, which in turn leads to the perpetuation of its ineffectiveness. The validity of this argument is best illustrated with an analogy to the alleged reasons for the comparative efficiency of private enterprises. It is argued that the main reason for this is that private enterprises have a single, well-defined criterion for performance evaluation—profitability. This imposes a certain discipline and provides a sense of direction to a private enterprise. It enables it to move in the direction in which its owners (stockholders) want it to move.

In contrast, public enterprises have multiple objectives, which are often conflicting. Therefore, unless a way is found to merge these objectives into a composite criterion, the public enterprise managers will continue to be confused by such mixed signals (Jones, 1982). To be sure, BPE has proposed one such composite criterion. The remainder of this paper will examine the validity of this criterion and explore alternatives.[2]

### THE VALIDITY OF BPE CRITERION

Pursuant to its charter, the Bureau of Public Enterprises presents an annual report on the working of all public centerprises under the Central government. It also periodically reports to the Finance Minister and the various committees of the Cabinet on the performance of these public enterprises. In addition, in recent years it has published another document entitled, "Performance Aims and Financial Targets of Central Government Enterprises".[3] This document represents BPE's effort to define the performance criterion for public enterprises. Therefore, we will concentrate on it to illustrate our argument.

The approach suggested by BPE consists of evaluating public enterprises on the basis of the following two criteria: (a) the rate of capacity utilisation; and (b) the rate of return on capital employed. This approach is bedevilled with so many conceptual problems that it is a complete non-starter. It violates every principle of public enterprise performance evaluation. The major problems with this criterion are as follows:

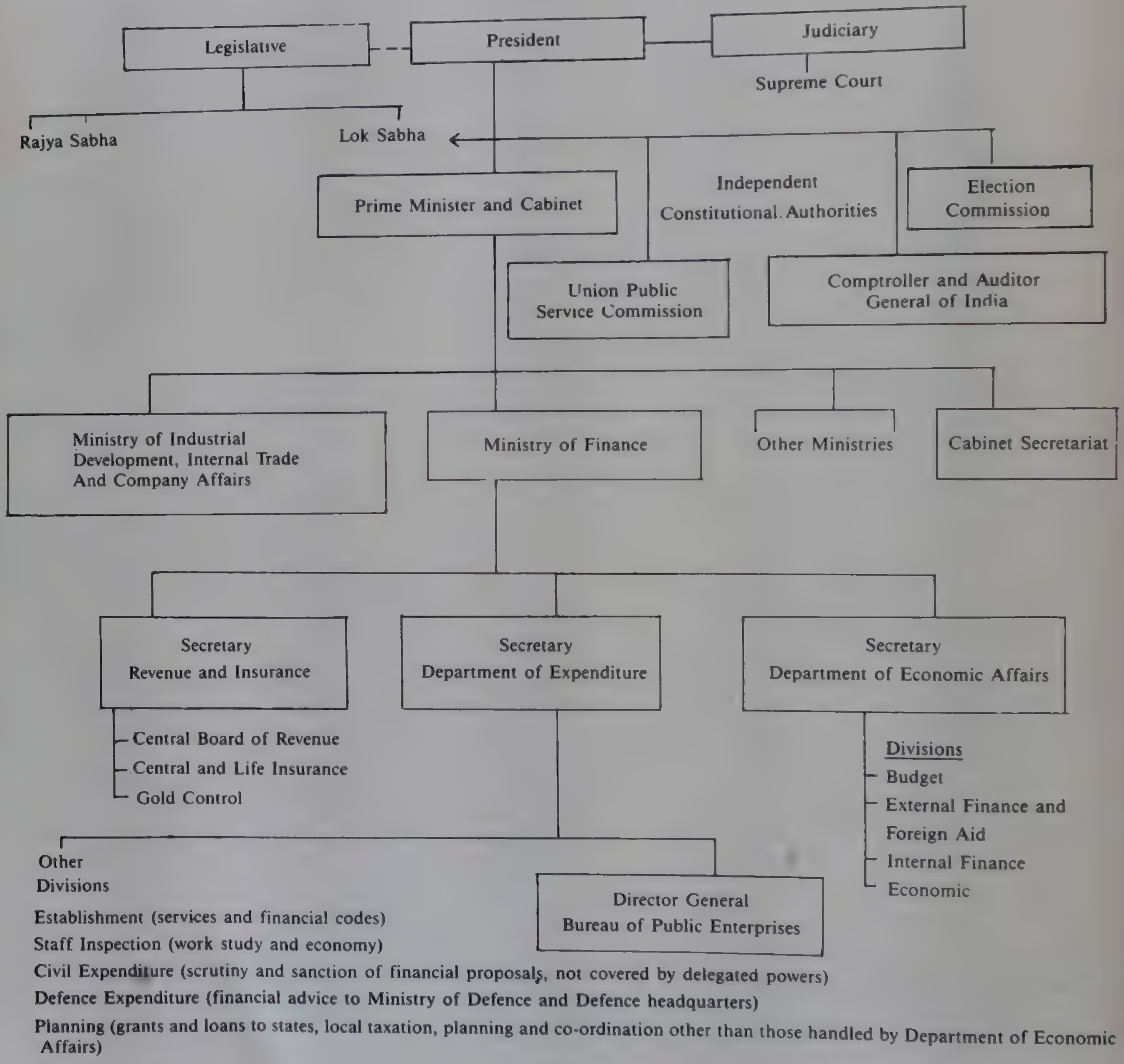
1) The criterion does not indicate the relative weights of these two criteria. Are they equally important or is there a trade off? It is quite possible that capacity utilisation may increase while profitability may go down. In this situation no judgment on the performance is possible. The absence of relative weights is likely to confuse the managers more than providing a useful guideline.

Elementary economics tells us that increases in output are not always correlated

EXHIBIT

**Bureau of Public Enterprises**

**A Partial Organisation Chart as of October, 1968**


Legislative
President
Judiciary
Supreme Court
Rajya Sabha
Lok Sabha
Prime Minister and Cabinet
Independent Constitutional Authorities
Election Commission
Union Public Service Commission
Comptroller and Auditor General of India
Ministry of Industrial Development, Internal Trade And Company Affairs
Ministry of Finance
Other Ministries
Cabinet Secretariat
Secretary Revenue and Insurance
Secretary Department of Expenditure
Secretary Department of Economic Affairs
Central Board of Revenue
Central and Life Insurance
Gold Control
Divisions
Budget
External Finance and Foreign Aid
Internal Finance
Economic
Other Divisions
Director General Bureau of Public Enterprises
Establishment (services and financial codes)
Staff Inspection (work study and economy)
Civil Expenditure (scrutiny and sanction of financial proposals, not covered by delegated powers)
Defence Expenditure (financial advice to Ministry of Defence and Defence headquarters)
Planning (grants and loans to states, local taxation, planning and co-ordination other than those handled by Department of Economic Affairs)

*Note:* There are various cabinet sub-committees for important subjects such as Food and Public Enterprises. Correspondingly there are secretaries' committees chaired by the Cabinet Secretary.

*Source:* Secretariat Training School, Government of India, Organisational Set-up and Functions of the Ministries/Departments of the Government of India.

FIGURE 1

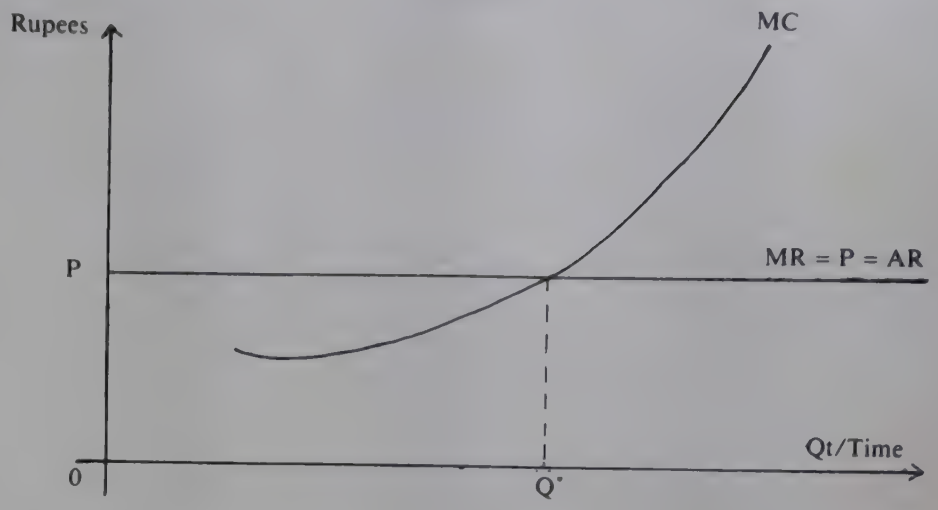
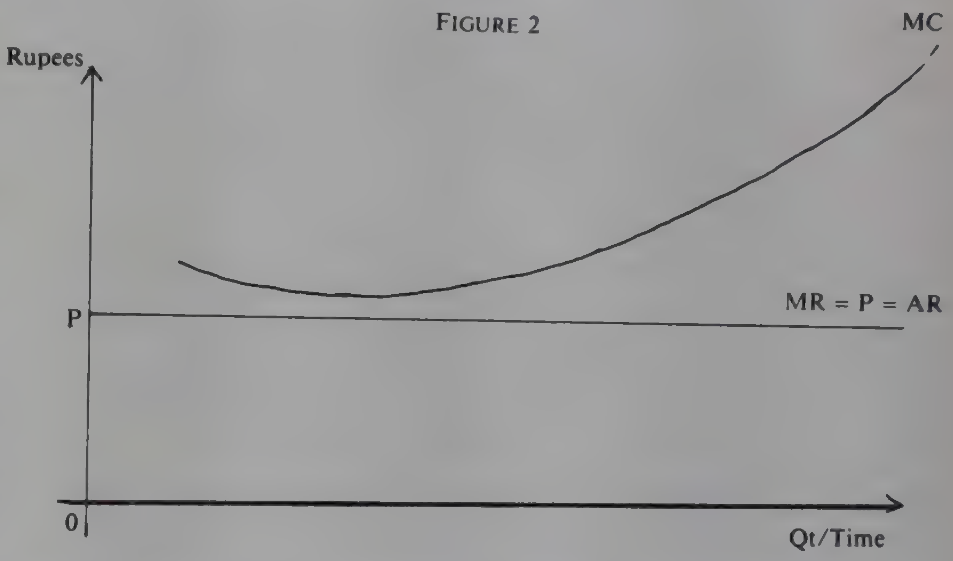


FIGURE 2



with increases in profits. Consider Figure 1 in which a typical set of marginal cost and marginal revenue curves are presented. The marginal revenue curve depicts a price taker's situation since that is exactly what most public enterprises are. The price of their outputs is usually regulated by the government.

Clearly, increases in capacity utilisation are likely to be positively correlated with profits if the public enterprise is operating to the left of $Q^*$. If it is operating to the right of $Q^*$ then the two criteria will be negatively correlated. The BPE seems to be assuming that all public enterprises are to the left. This is clearly a strong assumption.

More often than not the situation facing most public enterprises is likely to be as shown in Figure 2. Due to the government's objective of maintaining "reasonable prices" the price of output is often "too" low. Whereas, the input prices, usually beyond the government's control, are high. Under these circumstances any increase in capacity utilisation will be negatively correlated with financial returns.

2) The heart of the problem with BPE's criterion consists of a very typical conceptual mistake with all such multiple indicators.[4] The motivation for using multiple indicators comes from the realisation that partial indicators do not capture all aspects of performance. For instance, labour productivity and capital productivity tell us how these two inputs are being used by the public enterprise but they do not tell us anything about whether the operation of the public enterprise is increasing or decreasing the overall welfare of the society. In their attempt to overcome this problem evaluators often combine several partial indicators hoping that they will be able to capture the total picture.

In doing so they violate one of the fundamental principles of public enterprise performance evaluation. They include some benefits and costs more than once. That is, the various partial indicators that form part of the multiple indicator are "duplicative". To illustrate this point let us examine this problem in the context of BPE's criterion.

Consider the following example: A public enterprise increases its output by Rs 100 and increases its consumption of intermediate inputs by Rs 100. Clearly, the society is neither better nor worse off as a result of the public enterprise operation. *Ceteris paribus*, the financial performance will not be affected. However, the rate of capacity utilisation will go up. And if we were judging the performance of the public enterprises on the basis of BPE's criterion, we would be forced to conclude that the enterprise performance has improved, which is not true from the society's point of view.[5]

3) Another problem with this criterion is that it is a "single period" indicator. That is, it looks at costs and benefits in one given period. It ignores the future effects of present actions and also consequences in the present or past actions. Therefore, a public enterprise could raise the rate of capacity utilisation as well as financial returns on the capital employed by postponing the necessary maintenance. In other words, a public manager may be rewarded for doing those things that are not in the national interest. Ultimately, the society has to bear the consequence of deferred costs at some later date.

Similarly, this criterion is unfair to the present management who may be paying the penalty for mismanagement in the past Machines may be breaking down more ofter because proper maintenance schedules were not adhered to in the past.

4) A serious problem with BPE criterion relates to the measurement of cost and benefits in current prices as opposed to constant prices. In the context of public enterprises, where prices are often regulated, use of current prices is close to meaningless. It is quite likely that a public enterprise may appear to have improved its performance in terms of BPE criterion, if the only thing that happened, from one year to another, was an increase in its output price.

Besides being a misleading indicator of performance the use of current price indicators may induce a wide variety of perfunctory behaviour. For example, managers may be encouraged to try to get the price of their output increased rather than strive to increase real productivity. Those who have the right political alignments are likely to succeed in getting higher prices for the output and lower prices for inputs. Once again, perceived improvement in the performance of these public enterprises may have no systematic relationship with the social welfare.

We could continue to point out some more problems, but suffice it to say that BPE's approach, at best, is not very useful for measuring public enterprise performance. At worst it provides signals which could induce serious misallocation of the nation's scarce resources. The preference for "outcomes over procedures" in the public enterprises expressed by the Prime Minister is a step in the right direction. However, in the absence of the government's ability to measure "outcomes", India may end up in a situation which has neither the discipline of the "rules and procedures" nor the pressure to perform.

### GUIDELINES FOR AN ALTERNATIVE CRITERION

Public enterprise performance evaluation is a difficult task but not an impossible one. It is not enough to collect a mass of information on public enterprises and publish them. It has already been tried in India and elsewhere with no success. What is required is a conceptual framework which is easily understood and can be defended.

What must be avoided are the two extremes of either a very simple indicator for all public enterprises or a very complex system, custom designed for each enterprise. The key to successful performance evaluation is "judiciousness". While the diversity must be recognised there should be some unifying principles underlying the performance criterion for various public enterprises. The purpose of this section is to outline those principles.[6]

Any public enterprise performance criterion which meets the following principles is likely to capture the true performance of the public managers.[7] These principles are the *meta-criteria*, that is, the criteria to judge a criterion.

However, before stating this set of *meta-criteria* it may be useful to recapitulate the purpose of public enterprises. In a mixed economy public enterprises are an instrument of public policy. Therefore, as with any other public policy instrument, the operation of public enterprises ought to enhance the social welfare. If we accept the validity of this perspective then the following principles follow logically from it:

> *Principle 1:* Any public enterprise performance evaluation criterion must count each benefit and each cost at least once and at most once.

It is obvious that if some costs and benefits are ignored by the performance criterion, then it can never capture the "true" impact of public enterprise operations on the social welfare. These costs and benefits can be divided into two broad categories: *Pecuniary* and *Non-Pecuniary*. The former refers to those costs and benefits which can be measured in monetary units such as the cost of the raw materials, labour, and working capital. The latter refers to those costs and benefits that cannot be valued in monetary units. Examples usually include benefits from research and development (R and D), corporate planning, and plant maintenance.

Notice that all of these examples represent the benefit side. This is indeed the usual case. Public enterprises are blamed for comparatively poor performance in these areas *vis-a-vis* private enterprises. The reason is not difficult to see. These activities impose a cost in the current year but pay dividends in some future year. A public manager, who has a comparatively short tenure at a public enterprise, is likely to avoid such activities in order to appear as successful as possible in the current year. A private owner, on the other hand, cannot afford to do this because any postponed maintenance will eventually catch up with him.

To meet the requirements set forth in Principle 1, the evaluators will have to take the following steps:

a) First, they must make a complete list of all possible costs and benefits associated with the operation of a particular public enterprise. These costs and benefits in question are "true" or "economic" costs and benefits as opposed to the "accounting" ones. Accountants look at costs and benefits from a private stockholder's point of view whereas public enterprise evaluators ought to view them from the society's vantage point. For example, taxes are a legitimate cost for private enterprises, and owners ought to reward their managers for bringing down the tax liability through "tax planning", but they are a mere transfer payment from the government's point of view. It does not really matter who keeps the taxes, the enterprise or the government.

b) Second, evaluators must take the pecuniary costs and benefits and find out the surplus (i e, benefits minus costs.) This concept of surplus has the same structure as the "profit" used by accountants except that it measures the publicly relevant costs and benefits. Hence, we may call it "Public Profit".

c) Third, one has to take the remaining benefits and costs, that cannot be measured in monetary terms and add them up with "public profit" using a suitable normalising procedure.[8] We can call "public profit" the "primary indicator" because it captures the bulk of opertional benefits and costs. It is a measure of the "true surplus" generated by public enterprises in the current period. The other indicators, such as the effectiveness of a corporate plan and the quality of the maintenance programme[9] may be referred to as the "supplementary indicators". Together they give us our desired "composite indicator".

The key to meeting the requirements of Principle 1 is that the primary and the secondary indicators must be mutually exclusive or non-duplicative.

> *Principle 2:* A public enterprise performance evaluation criterion must be monotonically related to social welfare. That is, an increase or decrease in the value of the criterion should reflect an increase or decrease in the society's welfare. In other words, it must be "fair" to the nation.

The first principle implied that one must have the right categories of costs and benefits, those that reflect the society's perspective. This principle carries that process one step further. It implies that not only should one have the right categories of costs and benefits but they must be valued appropriately. That is, one must use shadow prices which reflect the true opportunity costs, rather than market prices.

It is at this point that most policy-makers throw up their hands in despair. Many consider shadow prices to be a subterfuge or a rhetorical ruse used by the economists to confound the non-economists. They argue that any performance evaluation system involving shadow prices is likely to be difficult to implement. For example, it would be very difficult to fire the chairman of a large public enterprise in any country because the shadow multiplier for labour is 0.3 and not 0.5. Often, the result is to adopt a nihilistic attitude and drop the whole scheme.

This paper contends that there is a practical way out of these two extreme positions. The trick again is to be judicious in one's approach to policy-making.

a) First, evaluators should only try to use shadow prices where the distortions are severe and a shadow price is easily obtainable. For instance, if a country imports oil and sells it at a controlled price, below the cif price, then one should use the latter price if indeed the difference between the two prices is significant.

A shadow price obtained, after manipulating complex matrices, with great precision to the fourth decimal place is likely to lead to a more precise failure.

b) Second, a public enterprise performance evaluation system is likely to be concerned more with the trend than the level of performance. That is, what is more important is that compared to the previous year the enterprise should continue to improve. Fortunately, it turns out that some studies (Jones, 1979) have found that the trend in market prices and shadow prices are usually similar. Therefore, even though shadow prices are the conceptually right prices to use, on practical grounds the trend in market prices can be used as a proxy in the initial stages of implementing an evaluation system.

> *Principle 3:* A public enterprise performance evaluation criterion must be monotonically related to management's performance.[10] That is, increases and decreases in the value of the criterion should be related *only* to factors within the control of the public enterprise manager. In other words, it must be "fair" to the public enterprise management.

The purpose of a performance evaluation system is to induce desirable behaviour among public managers. In a mixed economy, such as India, where there is a general regard for "fairness", a criterion that appears to be "unfair" is likely to lead to undesirable behaviour.

For example, if the price of oil shoots up due to a crisis in the Middle East and an oil consuming public enterprise shows a deficit in terms of our primary indicator then it is extremely unlikely that the manager will be fired. No one will consider it "fair" to fire him for a situation over which he had no control. Now if the evaluators did nothing else to adjust for this exogenous change, then it is conceivable that this public enterprise manager may indulge in other undesirable behaviour and get away by blaming the whole thing on an adverse change in prices.

Principle 2 requires action to prevent this from happening. For instance, this requirement could be met by measuring public enterprise performance at constant prices rather than current prices.[11]

This completes our review of the three fundamental principles of public enterprise performance evaluation. These are the universal axioms from which particular corollaries applicable to different contexts should follow. It is the job of evaluating agencies such as BPE to use these as guidelines and devise criteria for various public enterprises. Unfortunately, BPE's present efforts are not even close to being acceptable.[12]

However, to be fair, we have to temper our judgment regarding BPE's effectiveness by examining the position of BPE in the government's institutionl hierarchy and its effect on BPE's performance.

## BPE AND THE INSTITUTIONAL HIERARCHY

Even if BPE was able to come up with a set of criteria which meet the fundamental principles of performance evaluation outlined above there is no guarantee that it will cease to be ineffective. Without being facetious, the real question is, "Who cares about what the BPE does?" Unfortunately the answer may be, "No one".

The problem lies in the multiplicity of principals. It is one of the paradoxes of performance evaluation that the effectiveness of performance evaluation of an agent decreases with the increase in the number of principals. Different principals evaluate performance from different perspectives and hence overwhelm the agent (public enterprise in our case) with a huge list of requirements which are often inconsistent with one another. This can have two possible consequences. By reducing the feasibility set to a minimum it can stifle the initiative and lead to poor performance. Alternatively, it can provide the public enterprise manager the opportunity to pursue his preferred objectives by playing one principal against another.[13]

In India there are too many controlling agencies yet there is very little control. First, there is the Planning Commission, which decides on the overall priorities in the public and private sectors and monitors the performance of certain core industries. Second, the Parliament, as a trustee of the public interest, also monitors the performance of public enterprises. This is achieved by vesting the legal authority for supervision and control of public enterprise in the Cabinet Ministers, who are the nominees of the Parliament. The control over the Ministers is exercised *via* questions and debates in the Parliament and the Committee on Public Undertakings. Third, the Auditor General of India puts forth an audit report for each enterprise every year. Fourth, the Bureau of Public Enterprises publishes its Annual Reports on the performance of the public enterprises. Finally, each public enterprise is required to publish its financial statements annually under the Indian Companies Act, which is enforced by the Registrar of Company Affairs.

Each of the above monitoring agencies has a slightly different concern. Therefore, while the Planning Commission may be concerned with the overall social welfare, the Auditor General emphasises propriety and the Annual Report looks at conventional financial measures of performance. Given this chaotic state of control structure there is no hope for salvation no matter how sophisticated India gets in devising appropriate performance evaluation criteria.

There are several alternatives and each has its strengths and weaknesses.[14] The arrangement which appears to be best suited for India may be described as follows:

(i) The Bureau of Public Enterprises should be detached from the Finance Ministry and brought under the Prime Minister's Secretariat. The Director-General of BPE should be directly responsible to the Prime Minister.

(ii) BPE should then develop an appropriate set of criteria and criteria values for the various public enterprises and monitor their performance.

(iii) The Ministry and its Minister, under whom a public enterprise falls, should be equally responsible for the enterprise performance. In other words, the Minister of the concerned Ministry should have to do all the explaining to the Prime Minister.

This system would appear to have many advantages. First, contrary to the present, the concerned Ministers will no longer have merely an adversarial relationship with the public enterprises under them but will have to act as their partners. For instance, public enterprises producing cement fall under the Minister of Industries. If these enterprises are having difficulty procuring coal and are in the danger of performing poorly because of it then the Minister of Industries will have to take up this matter with his counterpart in the Ministry of Energy.

This will also help the Prime Minister keep a better tab on the performance of his Cabinet. At present, the Prime Minister has to rely on what the Cabinet members tell him about the performance of public enterprises under them. Obviously, it is in the interest of the Cabinet members to downplay poor performance (unless it has already generated too much outcry). With a professionally staffed BPE the Prime Minister can truly begin to emphasise "outcomes" over "procedures", his professed policy.

Finally, the importance of having a uniform accounting system for all public enterprises under BPE should not be minimised. At present, public enterprises present their financial accounts just like their counterparts in the private sector. The wide variety of formats make the comparison and monitoring of public enterprise performance difficult.[15]

## CONCLUDING COMMENTS

The objective of this paper was to analyse the performance of BPE. It argues that the ineffectiveness of BPE should be viewed as a problem of vicious cycle whose source lies at the inability of BPE to measure the performance of public enterprises in a way that is both fair to the managers and to the nation. Further, it finds that the institutional set up of BPE significantly contributes to its ineffectiveness.

This paper examines the present system of performance evaluation used by BPE and finds it severely lacking. It then goes on to suggest three axioms of public enterprise performance evaluation against which all future efforts of BPE are to be judged. Given the stakes one can only hope for a quick re-evaluation of the present system.

## Notes

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1 For a wide range of comments on BPE's performance, see Murthy (1976).

2 To appreciate the full range of ideas involved see: Cabral (1981); Ahroni (1983); Chatterjee, N (1978); Chatterjee, P (1979); Chattopadhya (1978, 1981); Dholakia and Khurana (1976); Om Prakash (1981); Morarka (1981); Fernandes (1981); Finsinger and Vogelsang (1982); Gupta, M (1981); Jenkins (1979); Nove (1973); Sastry (1980). No attempt will be made to review these approaches as it has been done elsewhere (Trivedi, 1984, 1985a).

3 Bureau of Public Enterprises, "Performance Aims and Financial Targets of Central Government Public Enterprises: 1982-83 and 1983-84", Ministry of Finance, New Delhi, April 1982.

4 See Trivedi (1985a) for a detailed discussion of this point with respect to the performance criterion used by the Korean Development Bank.

5 Note that the only changes are in the output and the intermediate inputs. Labour is assumed to remain constant. If employment had increased we might have some justifica-

tion for saying that the performance has improved.

6 No attempt will be made to set out the details of a complete performance evaluation system. Interested readers can refer to Jones (1981), Jones and Trivedi (1983), Trivedi (1985a; 1985b) and Nawab (1984) for a precise and detailed application of this conceptual framework.

7 At this juncture it may be worth noting the important difference between "managemeht's" performance and the "enterprise" performance. Management's performance is obtained by adjusting "enterprise" performance for all factors beyond the control of public enterprise management.

8 See Jones and Trivedi (1983) for an example of one such procedure.

9 For details of an attempt in Korea to do this at a practical level, see Trivedi (1985b).

10 See the difference between management's performance and the enterprise performance noted earlier.

11 It should be noted that this may not always be the correct response. It is appropriate when a public manager is stuck with a given technology and there is little or no room for substitution. If, on the other hand, there were a large number of substitution opportunities then one would want to continue using current prices. This is essential to induce the manager to find cheaper substitutes and utilise them. This will improve allocative efficiency, which is precisely what one wants.

12 Pakistan is in the process of implementing a system based on these principles. For details of this attempt see Nawab (1985) and Mehdi (1984).

13 For a general discussion of issues involved see: Pelicon (1982) and Boneo (1981). For a discussion regarding these issues in a particular country see: Bell (1979) and Abtan (1979).

14 For a discussion of some of these alternatives, see, Ramanadham, V V, (1984).

15 See: Pretrovic (1978), Tang and Lin (1985) and Ministry of Economic Affairs, Republic of China (1971) for an analysis of the merits of uniform accounting in public enterprises. See: Riise (1982) for an example of this system in a more developed nation.

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# Cost of Technology Imports
## The Indian Experience

**Nagesh Kumar**

*Though acquisition of technology from abroad may at times prove to be an expeditious way of getting the requisite technology, it has inevitable short and long run implications for the economic and technological development of the borrowing country. A significant amount of literature has directed itself to assessing the impact of technology imports by India. Most of the studies in this category are, however, partial in their scope in that they have studied the impact in specific cases or on some specific parameters. This paper summarises the current state of knowledge on this aspect.*

*The author deals first with the direct costs of import of technology and later with its indirect impact on the economy through its implications for balance of payments, the technological environment, industry structure, equity, etc. While doing so, significant studies made for other developing countries are kept in the background so as to provide comparison.*

INDIA, like many other developing countries, has relied considerably upon foreign sources for getting technologies for programmes of its industrialisation. Between 1950 and 1983, over 8,000 collaborations between foreign and local counterparts had been approved by the government involving transfer of technologies. It has been argued by some scholars (notably Lall and Mohammad, 1983) that the magnitude of technology imports by India for the scale of its economic activity is negligible in comparison with other developing countries which embarked on industrialisation like Brazil, Mexico, etc. However, it is also important to note that most of the modern/large industrial complexes in the country are based on imported technology.

It may be noted at the outset that broadly there can be two modes of technology imports (TECHIM), *viz*, formal or disembodied and informal or embodied. The former comprises of technology transfer contracts for which specific government approval is required. The latter may include the transfer of technology which is embodied in capital goods, skills of technicians, technical literature, etc. The disembodied technology transfer can also be of two types: one, through foreign direct investment (FDI) package—where whole package of resources like capital, entrepreneurship, management, technology, etc, is transferred; and second, through licensing of specific resources like proprietary process/product technology, etc, at arm's length.[1] In the case of India, in the period till the mid-sixties technology transfer through FDI was encouraged because of the foreign exchange crisis of the late fifties. The government felt that foreign exchange cost of the projects could be met by the capital inflow part of the package. In the late sixties, in the wake of yet another foreign exchange crisis, realising the deleterious balance of payment impact of the FDI, the government made the technology import policy restrictive and strict. Illustrative lists of areas were issued where no import of technology was to be allowed; where technology could be permitted only on licensing basis; and where it could be permitted through FDI. In addition, a general ceiling of 40 per cent level of foreign equity in any enterprise was also imposed under the Foreign Exchange Regulation Act, 1973. This strict policy governed the technology imports all through the seventies. In the eighties again the technology import policy has been liberalised to facilitate the modernisation of capital equipment in the Indian industry which has since become obsolete and hence is unable to compete in the international markets. Liberal technology imports through FDI (even upto 100 per cent ownership) are also being permitted in the cases of export oriented manufacture.[2] This recent trend of liberalisation is likely to continue during the Seventh Plan period as well because modernisation of industry and export orientation are planned to be pursued on priority basis.

Though acquisition of technology from abroad may prove to be an expeditious way of getting the requisite technology at times, it has some inevitable short and long run implications on the parameters of economic and technological development of the borrowing country. A significant amount of literature has directed itself towards assessing the impact of the technology imports in India. However, most of the studies in this category are partial in their scope and nature in that they studied the impact in specific cases (or sample) or are restricted to impact on some specific parameters.[3] This paper summarises the current state of knowledge on this aspect. Literature on the technology imports particularly through the FDI and multinational corporations (MNCs) is enormous and hence any effort to review it has to be selective. We shall also restrict ourselves to studies pertaining to the manufacturing sector because bulk of the technology imports have been and would continue to be in this sector. We shall first deal with the direct costs of TECHIM and later with its indirect impact on the economy through its implications on balance of payments, technological environment, industry structure, equity, etc. While doing so, significant studies made for other developing countries will be kept in the background (in notes) so as to provide comparison.

### Direct Costs

The direct cost of TECHIM includes its servicing burden remitted abroad in foreign exchange. In the case of TECHIM through licensing the usual costs are lumpsum payments, royalties and technical fees paid abroad by the licensees. In the case of TECHIM through FDI, usual servicing charges include remittances of profits and dividends. In such case it is not possible to ascertain the proportion of remittances attributable to TECHIM as such because those remittances are payments for the whole package of resources transferred through FDI. Some times, however, payment of dividends are accompanied by royalty or technical fees as well. In the case of embodied technology transfer, the cost of technology is implicit in the price of the equipment imported or in the remuneration of the personnel and hence are difficult to be separated.

Table 1 presents yearly remittances made by the private sector companies on account of profits, dividends, interests, royalty and technical fees for 1960-61 to 1979-80. It is evident that total remittances have steadily risen from Rs 23.48 crore in 1960-61 to Rs 132.68 crore in 1979-80. These figures are, however, only a partial reflection of the *direct* costs since these do not include the remittances of lumpsum fees and payments for TECHIM by the public sector companies nor do they include payments for embodied TECHIM. It can be seen that the relative significance of royalty and technical fees in total remittances has declined substantially over the years. This is in spite of the fact that licensing as a mode of TECHIM has gained importance during this period, particularly in the seventies. Though it is possible that licensors are relying more on lumpsum fees than yearly payments like royalty and technical fees, as Desai (1984) observes, the trend is an expected one. This is because the licensing agreements have a finite duration (in India generally 5-7 years) and payments are made for that period only while FDI continues life-long (unless the foreign investor divests his ownership). In fact the servicing burden in the case of FDI, in a typical growing and profitable enterprise, is expected to increase steadily. Thus while servicing burden of new agreements of TECHIM through FDI cumulates to that of the old ones, payments for new ones replace those of the expiring ones in case of licensing. Probably that is why some studies like Subrahmanian (1972), Kurian (1966), indicated that TECHIM through FDI may have been excessively expensive. A case study of direct costs of technology transfer in three petrochemical complexes, set up in the country, by Khanna (1984) shows that in the case of two complexes set up by multinational firms with one-third equity participation, 57 and 64 per cent of total profits were appropriated by the collaborators. In the third complex which was set up in the public sector with technology acquired under licensing, however, the cost was substantially lower at 2 to 4 per cent of total profits. These findings again point to the excessively expensive nature of TECHIM through FDI.[4]

Pillai (1984) had shown that significance of total remittances as a proportion of value added in manufacturing sector had a rising tendency till 1970-71, but it started declining thereafter. He explained the declining trend in terms of reduction in technological dependence of the country.

Several studies have found the direct costs of TECHIM to be excessive. For instance Chandra (1973) on the basis of data provided by the RBI survey (1968) concludes that the net foreign exchange cost of production through imported technology has been quite high. Studies by Kidron (1965) and Subrahmanian (1972) have also noted the high cost of imported technology in India's first phase of import substituting industrialisation. The explanations given include:

> popularity of foreign brand names among Indian elite consumers outweighted technological characteristics, competitive terms and prices of imported technology; the choice at old trading partners as a source of technology made Indian buyers to lose thier initiative in the negotiation and given a weak technological base the terms settled for the imports of technology then were excessive and onerous (Subrahmanian and Pillai, 1982, pp 12-13).[5]

Some studies (like ILPIC, 1969; Subrahmanian, 1972; Kidron, 1965) have pointed to the repetitive and hence wasteful imports of technologies for a number of products. In some cases more than one firm had been permitted to obtain technology from the same source and for the same product thus adding to the cost without contributing any thing significant to the country's technological stock (Subrahmanian, 1972; Neerso, 1975; Kumar, 1982).[6]

In contrast to the general impression created by the studies cited above of high cost of imported technology, a study by NCAER (1971) argues that from the point of view of an individual firm the cost of imported technology is much less than that of generating it through local R and D effort. Hence the study finds a justification for the imports that have taken place in the area of technology. However, it may be pointed out that NCAER's study refers to the private costs of TECHIM and compares them with private costs of generating technology locally which might in fact be greater in some cases (Balasubramanyam, 1971). The imported technology has significant indirect social costs while local research may have substantial external economies. A fair assessment of imported technologies in a country should thus be based on weighing of the social costs *vis-a-vis* social benefits. The findings of NCAER's study, therefore, are at best parochial.

TABLE 1: REMITTANCES ABROAD BY INDIAN PRIVATE SECTOR COMPANIES

*(In rupees crore at current prices)*

| Year | Profit | Dividend | Interest | Royalty | Technical Fees | Total Remittances |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1960-61 | | 11.38 | | 9.06 | 3.07 | 23.48 |
| 1961-62 | | 14.14 | | 8.83 | 2.13 | 25.11 |
| 1962-63 | | 18.35 | | 8.09 | 2.38 | 28.82 |
| 1963-64 | | 16.11 | | 9.50 | 3.18 | 28.79 |
| 1964-65 | | 20.30 | | 3.26 | 3.20 | 26.76 |
| 1965-66 | 13.50 | 19.40 | | 2.95 | 6.98 | 42.83 |
| 1966-67 | 14.47 | 28.77 | | 5.13 | 10.43 | 58.80 |
| 1967-68 | 15.95 | 32.70 | | 4.32 | 14.68 | 67.65 |
| 1968-69 | 12.96 | 30.25 | | 4.78 | 17.97 | 65.96 |
| 1969-70 | 12.72 | 31.41 | 9.28 | 5.80 | 13.05 | 72.26 |
| 1970-71 | 19.12 | 43.48 | 12.80 | 5.23 | 20.63 | 95.26 |
| 1971-72 | 9.94 | 38.87 | 12.13 | 5.86 | 13.90 | 80.70 |
| 1972-73 | 15.54 | 39.08 | 15.60 | 7.33 | 11.33 | 88.88 |
| 1973-74 | 21.91 | 37.51 | 16.27 | 6.21 | 14.08 | 95.98 |
| 1974-75 | 7.10 | 18.46 | 36.70 | 8.46 | 12.56 | 83.37 |
| 1975-76 | 20.36 | 24.84 | 24.65 | 10.49 | 25.66 | 106.00 |
| 1976-77 | 19.39 | 48.47 | 25.11 | 15.88 | 37.80 | 146.65 |
| 1977-78 | 10.13 | 68.01 | 22.70 | 19.50 | 28.19 | 148.71 |
| 1978-79 | 4.80 | 54.40 | | 11.30 | 24.63 | 111.06 |
| 1979-80 | 2.50 | 50.90 | | 12.00 | 27.64 | 132.68 |

*Source:* Parliament debates, quoted in P Mohanan Pillai, 'Changing Dimensions of Technological Dependence in India', Working Paper No 193, Centre for Development Studies, Trivandrum 1984.

## INDIRECT COSTS

Indirect costs of the TECHIM includes those undesirable implications on macroeconomic parameters like balance of payments, local technological environment, industrial structure and the like which do not appear explicitly in the accounts. Most of these undesirable effects emanate from the regulatory clauses inserted in the technology transfer agreements by the technology suppliers limiting the independence of the recipients in their decision making. Stewart (1979) identifies the ability to make independent technological choices as one of the stages in the development of technological capacity. Table 2 shows the incidence of regulatory clauses found in a RBI (1974) survey. In what follows we analyse the implications of these clauses and present further evidence found in different studies on the indirect impact of the TECHIM.

In addition to inflows of capital associated with the TECHIM (as in case of FDI) and the servicing outflows, the propensity to depend upon imported capital goods, raw materials and other goods, foreign technicians, etc, and orientation towards exports do affect the balance of payment of the technology importing country.

(i) *Import Dependence*: On *a priori* grounds one can expect that a foreign supplier of technology would insist on foreign sources of supply of capital goods and raw materials for two reasons; one, because of his familiarity with foreign sources, real or imagined inadequacies of local producers;[7] and two, to provide market to his or his associate's production. Sources of supply are controlled by the technology suppliers through regulatory clauses in the foreign collaboration agreements. Some times performance guarantees of technology are made conditional to use of raw materials, etc, obtained from the sources indicated by the technology supplier (Subrahmanian, 1972, p 174). Subrahmanian (1972, p 146 ff) finds that out of 130 collaboration agreements studied, 41 (i e, 31.5 per cent) had clauses restricting the purchase of materials. In most cases the clauses made it obligatory on the part of the local party to purchase raw materials, components, etc, from the technology supplier or its associates. The RBI (1968, 1974) surveys also show that a significant number of regulatory clauses present in the foreign collaborations restricted the sources of supply of raw materials and capital goods. These clauses were present mostly in the agreements for transfer of technology without any financial stake or those with minority ownership by the technology supplier. It can be expected that in the cases where the technology supplier retains ownership also, *viz*, FDI, preference of foreign sources of supply over local ones need not be insisted upon through formal regulatory clauses but may be effected informally. In the packaged technology transfer deals and in turnkey projects, capital equipment is usually purchased by the technology supplier and it is only logical to expect him to depend relatively more on foreign sources. Furthermore, Subrahmanian (1972) finds that a substantial proportion of agreements studied by him contained clauses barring any change in the designs and original specifications provided by the technology suppliers. This restriction obviously hinders substitution of imported materials by local ones.

A few studies have attempted to compare actual propensity to depend on imports of raw materials, etc, of firms using imported and local technologies. Subrahmanian and Pillai (1979) classify 85 firms selected from three industries, *viz*, engineering, pharmaceuticals, and dyestuffs and intermediates into four clusters according to varying levels of foreign association. The first two clusters include firms which obtained technology through FDI respectively with majority and minority foreign ownership. The third cluster includes firms which obtained technology on licensing basis (unaccompanied by foreign ownership) and the last, those which depended upon local sources of capital and technology. They find that the firms in the former two clusters (i e, those with FDI) had significantly higher level of import intensity of raw materials than the latter two clusters. Among the latter two clusters while firms with technology licensing (cluster III) have higher import intensity than those without any foreign association in the pharmaceutical industry, in the other two industry groups import intensity is marginally higher for cluster IV forms. This may be because of the fact that in these technology intensive industries, indigenous development of technology is relatively new phenomenon and hence firms without foreign association might be late entrants in the sectors with higher initial import dependence.

Kelkar (1977) compares the ratio of imports to value added for firms with FDI (subsidiaries and minority foreign owned companies) and those with pure technical collaboration for 1964-65 to 1969-70 using the data provided in the RBI (1974) survey. He finds that the import/value added ratio is substantially higher for FDI firms than for the pure technical collaboration companies for all the years.[8]

The available evidence, therefore, establishes that when technology is imported through FDI, the dependence on imported raw materials is likely to be substantially higher than in case of technology either obtained under licensing or generated locally. This might imply that process of substitution of imported raw materials by local ones is faster in case of technology obtained in unpackaged conditions (i e, licensing) than in package of FDI.

(ii) *Export Performance*: One can expect that a foreign technology supplier might not like the importing firm to become its competitor in its existing and/or potential markets. Thus Subrahmanian (1972) finds that 57 per cent of the total foreign collaboration agreements contained clauses placing restrictions on the exports of the technology importing firm. In other 10.8 per cent cases exports were sought to be discouraged through a higher rate of royalty on export turnover. Similarly, the RBI surveys (1968, 1974) indicate that the bulk (about 60 per cent) of the regulatory clauses present in the collaboration agreements concerned exports: either banning exports to some or all countries or requiring foreign collaborator's permission for exports.[9] However, it is not necessary that exports are restricted through formal clauses. It might be done informally particularly when the foreign collaborator shares ownership of the enterprise.

TABLE 2: RESTRICTIVE CLAUSES IN FOREIGN COLLABORATION AGREEMENTS, 1964-70

| Type of Restrictive Clauses | Majority Foreign Owned Subsidiaries | Minority Foreign Owned Affliates | Purely Technical Collaboration Companies | Total |
|---|---|---|---|---|
| 1 Restrictions on exports | 80 | 457 | 419 | 956 |
| 2 Conditional payment clauses | 5 | 48 | 41 | 94 |
| 3 Other restrictions | 19 | 113 | 103 | 235 |
| a) Sources of supply of raw materials, plant and machinery | 3 | 21 | 28 | 52 |
| b) Restriction on production capacity | — | 4 | 15 | 19 |
| c) Restriction manufacture of products similar to those produced under the collaboration agreement | 9 | 56 | 51 | 116 |
| d) Restriction that internal sales be routed through distributors specified by the collaboration | 2 | 10 | 6 | 18 |
| e) Others | 5 | 22 | 3 | 30 |
| 4 Total (1 to 3) | 104 | 618 | 563 | 1285 |
| A) Total number of agreements with regulatory clauses | 68 | 320 | 266 | 654 |
| B) Total number of agreements | 167 | 489 | 442 | 1098 |
| C) A as percentage of B | 40.7 | 65.4 | 60.2 | 59.6 |

*Source:* Adapted from Table Nos 9 and 12 of RBI, "Foreign Collaboration in Indian Industry", Bombay, 1974.

Subrahmanian and Pillai (1979) have also compared the export performance (in terms of a composite index) across the four clusters of firms with varying degrees of foreign association in engineering, pharmaceutical, and dyestuff industries.[10] Their findings suggest that export performance is inversely related to level of foreign association in that the firms in clusters I and II (with FDI) performed significantly worse than those in cluster III (technology licensees). The best export performance was demonstrated by the firms without any foreign association (with the exception of pharmaceuticals industry). A few other studies (Nayyar, 1978; Goyal, 1979; IIFT, 1981, among others) also indicate poor export performance of foreign affiliates in India though they do not undertake a comparison.

Therefore, the available evidence indicates that TECHIM hinders development of exports from the importing country. This is more so with cases where technology is imported in packaged form (through FDI). In view of the fact that promotion of exports is a social priority because of the necessity to earn valuable foreign exchange, the adverse impact of TECHIM on export performance is an important social cost.

(iii) *Transfer Pricing*: Transfer price is the price at which intra-firm (i e, between two affiliates of a multinational enterprise) trade takes place. Hence imports of raw materials, spare parts and capital goods, etc, from the technology supplier (and exports from the local affiliate to them) in the case of FDI take place at transfer prices determined by him.

Since the transfer prices are determined by the technology supplier who is dominant party, there is tremendous possibility that these are distorted. There is ample national and international evidence of indulgence of multinational enterprises into manipulation of transfer prices to the disadvantage of host (technology importing) nations and covertly transferring the resources (Lall, 1973, 1979; Chandrasekhar and Purakayastha, 1982; Subrahmanian and Pillai, 1976; Kumar and Chenoy, 1983; Chaudhuri, 1984; Kumar, 1984; Krishna, 1984).[11] The extent of manipulation in certain cases was over 100 per cent. It must be noted, however, that it is extremely difficult to estimate the social cost of transfer of resources by way of manipulation of transfer prices. And TECHIM through FDI alone is amenable to risk of transfer pricing and not licensing except the possibility of overcharging in the case of tied purchases of equipment and materials.

Therefore, it appears from the evidence presented above that in addition to the direct outflows of foreign exchange on account of servicing, TECHIM can have significant impact on country's balance of payments indirectly. This indirect impact is likely to be more adverse in the case of FDI than in case of licensing. Several studies like Kurian (1966), Subrahmanian (1972), Bose *et al* (1974), Lall and Streeten (1977), Goyal (1979), IIFT (1981) have found negative overall direct impact of operations of foreign controlled firms on India's balance of payments. Patel (1984) and Indu Emencee (1983) observe that the foreign exchange burden of foreign capital has a growing tendency.

## LOCAL TECHNOLOGICAL CAPABILITY

Blumenthal (1979) observes that technological level of a country is a function of imported technology, domestic R and D and relation between the two which is often complex.[12] Vital issues from the point of view of technological capability development of the recipient country relate to the diffusion, adaptation, assimilation and absorption of technology and further innovations subsequent to import. In what follows, we summarise the evidence available on impact of TECHIM on each of these parameters.

(i) *Diffusion*: Diffusion of imported technologies may be different than that of indigenous technology depending upon the restrictions placed by the technology suppliers on its horizontal transfer.[13] There is considerable evidence that technology suppliers do restrict technology diffusion. Subrahmanian (1972, pp 144-149) finds that out of 130 agreements studied as many as 84 (64.6 per cent) had clauses making it obligatory for the recipient firms to keep all the technical information secret and not to transfer, assign or sub-license the right to know-how to any party. These clauses are strictly enforced and in a number of cases the collaborators retain the technical control over the process, in some other cases they have the right to appoint technical director/plant manager, etc, to ensure the secrecy of the know-how (Subrahmanian, 1972, p 155; Dasgupta, 1977). RBI surveys (1968, 1974) also indicate inclusion of clauses restricting diffusion of the technologies imported under foreign collaboration agreements. The RBI survey (1974, p 74) reports that nearly 70 per cent of the collaborations signed by the private sector companies had a clause which implied that the technology imported was for exclusive use of the importers and not for sub-licensing, etc. The high incidence of such restrictive clauses is in spite of the government's insistence that the importer should be free to sub-license the technology. The evidence of multiple collaborations signed for same products as reported in ILPIC (1969), Subrahmanian (1972) is a reflection of the lack of diffusion of technology imported by one firm. The technology transfer under such conditions remains a closely guarded secret and hence can at best be termed as a private transfer and not a national transfer thus leading to multiple imports. It is evident that even public sector companies importing a technology find it difficult to sub-license it to another public sector concern. Manufacture of quartz watches is a case in point where the two public sector corporations have resorted to separate imports of very similar technologies from two Japanese multinationals.

Therefore, diffusion of imported technologies is made difficult, some times even impossible by the restrictions imposed by the technology suppliers.

(ii) *Assimilation and Adaptation*: The process of absorption and adaptation of the imported technologies may also be influenced by the technology suppliers through regulatory clauses. Subrahmanian (1972) reports that a substantial proportion of the collaborations studied incorporated a clause restricting the freedom of the borrowing company to change the original designs and specifications. The practice of limiting the freedom of Indian venture to introduce changes in the product/process designs, etc, observes Subrahmanian, "has far reaching implications from the national view point. It prevents local adaptation of the first and second levels and retards assimilation of imported know-how." Very often the process/product specifications supplied under foreign collaboration may not suit the local conditions in terms of local availability of materials, etc, and hence adaptation becomes necessary. Furthermore, during the process of adaptation a more effective assimilation of the technology may take place. Restrictions on changes in original specifications may make substitution of imported raw materials by local ones difficult, leading to continued dependence on imports. Hence the tendency on the part of technology suppliers to restrict the adaptation is an important social cost of technology imports.

Studies made by the Directorate General for Technical Development (DGTD) on the adaptation of technologies acquired under foreign collaboration [summarised in Pillai (1979)] reveal a very slow progress. In some cases the time taken for adaptation stretches upto 20 years. Another revealing observation made by the studies is that foreign controlled firms were particularly less concerned about adaptation and absorption. An UNCTAD (1983) study of Indian capital goods industry corroborates that foreign controlled firms were less interested in adaptation. The foreign controlled companies often represent entities permanently dependent upon their parents in home countries for technology. This finding is shared by Baldev Singh (1977) and Sidhu and Rao (1977). Evidence of the high incidence of renewals of foreign collaboration agreements as found by Subrahmanian (1972, 1984) and DGTD studies (see Pillai, 1979) particularly in case of foreign controlled firms, is in fact an indication of failure of the technology borrowing enterprises to adapt and assimilate the imported technology. Thus perpetual dependence on foreign collaborators through renewals continues. In any case, the imported technology, howsoever well adapted to the borrowing country's environment is inferior to the locally generated technology in terms of local technology capacity building because benefits latent in its creation are lost.

(iii) *Local R and D*: Another factor limiting the progress of adaptation/assimilation (and further innovation) of technology is the tendency to shy away from the research and development activity by the technology importing firms. In this regard again the evidence shows that the foreign controlled companies lag behind the rest of the companies. Subrahmanian (1971) in a case study of the Indian chemical industry found that the foreign controlled companies by and large were relatively less R and D conscious than their local counterparts and spent insignificant proportion of their turnover on R and D. The RBI Survey (1974) also found that companies which had foreign financial collaboration were less active in setting up R and D, than those which had purely technical collaboration, perhaps owing to availability of newer technology from their parent bodies (p 133).[14] Similarly Kumar (1985a) while comparing the R and D intensity of operations of foreign controlled and locally controlled firms in 43 Indian manufacturing industries finds that the former spent significantly less on R and D than the latter.[15] The foreign ownership was found to be having a negative though mildly significant influence on the R and D intensity while the technology import under licensing had a strong favourable effect even when other influences on R and D intensity were controlled for.[16] UNCTAD (1983a) study of Indian machine tools industry reaches similar findings. Chisti (1977) observes that R and D activity of the subsidiaries of multinationals in India confines only to minor product modifications, raw materials substitution, etc.

Quite apart from the fact that possibility of importing foreign technology in a sphere may damp the Indian initiative to create, duplicate, or imitate it (Devadhar, 1967, p 270; Morehouse, 1980; Stewart, 1979) there is evidence that affiliates of multinational companies may even be actively hampering the research activity carried out by the local firms. Desai (1980, p 86 ff) demonstrates how foreign firms attempted to use vague provisions of the Patents Act to thwart the successful innovations made by Haffkine Institute, Bombay, and Excel Industries (a private local firm) in the sixties. Similarly, Chaudhuri (1981) documents the way an Indian pioneering firm in the field of drugs, *viz*, Bengal Chemicals and Pharmaceutical Works (BCPW) which by the fifties succeeded in developing technology for production of many vital drugs like Thiacetazone, Nikethamide, Nicotinic Acid, Dapson, Chlorpropamide without any foreign help was harassed by a multinational. Sidhu and Rao (1977, p 222) note how the local R and D activity in progress is forestalled by foreign agencies by registering patents. Instances of technology dumping at a cheap price to dismantle local innovations in progress are also known.[17] In their efforts to hamper local technological capability building in the developing countries, the multinational corporations are often joined by the aid-giving agencies (knowingly or unknowingly). Mehta (1977, 1982), BM (1979) document how a creditable technological capability built up in the Indian fertiliser and steel industries was scrapped by the government (presumably under pressure from the foreign agencies). Menon (1980) and Dhar (1984) also provide illustrating account of Indian fertiliser industry including the role played by the World Bank and other aid givers in the technology choice undermining the local interests.[18] Alam (1982) shows that the electronic switching technology in communications which was imported in preference to indigenously developed one, may not be successful in the local environment. Case of National Silicon Facility (*India Today*, February 15, 1985) is yet another example of showing preference for imported technology over more efficient local alternatives. Ramamurti (1978) shows that the proposed broad based agreement between pioneering heavy electrical firm BHEL, etc.

The evidence presented above tends to indicate that contribution of technology imports to local technological capability building has been rather limited. The limiting factors have been the reluctance on the part of the foreign technology suppliers to impart capabilities required for efficient adaptation and absorption, by restricting the ability of the technology importers to make independent technology choices, blocking the way of horizontal diffusion and assimilation and absorption of the imported technologies, by neglecting the R and D activity, and sometimes even by actively hindering the innovative activity of local firms. Of the modes of technology imports, FDI seems to be less efficient way of import than pure technical collaboration in terms of local technological capability building because foreign ownership and control perpetuate the dependence of the local enterprise on foreign sources and discourages the autonomous technological capability building. Deolalikar (1980) concludes from his study of Indian pharmaceutical industry that use of foreign technology by local firms has more desirable societal consequences than its use by a foreign firm. Lall (1980) in his study of technology exports from different developing countries finds that countries that permitted a free flow of technology by means of foreign controlled affiliates have not exported technology of the diversity and complexity shown by those that have restricted such imports and protected local technology.

### EMPLOYMENT EFFECT

Technology imports can affect employment in the borrowing country through their employment generation potential *vis-a-vis* alternative technologies. It is widely believed that technologies imported from the developed market economies may not suit the factor endowments in the less developed countries like India (Stewart, 1977). It is argued that since the developed countries are usually capital abundant and labour scarce, the technologies developed there might be labour displacing (and capital intensive). An excessive induction of such technologies in the labour surplus economies may, therefore, create distortions like growing capital scarcity and unemployment.[19]

A few studies have addressed themselves to the examination of choice of technique of the foreign controlled firms *vis-a-vis* their local counterparts. Balasubramanyam (1974) finds that imported technology was more capital intensive than the indigenous technology in four industries he studied. Agarwal (1976) compares the factor proportions in foreign subsidiaries and local firms in 34 industries and finds that the former were more capital intensive than the latter in majority of the industries. Lall and Streeten (1977, Chapter 6) while comparing capital output and capital labour ratios for multinational and local firms in a limited sample conclude that foreign ownership (transnationality) does not have a discernible impact on capital intensity.[20] By comparing the production functions of affiliates of multinational firms in developed and developing countries, Leipziger (1976), and Courtney and Leipziger (1975) reach the conclusion that multinationals do respond to the factor price in the host countries. Implications of this finding are that the government policies of making capital artificially cheaper and labour costlier (through labour laws) which most of the developing countries have adopted is partly to be blamed for higher capital intensity of foreign firms in developing countries.

Therefore, the evidence that imported technologies are more capital intensive is far from conclusive as yet. One of the deficiencies of the studies is that the comparisons are made on the basis of ownership and not on the basis of source of technology. Second, the factor prices in the developing countries are also distorted.

Another dimension of effect on employment is changes in working conditions/wage rates due to technology imports. Particularly, in the cases where the technology supplier retains part of ownership and management, i e, FDI, working conditions and wage payment behaviour may be expected to be different (Singer, 1970). Systematic evidence on comparative performance of foreign controlled and local firms in this regard is, however, scarce because of data limitations. On the basis of a comparison of proportion of earnings of high income employees in total wage bill, a proxy of employee compensation propensity, between foreign controlled and local firms across 49 Indian industries, Kumar (1985b) finds the former to be having a tendency to pay higher than the latter in most of the industries.[21] However, much of the influence of foreign ownership on employee compensation propensity vanishes when other influences like skill intensity and market structure are controlled for. Sinclair (1982) makes a case study of an affiliate of a Scottish multinational in India and compares the working conditions in their plants in India with those in the home country, finding much poorer standards in the former.

### EFFECT ON MARKET STRUCTURE

Entry of multinational corporations in developing countries for transferring technology can affect the host coountry's market structures since they enjoy monopolistic advantages which may impede the entry of potential local entrants.[22] While evidence on adverse impact of foreign penetration on host country market structures for some newly industrialising countries in Latin America and ASEAN is growing[23] there is hardly any systematic study on this aspect in India. Studies by Kidron (1965), Subrahmanian (1972) and Subrahmanian and Pillai (1977) do indicate correlation between foreign investments and concentration but they may be owing to common determinants of these two (Caves, 1982). Similarly, Kumar (1982) noted that representation of foreign (FERA) companies among companies which registered under the Indian monopolies legislation on account of market dominance was disproportionately large.

### DISTRIBUTIVE IMPACT

The FDI mode of TECHIM may affect the inter-country distribution of income through distribution of profits between home and host countries. It can also affect the intra-country regional distribution through location of their projects. The intra-regional distribution can be affected through choice of technique: labour or capital intensive; as well as through wages and working conditions in the plants of foreign controlled enterprises *vis-a-vis* those in local firms.

FDI's effect on market structure (concentration) ultimately gets reflected on income distribution. And it can affect the intertemporal distribution by deciding how much of the surplus value added to be retained for further investment and how much to be paid to the shareholders.[24] The literature on technology imports or foreign investments has, in general, neglected these aspects. Lack of detailed statistics might have been responsible for this neglect. Evidence on influence of FDI on choice of technique, wages and working conditions, and on market structures, though scanty as it is, has already been discussed above. An important influence of penetration of foreign capital and technology in India, which has a lot to do with income distribution, is its deleterious impact on the traditional industries and skills. Rahman (1983, p 74 ff) has shown how several traditional industries like textiles, dyestuffs, etc, were destroyed by the intrusion of foreign capital during the colonial period in India. Similarly Ray (1977, p 227 ff) observes that technology imports displace local engineers and scientists and also have adverse impact on local entrepreneurship through unjust competition. Grossman (1984) has shown through his theoretical model that "an inflow of foreign owned industrial enterprises into the LDCs has an adverse effect on the supply of local entrepreneurships". On the basis of his empirical studies, Siddharthan (1979) concludes that MNC firms in India may stand in the way of growth of Indian firms. Goyal, Rao and Kumar (1984) illustrate the deleterious impact of MNCs operating in the consumer goods sector in India on small scale firms.

### DEPENDENCE AND POLITICAL ECONOMY

It has been argued that excessive dependence on foreign technology, particularly through FDI, reduces the controllability and hence sovereignty of the host country.[25] Various studies done in the context of Canada like Gorecki (1976), and UNIDO (1980) have shown that investment/diversification decisions of foreign controlled enterprises are taken outside the host country, usually in the home country to fit in their global strategies. Similarly, Howe and McFetridge (1976) have shown that R and D decisions of foreign controlled firms in Canada are taken outside Canada. Though the evidence of similar sort is not available for India as yet, there is no reason to believe that it would differ much. But it is fairly well known that multinationals control the composition of boards of directors of their Indian affiliates through articles of association (Chaudhuri, 1979).

Excess involvement of multinationals in the host country's economy may activate them to play politics and manipulate the host country policies to their advantage. The political dimensions of foreign capital in India have been studied in some detail by Kidron (1965), Markensten (1972), Tanzer (1970), Martinussen (1977), Saini (1981), IIPA (1983).[26] Kumar (1982), Kumar and Chenoy (1983), Corporate Studies Group (1983), IIPA (1983), Goyal, Rao and Kumar (1984) provide evidence that MNCs operating in India often violate the local regulations. Growing evidence is now available on multinational companies dumping hazardous drugs, pesticides which are banned or severely restricted in their home countries, and technologies to manufacture them in developing countries [see for instance Rahman (1983, p 80) for dumping of pesticides, and Kumar and Chenoy (1983) for cases of banned drugs].[27] They have been found to be using double standards for industrial safety and pollution abatement between developed and developing countries.[28] And they, often, export technologies to developing countries which are already obsolete in their home countries.[29] Rahman (1983, pp 86-7) provides such an example in electronics industry in India.

Another consequence of the excessive dependence on foreign technology which received little attention is that it leads to perpetuation of dependence, not just on foreign technology as outlined above, but also on foreign sources of finance. As we have noted above, foreign technology suppliers usually insist on imported equipment and capital goods thus leading to higher foreign exchange costs of plants erected with foreign technology. To finance the foreign exchange cost of the equipment/plant, the host developing countries which usually suffer from foreign exchange shortage, resort to foreign commercial borrowings, suppliers credits, and/or seek foreign aid. Even before the plant is commissioned, the interest burden (to be paid in foreign exchange) on the accumulated foreign debts starts mounting up. Further loans are raised to pay the interest and so on. Suddenly the country finds itself in a Debt Trap. Alarmingly high foreign debt levels of several developing countries which intended to industrialise with open doors for foreign technology and capital like Mexico, Brazil, etc, are testimony to this phenomenon.

In addition, excessive involvement of MNCs in a country can also have important socio-cultural effects. Through high pressure marketing and advertising techniques which they usually employ they can affect the consumption pattern and tastes of the local population. Literature on contours of soicocultural effects is, however, scarce. Yet Krishna Kumar (1980) and Utrecht (1982) provide a general account of cultural effects of MNCs in developing countries.

### OVERALL IMPACT

The foregoing discussion shows that the direct costs of technology imports might, in fact, be indicating only a minor part of the total social cost. However, it is almost impossible to precisely determine the magnitude of the indirect costs. UNIDO (1979) estimated that direct costs of technology transfers to developing countries were of the order of approximately one billion dollars in 1975. Rough estimates for indirect costs made by UNIDO are placed anywhere between $ 6 billion to $ 12 billion a year (equivalent to 2 to 4 per cent of the national income of the developing countries). Even this figure seemed to be an underestimate. If allowance is made for the transfer of inappropriate technologies and the long term influence of technologies that undermine development of endogenous capabilities, it could well be as high as $ 30 billion to $ 50 billion a year (UNIDO, 1979, pp 18-19). It implies that direct cost of technology imports may be only a trivial 2-3 per cent of the total cost. There can, however, be wide variations in total social cost of import of the same (or similar) technology depending upon the mode/source and on bargaining because of imperfections in the technology markets.[30]

The significant conclusions emerging from the foregoing analysis are that considerable technology imports that have taken place in the Indian economy both in disembodied form through FDI and pure technical collaborations; and embodied in capital goods, skills, etc, have significant direct and indirect costs. The data on remittances as a proportion of manufacturing value added showed a rising tendency till the seventies and declining afterwards. Significance of dividends and profits, i e, servicing of FDI in total remittances has gone up. The direct costs in the case of FDI mode of technology transfer may be higher than in case of licensing (pure technical collaboration). Among the indirect costs are the adverse effects of TECHIM on balance of payments through higher dependence on imported equipment, raw materials, etc, of the technology importing firms, coupled with their poorer export performance and possibility of manipulation of transfer prices. Here again firms which imported technology through FDI perform worse than those under purely technical collaboration. Building up of local technological capability is limited by the foreign technology supplier's attempts at restricting the diffusion of the technology and reluctance on their part to impart the capability to adapt and assimilate to the importing enterprise. These practices perpetuate continuous dependence of the borrowing countries on the foreign sources of technology. Foreign controlled companies spend relatively little on R and D in India and prefer to depend on their parent companies for their technological requirements. In this respect again FDI mode of TECHIM has higher indirect cost than alternative modes. The conjectural evidence which is available suggests that imported technology is more capital intensive than indigenous technology hence may not be fully appropriate to the local conditions but distorted factor prices may also be responsible for such a situation. Only conjectural evidence is available on adverse impact of foreign penetration on local market structures as well. Income distribution is worsened by the demise of traditional industries due to competition by foreign technology. Foreign penetration also discourages local entrepreneurship. In addition, excess dependence on foreign technology may have political repercussions and may drag the country to the foreign debt trap. Though it is difficult to ascertain the magnitude of indirect costs of TECHIM, crude estimates that have been made show that it could be 30 to 50 times the direct cost. Implications of these for the policy are that while appraising and selecting a particular technology for import or while taking a make or buy decision, indirect costs associated with it must be kept in mind in addition to the direct ones.

The Indian literature on the evaluation of impact of TECHIM, this survey would suggest, is extensive. However, there are numerous questions to which we have no answer as yet. For instance, while we have some indications that FDI may have been an expensive mode of TECHIM than pure technical collaborations, one does not know the relative costs (and efficiency) of technology transfer that takes place through capital goods, technicians, etc. How do various sources of technology like CMEA countries, the US, Europe, Japan; and within the Western world, private sector *versus* public sector firms compare in terms of direct and indirect costs?[31] Though Pillai (1978) shows that even a local public sector corporation is no better than the private companies in bargaining with potential technology suppliers more research is needed on the question, whether terms of same technology transfer are better than the government (i e, a public sector corporation) rather than a private firm is on the bargaining side. Whether large conglomerate multinational corporations are better sources of technology transfer than the small/medium sized firms in the home countries. What role does the technology acquired from abroad *vis-a-vis* that generated in the country play in the country's international trade? What policies could the government pursue in different sectors to minimise the social costs of TECHIM and at the same time ensuring the inflow of advanced technologies? It is imperative, therefore, that further research be concentrated on some of these aspects.

## Notes

1 See for details Graham (1983), UNCTC (1983).

2 For an account of policy towards foreign collaborations in India see among others IIPA (1983), Kapur (1983), UNCTC-ESCAP (1980), Agarwal (1982), India, Ministry of Industry (1982), Kumar (1982).

3 A few studies have made use of the methodologies of social cost benefit analysis to evaluate overall benefits of some chemical and pharmaceutical projects set up with foreign direct investments (Lal, 1975; Kumar 1980, 1984, respectively). These studies have yielded mixed results about the social desirability of the projects. Hence no generalisations are possible. No such attempt has been made to evaluate a TECHIM project. Bos, *et al* (1974) in a five-country study, including India, attempt to evaluate the effects of FDI on national income, balance of payments, public and private savings in the framework of a sophisticated macro-economic model. This model, however, leaves out a number of indirect effects of FDI and also does not cover licensing.

4 There could, however, be several factors responsible for the substantial difference in the costs of the first two petrochemical complexes and the third one. First is the rental for the capital investment in the case of the first two. Secondly, the third complex was set up at least a decade later than the first two, by when probably the local technological capabilities had developed to some extent leading to more effective bargaining and unpackaging of the technology. And finally, the third complex had the Government of India on the negotiating side (IPCL being a public sector company) rather than a private sector firm. Also see UNCTAD (1983b). UN (1974) argues that imperfections in the technology markets affect both the price as well as quality of the technology traded and hence the role of negotiations.

5 Alunkal (1978) shows that foreign exchange cost of TECHIM can vary, indeed very widely, depending upon the choice of technology, suppliers, negotiating skills from the borrowing country's side, etc.

6 Mason (1973a), Desai (1982) also note that cost of technology imports has been too high.

7 See McAleese and McDonald (1978).

8 Cohen (1975) for South Korea, Taiwan and Singapore also found that foreign firms tend to import more and buy less from local firms than do their local counterparts. McAleese and McDonald (1978) in the case of Ireland also find that foreign owned firms had propensity to buy a lesser proportion of inputs from the local markets. Newfarmer and Marsh (1981) find that firms in Brazilian electrical industry import markedly more than the local firms.

9 Vaitsos (1974) reports that 75-90 per cent of the total contracts signed by the Andean countries for acquisition of technology had export restrictions (complete or partial).

10 Cohen (1975) in the case of South Korea, Taiwan, and Singapore, however, found that foreign firms tend to export a marginally higher fraction of their output than local firms. He also finds that foreign firms tend to have a lower value added per dollar of sales than local firms. Chen (1983) could not find any evidence that foreign firms export a higher proportion of their sales than local firms in south-east Asian countries. Also see Helleiner (1973, 1976), Nayyar (1978) on manufactured exports by MNCs from developing countries.

11 Vaitsos (1974) provides evidence on transfer pricing in different industries in Andean countries. OSACI (1981) illustrates a case of transfer pricing in Brazil. Also see Lall (1981a).

12 Also see Stewart (1979).

13 For an international study of diffusion of semiconductor technology, see Nabseth and Ray (1974).

14 US Tariff Commission (1973), Creamer (1976), Mansfield, *et al* (1979) provide evidence that US MNCs tend to concentrate their R and D activity at their headquarters in US. Furthermore, Creamer finds that whatever R and D activity that is undertaken abroad is confined to industrialised countries of Europe and only a 'negligible share' finds its way to the developing countries.

15 Ragachand (1981) for Canada also reaches the same conclusion. Evans (1979), Gordon and Fowler (1982) for pharmaceuticals industries in Brazil and Canada also conclude the lesser R and D intensity of foreign firms compared to the local firms.

16 See Kumar (1985a). Caves, *et al* (1980), and Palda and Pazderka (1982) also find foreign ownership to be having an adverse effect on host country R and D activity.

17 See for instance case of radar technologists in Vohra (1981).

18 A few such instances again in the fertiliser industry have been quoted in Alunkal (1978).

19 See also UN (1974).

20 Studies done for other developing countries yield mixed findings. For instance, Cohen (1975), Mason (1973b), Reidel (1975), Chung and Lee (1980) fail to find any significant difference between capital intensity of foreign and local firms, but Solomon and Forsyth (1977) do find the foreign firms to be more capital intensive. See Lall (1981a, Chapter 2) for a survey.

21 Lim (1977) for Malaysia, and Dunning and Morgon (1980) for six European countries also reach similar conclusions. Also see ILO (1976, 1981), and Dar (1979).

22 See Lall (1981a, Chapter 2), UNCTC (1983), Caves (1982, Chapter 4) and Bergsten, *et al* (1978, Chapter 7) for reviews.

23 For instance Newfarmer and Mueller (1975), Evans (1977), Connor and Mueller (1977) for Brazil and Mexico; Lall (1981a, Chapter 3) for Malaysia show significant positive relationship between foreign presence and concentration. However, Rosenbluth (1970) fails to find a discernible relationship for Canada while Fishwick (1981) finds an inverse relationship for a number of European countries. See Lall (1981a, Chapter 2) and Dunning (1981, Chapter 7) for surveys.

24 See Vaitsos (1974, 1979), Kumar (1980) for further details.

25 See Billerbeck and Yasugi (1979).

26 Barnet and Mueller (1975) remains one of the classic studies discussing the politics of MNCs internationally. However, a number of case studies are also available, see for instance, Evans (1979), Langdon (1978), Utrecht (1981, 1982, 1983), Sampson (1973), Stauffer (1983).

27 Silverman (1976), Richter (1982) for more instances of this kind. Also see Castleman,

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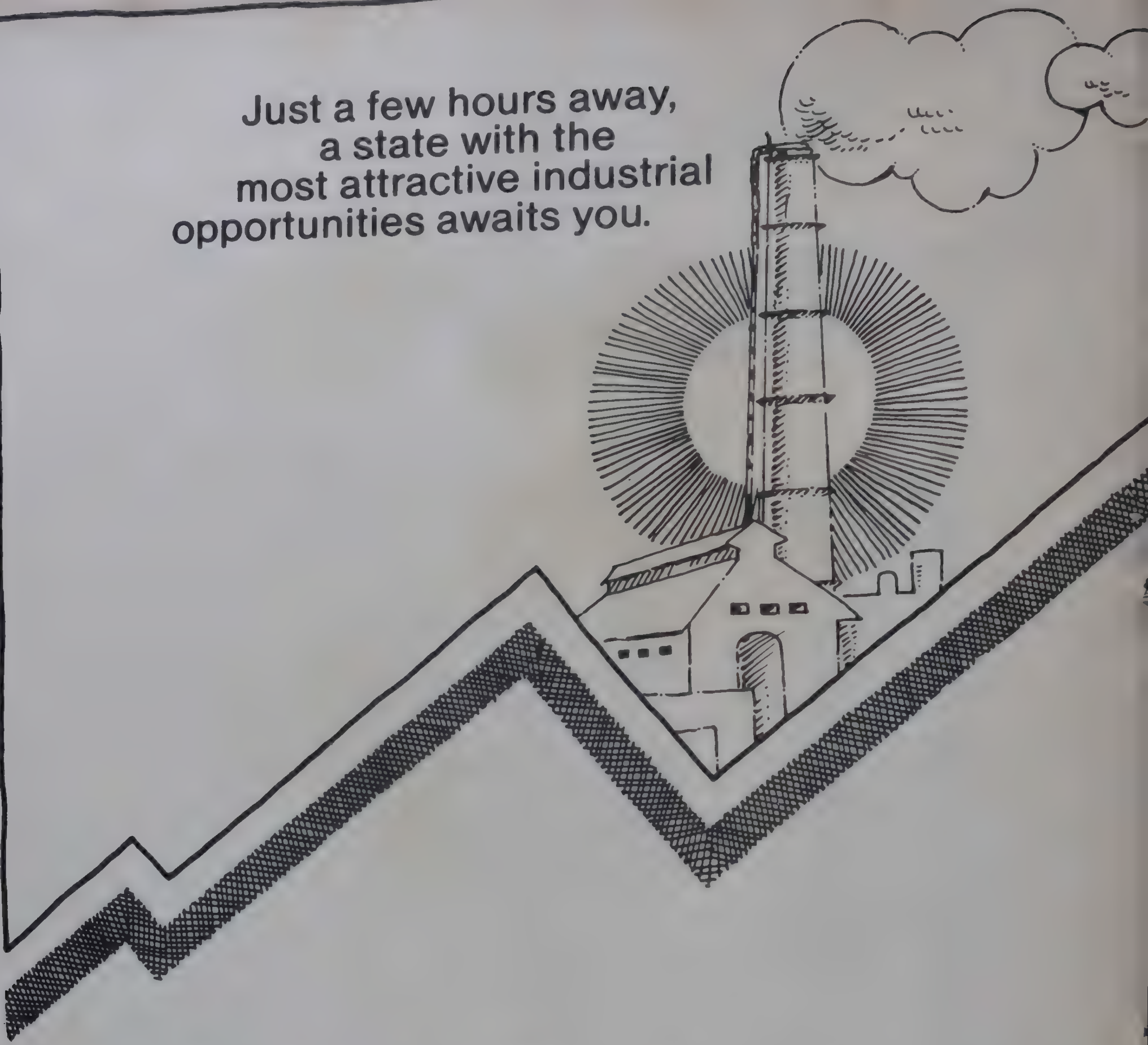

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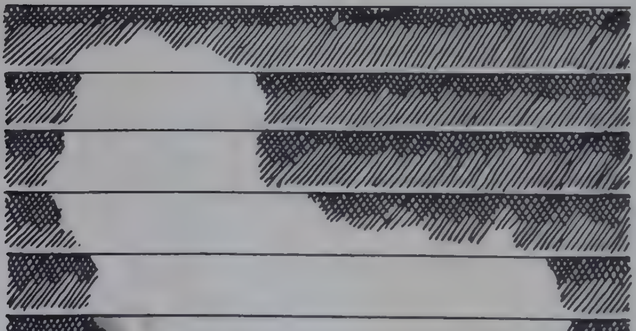

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Madan and Mayes (1981), and *Multinational Monitor* (September, 1984).

28 See for instance the debate following the Bhopal disaster killing over 2,500 persons in November 1984 in *India Today*, December 15, 1984.

29 Even the US Tariff Commission (1973) Senate Committee acknowledges that MNCs do not export the latest technologies.

30 Lall (1981b) also reaches similar conclusion.

31 Dastur (1978)'s case study of Bokaro steel plant seems to show that even socialist countries may not be any better sources of technology in terms of total social cost.

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## Gujarat Lyka Organics

GUJARAT LYKA ORGANICS promoted jointly by Gujarat Industrial Investment Corporation (GIIC) and Lyka Labs has come to the capital market with an issue of 10.30 lakh equity shares of Rs 10 each at par to raise a part of the finance required for the 7.45-crore project for the manufacture of 79 tonnes of semi-synthetic penicillins and intermediate thereof. Out of this issue, 2.5 lakh shares have been reserved for preferential allotment to non-resident Indians on repatriation basis. The private sector promoter Lyka Labs is one of the pioneers in the manufacture of semi-synthetic penicillin based formulations and ranks amongst the highest sellers of antibiotics in the country. The company has entered into technical collaboration with Ininter of Switzerland, which has successfully implemented projects for manufacturing semi-synthetic penicillins in many countries. The plant is being set up at Ankleshwar in Bharuch district of Gujarat and is expected to start trial production in September 1985 and commercial production soon thereafter. The company will produce 6 APA Ampicillin, Amoxycillin, Cloxacillin, etc, which are all mainstream antibiotics for treatment of various ailments, and, the formulations based on these are amongst the highest sellers in the country. A part of the present demand is being met through imports and the creation of manufacturing facilities in the country will help save foreign exchange. The company does not expect any marketing problems. About 50 per cent of the production will be consumed by the Lyka Group of companies and the balance will be marketed through selling agents. The break-even point of the project is estimated at 53 per cent of capacity and no overrun in cost is envisaged. According to C I Gandhi, Managing Director, the company expects to achieve 60 per cent of capacity utilisation in the first year of production and to gradually increase it to 100 per cent in the fourth year. The turnover should rise from around Rs 7.5 crore to Rs 14 crore in this period. Investors in the issue will be entitled to 80 CC and wealth tax benefits. The issue is managed by the Merchant Banking Divisions of State Bank of India and Champaklal Investment and Financial Consultancy (CIFCO).

# Prospects for Self-Reliance and Indigenisation in Automobile Industry

## Case of Maruti-Suzuki Project

**T Hamaguchi**

*This study of the prospects for self-reliance and indigenisation in the automobile industry concludes that the liberalisation policy in respect of the automobile sector should be oriented more towards the development of the automobile ancillary industry in the long-run. Care should be taken to ensure that the concessional import tariffs with respect to automobile ancillary items and spares do not pose a threat to the domestic automobile ancillary industries.*

*Secondly, the definition of project imports now applies only to establishment of a new unit or a substantial capacity expansion and is unlikely to be helpful to automobile ancillary units which have already attained a certain degree of skill and productive capacity. For them marginal expansion or technological upgradation may be sufficient, but they may be baulked by the high tariffs on imported raw materials and capital goods not falling within the scope of project imports.*

*Finally, the policy of reservation of certain automobile ancillary items for the small-scale sector needs to be modified and the criteria for reservation should be based on considerations of scale of production and technology.*

THE Maruti-Suzuki Project on manufacture of automobiles has been the centre of attention of the nation in many ways. The project has initiated the process of revitalisation of India's automobile industry which is nearly thirty years behind the most recent technological development in the world. The project involves the largest-ever direct investment by Japan into India. Another significance attached to it is the development and absorption of the foreign technology, embodying thirty years' of evolution, within a span of five years. In other words, under the banner of self-reliance, the project is also responsible for implementation of the indigenisation programme.

The idea of manufacturing "people's" cars, small and low-priced so as to reach the masses, was first developed in early 1960s when the Indian economy was experiencing accelerated growth. Yet the project was not given serious consideration till the 1970s, when there was a severe shortage of passenger cars. Car production, which was growing at 5.4 per cent per annum in the 1960s, had declined to one per cent a year in the 1970s. At the same time, the demand for cars increased steadily and was estimated at 80,000, against a capacity of over 35,000 in the industry, by 1974. Thus people had to wait for years to get a car, and even a car used for a few years was sold at a premium. So the government decided to set up a public sector unit for the manufacture of small cars with a capacity of 50,000 vehicles per year with foreign collaboration.

The late Sanjay Gandhi, who had an ambition to become a car manufacturer since his childhood, claimed then that he had developed an indigenous, fuel-efficient, small car which did not require any imports of know-how and capital goods. He was given a licence to produce 50,000 cars a year as Maruti and Co Ltd, while the government shelved its own project. However, Maruti could complete production of only a hundred cars or so before the factory was seized by the Janata government in 1977. By the time the present regime came into power and decided to resume production, the significance of the project underwent a considerable change due to the new environment faced by the economy.

It had long been a belief of Indian planners that a step-up in investment in the infrastructural sectors, made possible by abstaining from current consumption, would vastly enhance consumption in the future. Thus the production capacity of many final consumption goods, including passenger cars, was governed through licensing, so that more resources would be canalised into the priority sectors. In the same vein, final consumption goods were given little importance in the matter of allocation of foreign exchange. As long as an item was produced domestically, its import was discouraged by licensing restrictions and tariff walls. But this policy allowed India's automobile industry, among many others, to ignore international developments in cost and technology. Even a large domestic demand could not bring about modernisation since the supply was controlled by industrial licensing

The supremacy of the norm of import substitution in India's economic policies was questioned for the first time since Independence, when the problem of a high saving rate co-existing with low industrial growth, in other words low efficiency, was pointed out. In the late 1970s, it was thought that cost and technology conditions needed to be improved by transfer of foreign technology. This measure would attain the objective of self-reliance in the longer run.

The Matuti-Suzuki Project became a symbol of the new thinking. It could make the first breakthrough partly because the two oil shocks had sent inflationary waves in the economy and conservation of fuel had become a national priority. Secondly, it was alleged that the then Prime Minister Indira Gandhi wanted to ensure that her late son's dream of the small car would come true one day. Maruti and Co Ltd was nationalised and the project to produce the small car was taken up in the public sector.

The new company, Maruti Udyog Ltd (MUL), initially planned to start with light commercial vehicles. However, the government insisted that it manufactures the small car and promised to back the venture with appropriate policy changes. MUL abandoned Sanjay Gandhi's idea of making a car without foreign collaboration. It concluded a financial and technical tie-up with Suzuki Motor Co Ltd, a motorcycle and car manufacturer of Japan. Suzuki now holds 26 per cent of MUL's shares and the balance is held by the government.

In the agreement between the two companies concluded in 1982, it was specified that MUL was to produce 30 per cent of the value of each finished car. In turn, its collaborator Suzuki was to transfer the technology corresponding to production of the same proportion. However, as far as the other 70 per cent of the value was concerned, the agreement was largely open-ended and a condition was laid down that 60 out of the 70 per cent would be supplied domestically. The supply source was not specified. The experience over the last three years shows that MUL has been facing difficulties in locating suitable vendors of auto ancillaries.

### INDIGENISATION POSSIBILITIES DOUBTFUL

A few months ago, a Director at MUL who is on deputation from its collaborator Suzuki, hinted to a group of journalists visiting the factory at Gurgaon that the indigenisation plan may not be implemented on schedule because the Indian auto ancillary industry was not in a position to supply the products in conformity with specifications. This was the impression he had after meeting the auto ancillary manufacturers here and investigating their products. The conversation reveals the fear prevailing among the Japanese, even at the time of signing the agreement that their technology would possibly relapse as Indian components increase in the car. Perhaps responding to this argument, the Industry Minister Virendra Patil cautioned, in his address to a conference on automobiles and allied industries, that car manufacturers should make every effort to keep up to the schedule of phased indigenisation as approved by the government.

Meanwhile it was agreed that the target of indigenisation for the sixteen months' period December 1983 to March 1985 be scaled down from 31.5 per cent to 23 per cent. It seems that the target for the year 1985-86 was lowered correspondingly. According to the earlier newspaper reports, MUL was to achieve indigenisation of upto 45 per cent of the value of a finished product. Later the Industry Minister stated that the target for the year was 35 per cent, while answering a question in the Lok Sabha in April 1985. The ultimate target of 90 per cent indigenisation by the fifth year of production has hence been pushed further away.

MUL's indigenisation programme from the official commencement of production in November 1983 to the present may be divided into three major periods. The company started 'production' with zero indigenisation with the import of about eighty complete cars totally assembled in Japan. Thus the cars reached the market on schedule. The first stage of indigenisation began when the assembly shop of a handling capacity of 20,000 vehicles a year was completed in December 1984. The production under the first stage of indigenisation of MUL was characterised by the assembly of semi-knocked down (SKD) packs supplied by Suzuki. The assembly at this stage basically involved fitting into the imported car low technology and value components and equipments like tyres, tubes, batteries, electric wiring, wheel rims, seats and glasses. These parts have been indigenised soon after the functioning of the assembly line.

The assembly operation itself is essentially a process of indigenisation of the labour inputs. In value terms, this may have some significance since the indicator of indigenisation is in terms of value of the product. According to MUL's Annual Report for 1983-84, during the first four and a half months since the commencement of production, the aggregate salaries, wages, allowance and other benefits paid to the employees amounted to about Rs 51 lakh , excluding the remuneration to the board of directors. This roughly corresponds to 12.1 per cent of the value of sales during the period. The value of indigenous input materials consumed in the same period stood at about Rs 10.9 lakh, which was 1.9 per cent of sales. Although production during the period was in the form of import of complete cars from Japan, the proportion of indigenised inputs, including labour, to the total sales was thus close to 12 per cent, as was reported by newspapers in 1984.

The second stage of indigenisation started when Phase I of the project ended with the construction of the weld and paint shops and the expansion of capacity from 20,000 to 40,000 vehicles a year, in June 1984. Meanwhile some more domestic parts and equipments like small rubber parts, bolts and nuts, spring and plain washers were brought into assembly. It was declared that the company was able to achieve the revised target of indigenisation for the year 1984-85, i e, 23 per cent. The completion of the weld and paint shops enabled MUL to go for a higher level of indigenisation. As the painting and welding operations started to be executed within the factory, the component packs supplied by Suzuki were replaced by those of a lower value, namely completely-knocked down (CKD) packs. The landed price paid by MUL for the import of a complete car is said to be Rs 30,000 while the price of the CKD packs supplied by Suzuki was Rs 27,722, as was also disclosed by the Industry Minister in Parliament in April 1985.

It is not possible to disaggregate the increment of 11 per cent in the indigenisation rate over the year, into labour and material segments, as the Annual Report for 1984-85 has not been published. However, the fact remains that indigenisation of the labour input has been the most important feature in the process of indigenisation in the project. As more of the process related to production was performed within the factory, the simpler assemblies as inputs were supplied by Suzuki so that more domestic labour could work on them. With the completion of the machine and press shops as a part of Phase II of the project, the proportion of the value of a car to which MUL itself can contribute will go up to 30 per cent. Then as far as indigenisation is concerned, Suzuki's mission in this project would be accomplished.

If MUL is to achieve indigenisation beyond 30 per cent, it has to pursue this by incorporating more of the domestic products in assembly. Indigenisation of components and equipments, however, could achieve only a limited success so far. The major progress in this respect has been observed only in the areas of relatively less technological sophistication and low value. Take for instance the engine, whose assembly has begun in MUL recently. MUL has already started using thirty indigenous parts for the assembly, such as gaskets, spark plugs, spring and plain washers, knock pins. But the more vital and value added parts like carburettors, radiators, pistons and fuel injection equipments, etc, are yet to be indigenised.

## BARRIERS IN INDIGENISATION

The fact that MUL could achieve relatively limited indigenisation in auto parts and components does reflect the weakness of the industrial base of the Indian auto ancillary sector. It seems that MUL does not have much command over the domestic ancillary industries to secure supplies of components and equipment of a reasonable quality corresponding to the planned indigenisation programme.

A Japanese production director of MUL once commented on the quality of the products of Indian auto ancillary industries as 'different'. The reporter of the newspaper interpreted this expression as revealing 'poor'. But there was a suspicion that 'different' might stand for 'a-Japanese'. Pran Talwar, President of the Automotive Component Manufacturers Association (ACMA), maintained that the Indian auto ancillary industry has attained considerable excellence and was capable of ensuring indigenisation of Japanese vehicles. He drew an example of the engine being manufactured under licence from the French auto maker Peugeot which is planned to be indigenised to the extent of 68 per cent within a short span of two years, dismissing the apprehension of the Japanese on the quality of Indian auto components. Some auto-parts manufacturers went to the extent of saying that the criteria for selecting vendors for the supply of parts were so manipulated that only Japanese companies would be able to supply to MUL. Alternatively, Indian manufacturers have to seek collaboration with Japanese counterparts in order to have their supplies accepted.

According to MUL's Annual Report 1983-84, the criteria for selecting auto parts vendors are technology and quality, cost and delivery performance, so as to cope up with MUL's objective to produce low-cost, high quality vehicles and keep the production at a steady level. The procedure in the selection of auto ancillary items is laid down as (i) inspection of production shops of the vendor and to locate those with the necessary equipment and technology; (ii) tests on the samples obtained by the vendor, including actual driving tests for distance upto 20,000 kms; and (iii) examination of supplies during the test supply period with respect to consistency and uniformity in quality.

The procedure is mainly regarding the quality of supplies and does not cover the other criteria needed in selection of auto-parts and equipments, namely, delivery performance and cost. If at all the strict criteria are to be met with respect to cost and delivery performance, no vendor would probably be qualified and the attainment of indigenisation would be unfeasible. Although MUL's production exceeded the set target by 10 per cent, the production line often ground to a halt because one of the vendors did not keep up to the delivery schedule and stocks of the components had run out. Another problem with indigenisation is that MUL has to offer prices that are 50-60 per cent above the international price while purchasing domestic products.

The failure to keep punctuality and a high cost are the result of the limited economies of scale. The incentives for economies of scale do not exist for the auto ancillary sector since the demand for high technology auto components by the automobile industry has not grown as they should. Secondly, the industrial licensing system with the protection of domestic markets by prohibitive tariffs, initially meant for self-reliant growth by management of scarce resources, has been dismantled completely. This has led the automobile industry to operate on a 'cost-plus' basis. High costs are passed on to the consumer after adding margins depending upon the market structure. Even quality-conscious producers have to follow the methods of others in the absence of supporting policies. These factors in the automobile industry have affected the performance of the auto ancillary sector.

If the problem of low demand for ancillaries has to be solved the following barriers have to be overcome. First, spurious and sub-standard parts are dominant in the market. Japanese companies assess that some of the Indian auto ancillaries, though not as good as those in Japan, are comparable to South Korea and better than those in Taiwan. Nevertheless, parts of sub-standard quality dominate the market. According to a study made by the ACMA, basically a body of the organised sector, the production of spurious and sub-standard components was of the order about Rs 700 crore in 1981-82, compared to the produce of Rs 648 crore by the organised units under ACMA.

It is believed that the reason for the prevalence of sub-standard components in the market is the exemption of small-scale auto ancillary undertakings from industrial licensing. Another problem which is associated with scale of production is the reservation of auto ancillary items for the small-scale sector. Under the changing requirements of auto parts by the automobile industry, some of the items reserved for the small-scale sector such as radiators, oil seals, leaf springs have become more suitable for larger-scale production.

Similarly, concessions of excise duties are also made available to small units. The units in the unorganised sector find ways and means to utilise the provision of exemption or concession of excise duties, which average about 31 per cent. They flood the market with low quality parts at lower prices but with a higher safety hazard. The provision of concessional treatment given to the ancillary sector with respect to excise duty has been encouraging the spurious units to flourish. If the exemption is withdrawn, these units will have to face fierce competition from the established units. The only way to survive the competition would be for them to improve the quality of their products. Otherwise they are to be displaced.

The points made so far, however, are not to antagonise the small-scale sector in the auto ancillary sector. The small-scale sector exists when it utilises its natural advantage of being small. The advantage here is in terms of production capacity and technology. It is often observed that some entrepreneurs choose to remain in the small-scale sector only because of the incentives given by the government. On the other hand, in certain areas of the auto ancillary sector, the optimal scale for economical production has changed according to the change in quantity and quality of demand, while the economically viable operation of higher technological sophistication requires larger scales. The policy on reservation of productive activities to particular sectors should not discourage new entrants whenever capacity or technology gaps have been identified.

Another major barrier is the customs tariff. Recent changes in this policy have resulted in a regressive tariff structure for auto components. The effective rate of import duty on components of fuel-efficient motor cars on SKD and CKD packs for the manufacture of fuel-efficient motor cars with engine capacity not exceeding 1,000 cc is 40 per cent. On the contrary, if they are to be produced indigenously, most of components are not available domestically. The import duties on non-traditional raw materials like silicon rubber (182 per cent), vegetable fibre papers (160.4 per cent), stainless steel strips (340 per cent), bonding adhesives (304 per cent) and fifty others with duties more than 100 per cent are hardly an incentive for the auto ancillary sector to start production of high technology components.

The recent changes in the customs tariffs have also slashed down the effective rate of import duty from 65 per cent to 45 per cent on machinery and associated equipments as well as on auxiliary equipments, components or raw materials for manufacture of the former items in setting up a new unit or in the substantial expansion of an existing unit in an industrial plant. However, the definition of project import is so narrow that it will benefit only those who go in either for a major capacity expansion or for setting up a new unit. ACMA estimates the import duty of capital goods necessary for modernisation and expansion in the sector at between 75 and 115 per cent.

The disincentives built in the structure of industrial and trade policies for auto parts makers, in addition to the prolonged stagnation over the years, are hardly helpful for the auto ancillary units to endeavour new ventures and create capacities to suit new specifications. The policies of upgradation and expansion of capacities in the automobile industry seem to be self-defeating in the long run because the auto ancillary industry would be given no chance to become self reliant even if the objective of producing fuel-efficient vehicles will be achieved in the short run by freer imports. At the same time, the situation is ripe for the Japanese to enjoy earnings from India through component supplies, which could have been tapped by Indian parties through indigenisation.

## SUZUKI'S CONSIDERATIONS IN MUL

India's industrial collaboration with Japan so far has not been commensurate with the opportunities made available by Japan's rapid economic growth to the rest of the world. At the end of the fiscal year 1982-83, the cumulative total Japanese direct investment into India was US $ 58 million (Rs 587 crore) accounting for only 0.1 per cent of its direct investment over the world. Nevertheless, the series of liberalisation measures in India in recent years looks very attractive to Japanese auto makers. The Japanese automobile industry has built a capacity which is one and half its domestic consumption. A challenge was posed in 1981 when they were asked to take on a voluntary restraint in exports to the US, which imported about 50 per cent of Japan's total exports of vehicles every year. Against a ceiling of 1.68 million cars a year (later enhanced to 1.85 million in 1984 and 2.3 million in 1985), the Ministry of International Trade and Industry (MITI) of Japan allots quotas to each car exporter based on the performance in the pre-restraint period. Those who have fared well in the voluntary restraint system are the largest auto makers like Toyota and Nissan who are given quotas of 30.8 per cent and 27.1 per cent respectively. These manufacturers not only secured bulk shares of the export to the US, but also increased their profit per unit by concentrating on exports of relatively expensive cars in the $ 10,000-plus range.

The small car manufacturers like Isuzu and Suzuki tried to cope with the new situation by concluding affiliation with General Motors to sell light commercial vehicles and small cars in the US. Despite lobbying by General Motors in support of them, the two companies could sell only 60,000 against 300,000 planned initially. Suzuki also faced difficulty in the sales of motor cycles, for which it is better known in the domestic market compared to automobiles. Due to intensification of competition at home induced by stagnant exports, the number of motor cycles sold between March 1982 and March 1983 fell by 23.7 per cent. As a result of both these factors, the total sales of Suzuki declined by 5.1 per cent in the first half of 1983-84 compared to the previous corresponding period, while ordinary profits were 26.7 per cent lower. For Suzuki, to set up joint ventures abroad must have been a vital corporate strategy for improvement of performance as it assures stable markets for its products in the host countries without being bothered by trade restrictions.

Suzuki's total overseas direct investment was US $ 39.7 million at end June 1983, comprising 3.7 per cent of its total assets. Out of this, the investment outstanding in equities in automobile ventures amounted to US $ 9.82 million, that is, 24.7 per cent of its aggregate investment abroad. Suzuki's overseas processing and assembly units in Thailand, the Philippines, Indonesia, Pakistan, Spain and Columbia, besides in India, turned out production worth US $ 28.5 million for the year 1982-83, which was equal to only 1.8 per cent of the value of aggregate sales by Suzuki (see Table 1).

The profitability of overseas operations by car manufacturers cannot be assessed only in terms of equity and other financial participation and production in its ventures abroad. By means of the collaboration involving technology transfer, the company also receives fees on technical know-how for patents, trade marks and other information in connection with design, development, manufacture assembly, sales, etc, and the related documentation. In the case of MUL, technical know-how fees paid during 1983-84 amounted to Rs 91.9 lakh (subject to withholding tax at 40 per cent), i e, more than half the initial paid up capital contributed by Suzuki.

Revenue by way of payment of dividends from equities, interest payment from debentures and technical know-how fees, royalties and other lumpsum fees is the explicitly stipulated benefits to the collaborators. The collaborator is also assured of the implicit benefits like contracted supplies of their products and parts. In 1983-84, MUL paid Rs 4.62 crore for components like SKD/CKD packs and Rs 6.17 crore for capital goods. Assured and secured markets for the products are vital for the survival of Japanese car markers. Suzuki exported 33 per cent of its total sales in 1983-84, but that still happened to be 10 per cent lower than in previous years mainly due to its voluntary export restraint to the US market. Thus a move towards an assured market like India is only logical in this situation.

### FOREIGN INVESTMENT BY JAPANESE AUTO MAKERS

It is not only auto manufacturers that have welcomed India's liberalisation policies in Japan. The fact is that the Japanese have started to view India as a large potential market, since considerable decline was observed in project exports due to the depression prevailing in oil exporting countries and the debt-servicing crises in some of the developing countries. Though Japan's surplus in trade amounted to a record US $ 33,680 million in 1984, project exports from Japan nearly halved from US $ 17,500 million to US $ 8,300 million (on approval basis) between 1981-82 and 1983-84. The number of orders and the amount involved in them from the oil exporting countries reduced on a large scale as they had to adjust to smaller revenue from oil exports. On the other, the countries with a payment problem have been advised not to undertake large capacity expansion, while many creditor countries discontinued export insurance and suppliers' credit schemes for exports to them.

To Japanese project exporters, the most attractive feature in the recent policy liberalisation in India is the concessional customs tariffs provided for all types of imports such as machinery, instruments apparatus and appliances, control gear and transmission equipment, auxiliary equipment as well as components or raw materials for the manufacture of the former items required for projects concerning the initial setting up of a unit or the substantial expansion of a existing unit of an industrial plant. The effective rates of customs duty for imports under this category range around 45 per cent but similar items imported independently are charged with a tariff of more than 65 per cent. Take for example transmission conveyor or elevator belts. If this item constitutes a part of a project, 45 per cent would be the rate of duty charged, as against 65 per cent for independent imports.

TABLE 1: SUZUKI'S OVERSEAS VENTURES
(At June 1983 Present)

| Location | Paid Up Capital US $ Million | Capital Paid Up by Suzuki (US $ Million) (Share of Total) | Kind of Operations |
|---|---|---|---|
| Thailand | 0.78 | 0.38 (48.94) | Production of motor cycles |
| Philippines | 0.91 | 0.36 (40) | Production of motor cycles |
| Indonesia | 4.20 | 2.90 (70) (with Honda Motors and 4 others) | Production of passenger cars |
| India | 6.57 | 1.71 (26) | Production of passenger cars |
| Pakistan | 9.02 | 1.13 (12.5) | Production of passenger cars |
| Spain | 11.34 | 0.57 (5) | Production of jeeps |
| Canada | 0.53 | (100) | Import and sale of motor cycles and passenger cars |
| United States | 0.90 | 0.90 (100) | Import and sale of motor cycles |
| Columbia | 3.26 | 2.77 (85) | Production of motor cycles |
| Australia | 9.82 | 9.82 (100) | Import and sale of motor cycles and others |

*Note:* Figures in brackets are percentages.

*Source: Oriental Economist*, "Japanese Multinationals: Facts and Figures", (Tokyo), 1984.

Another encouraging feature to the Japanese is that the recent collaboration agreements approved by India, even if they are of a technical kind, refer to relatively long periods. There is a Japanese company which was allowed to enter an agreement with an Indian partner extending over ten years for transfer of technology in glass lining process. These agreements assure them the markets for their products and parts until the Indian partners are ready for indigenous production. The benefits of collaboration with Indian enterprises are not limited only for the agreement period. Japanese entrepreneurs are hopeful that they can build a foothold through their collaborations in the Indian market which has been relatively unexplored by them so far. The prospects for market expansion too are extremely bright particularly in the automobile sector, where for instance, the demand for scooters and motor cycles has been increasing by 20 per cent a year recently. A list of such collaborations concluded with Japan is given in Table 2.

As market entry by way of exports and joint ventures is limited in Europe and America because of tough competitions with their local counterparts, expanding markets to developing countries has been one of the critical overseas corporate strategies for Japanese auto makers. There has been two distinct features in the overseas corporate strategy of the Japanese automobile industry. One is the technical tie-ups among major auto makers in industrial countries such as those between General Motors of the US and Toyota of Japan, Volkswagen of West Germany and Renault of France. Wherever competition is too fierce and disastrous, the companies choose to work in collusion. In the case of the collaboration in which knocked down packs are supplied by Toyota and assembled in General Motors, the latter has taken this opportunity for starting the production of small cars, while the former is provided with a riskless entry into the American market.

The other way is to tie-up with an indigenous manufacturer by technology transfer as well as financial participation. The objective of collaborations of this kind is to invest where exports are not possible due to protection and to substitute joint production for export.

The two factors in the overseas investment strategy of car manufacture corroborate with each other since the common feature is predominance of assembly operations rather than production activities proper. About half of Nissan's assets in overseas ventures in production is attributed to the light truck plant in the United States where only processes like pressing, frame welding, body assembling and painting are conducted. In the case of Toyota, only two units in Australia and Indonesia, among its overseas factories, undertake the vital process like engine assembly.

Japanese auto makers have a good reason for not going in for the more sophisticated process as like engine manufacture in their overseas units. Toyota initially intended a venture with India's Delhi Cloth and Mills Co Ltd for the manufacture of light commercial vehicles, which was basically assembly of knocked down packs. But on insistance of the Indian government, it had to agree to include engine assembly and press lining in the venture by which the proportion of indigenous value of a finished product would go up from 49 per cent to 90 per cent. The investment to create the capacity had to be correspondingly stepped up by 30-60 per cent. E Toyoda, President of Toyota Motors, argues that it is difficult to maintain a break-even in engine manufacture abroad.

Suzuki has no other way but to develop overseas production and sales capacity since options open to them by way of exports are much more limited than automobile giants like Toyota and Nissan. Suzuki also agreed to the full-fledged venture with India including vital processes like press lining and engine assembly, besides general assembly and final processing. Yet its hesitation for deeper involvement in the project is implicit from its decision on equity participation, i e, to the extent of 26 per cent only. It was said that the government offered the firm 40 per cent equity participation initially. When a Japanese investment mission visiting India in 1983 was asked why Suzuki took 26 per cent instead of a 40 per cent equity, it was reported that the Japanese were reluctant to answer the question.

A more implicit but very plausible reason for the Japanese not wanting to undertake the transfer of more sophisticated operations rests on the nature of its transfer of technology, especially to developing countries. The traditional objective of Japanese direct investment accompanied by technology transfer has been to relocate its domestic industries abroad and to create division of labour with trading countries so that it can specialise in areas where it has comparative advantages. Since overseas ventures are generally relocation of its own industries, Japanese direct investment has concentrated on areas which are integrated to its industrial structure. The technology transferred by the Japanese to developing countries is found to be more general in nature, such as techniques concerning assembly, quality and cost control, inventory management, so that their domestic industries can specialise in the more sophisticated operations.

TABLE 2: INDIA-JAPAN COLLABORATION IN AUTOMOTIVE INDUSTRY

| Name of Company | Name of Collaborator | Item of Manufacture | Year of Approval | Nature of Collaboration |
|---|---|---|---|---|
| 1 Commercial Vehicles | | | | |
| 1) Maruti Udyog Ltd | Suzuki Motors | Light commercial vehicles | 1982 | Technical and financial |
| 2) DCM Co Ltd | Toyota Motors | Light commercial vehicles | 1983 | Technical and financial |
| 3) Hindustan Motors Ltd | Isuzu Motors | Medium and heavy commercial vehicles | 1983 | Technical |
| 4) Eicher Goodearth Ltd | Mitsubishi Motors | Light commercial vehicles | 1983 | Technical and financial |
| 5) Swaraj Vehicles Co Ltd (with Punjab Tractors) | Mazda Motors | Light commercial vehicles | 1984 | Technical and financial |
| 2 Passenger Cars | | | | |
| 1) Maruti Udyog Ltd | Suzuki Motors | 800 c c passenger cars | 1982 | Technical and financial |
| 3 Scooters and Motor Cycles | | | | |
| 1) Kinetic Engg Ltd | Honda Motors | Scooters | 1983 | Technical and financial |
| 2) Ind-Suzuki Co Ltd | Suzuki Motors | Motor cycles and Mopeds | 1983 | Technical and financial |
| 3) Escorts Ltd | Yamaha Motors | Motor cycles and scooters | 1983 | Technical |
| 4) Majestic Auto Pvt Ltd | Honda Motors | Motor cycles | 1983 | Technical and financial |
| 5) Bajaj Auto Ltd | Kawasaki Heavy Industries | Motor cycles | 1984 | Technical |
| 4 Others | | | | |
| 1) Hindustan Motors Ltd | Isuzu Motors Ltd | Troopers | 1984 | Technical |
| 2) Punjab Tractors Ltd | Komatsu Fork Bft Co Ltd | Forklift trucks | 1984 | Technical |

*Source:* Indian Investment Centre, Government of India, *Monthly Newsletters* (New Delhi).

However the changes in the world economic environment no longer allows the Japanese to create such harmonious division of labour. The trend is particularly conspicuous in the automobile industry where an increasing number of countries have taken measures to protect their domestic industries and do not accept foreign investment in this area unless it contributes to building a local industrial base and other socio-economic objectives. Some of them started to impose a strict law on local content on multinational auto makers. For example, Brazil which allowed operations of foreign companies like Volkswagen, Fiat, Ford and General Motors for years, suddenly introduced the law on local content a few years ago. The trend is not peculiar to developing countries who aspire to have their own automobile industry. An indigenisation law has twice been passed in the US Congress to regulate Japanese direct investment in the US automobile industry.

It may be very illuminating to take the example of Japanese direct investment in Taiwan where they failed to conclude an agreement because they were sticking to the traditional idea of division of labour. Taiwan has been imposing 65 per cent tariffs on automobiles imports mainly to discourage imports from Japan and strike a balance in its trade with it. This has worsened the inefficiency prevailing in the five major car assemblers. Recently, Taiwan decided to reduce the tariff to 30 per cent in six years so that the domestic auto makers would be forced to become competitive enough to export. In the meanwhile, a deal was under negotiation between Toyota and the Taiwan state-owned China Steel Corporation, but in vain. The reason was that the Taiwanese government insisted on the norm of 90 per cent local content in six years, besides fixed time-tables for reaching 50 per cent export targets with penalties in case of its failure. In Toyota's contention, the target of indigenisation could not be attained at competitive prices, as parts from Taiwan cost 20-60 per cent more than those from Japan.

### ASSEMBLER-ANCILLARY RELATIONS

Technology and efficiency in the auto ancillary sector more or less determine the quality and price of finished cars. It is widely known that the excellency in the auto ancillary industry is an indicator of industrial maturity. To achieve this higher specialisation larger economies of scale is necessary. The Indian auto ancillary industry, characterised by dominance of spurious units, does not show any of such signs.

A similar state prevails in Taiwan. To meet the legal requirement of indigenisation of upto 70 per cent of the value of a car, major local auto assemblers try to pick up useable products from the domestic market as much as possible. If the products thus obtained fall short of their demand, they acquire imports paying penal import duties of 35-40 per cent. Therefore, the proportion of indigenised parts varies from car to car, sometimes running as high as 75 per cent.

Japanese car makers, after Toyota's failure to conclude a deal with Taiwan, seem to realise the importance of investment in upmarket production of vital parts prior to that in assembly production. The strategy to set up a final assembly unit and to wait for the auto parts makers to follow-up by backward linkages has been found to be unreliable. The collaboration agreed to between Nissan of Japan and Premier of India to start with engine manufacutre is apparently based on reflection of this experience. They have also disclosed a plan of producing a Japanese car 'Sunny' in the future. Nissan would decide on implementation of the plan depending on the progress in the initial engine manufacture, or otherwise the plan would be withdrawn if they find the progress to be unsatisfactory.

For MUL, which started the project with final assembly, a mandate of indigenisation for auto parts will have to be pushed through by any means. To meet technological and financial requirements and to expand and update the auto ancillary sector, foreign collaboration on auto parts manufacture has been suggested as solution. Already last year, foreign collaboration agreements have been concluded on manufacture of vital auto parts like fuel injection equipment with Yugoslavia and the UK, shock absorber with Italy, West Germany and the US and auto electricals with France, besides with Japan.

However, there is a doubt whether the Japanese would choose the parts produced in collaboration with non-Japanese partners. The Japanese automobile industry has developed an intricate network of horizontal integration among assemblers and vertical integration between them and auto ancillary manufacturers. The integration has resulted in a tremendous reduction in cost and improvement in productivity. A recent study shows that there exists a cost difference of US $ 1500-2000 per unit between American-made and Japanese-made cars, or that a Japanese auto maker requires only 65 per cent of the labour required by an American auto maker to produce a product of the same quality. Japan has been successful in this area because it has attained interchangeability in auto parts. This basically means that in order to reduce the cost in changing the product and process designs, the high volume parts are made common to various lines of production.

Apart from this sort of horizontal integration, the Japanese automobile industry has created vertical integration where final assemblers contribute only 30 per cent of the value of a finished car, compared to the case of the US assemblers who depend on auto ancillary vendors for 50 per cent of the unit product value. This was possible due to the intimate assembler-ancillary relationship peculiar to the Japanese automobile industry. Final car assemblers in Japan have set up subsidiaries and affiliates in the auto ancillary sector by taking equity shares and participating in their management. For example, Toyota has affiliates such as Toyota Auto Body for the manufacture of car bodies with equity participation of 40.3 per cent, Kanto Auto Body for car bodies with 49 per cent participation, Toyoda Gosei for macro-molecular auto parts with 47.1 per cent participation. It has also associated with other important auto parts manufacturers like Toyo Radiator for radiator manufacture with 7.9 per cent equity participation, Kayaba Industries for hydraulic equipment and shock absorbers with 11.5 per cent, Akenobo Brake Industry for brakes and press products with 16.8 per cent, Ichikoh Industries for lighting equipments with 8.6 per cent, Shiroki Metals for metal parts with 61.2 per cent, Aishin Seiki for transmissions, brakes and related parts with 21.1 per cent, Koito Manufacturers for shield beam lamps with 20.6 per cent. The affiliates and associated units given here are among the first section companies listed in major stock exchanges in Japan and renowned for their good performance. Major auto makers in Japan thus have been directly involved in the development process of the auto ancillary industries in Japan by establishing integration with them through equity participation.

Given the strong ties existing between assemblers and auto parts makers, we can easily imagine that Japanese auto collaborators would prefer the parts manufactured under collaboration with Japan. This tendency would be more pronounced in the case of Premier or DCM than of MUL. The partners of the former two, namely Nissan and Toyota, are the largest two in Japan's automobile industry and have well-established affiliates and associates in the auto ancillary sector. In order to get supplies conforming to their specifications for their ventures in India, Toyota has already brought two of their ancillary associates, namely Aishin Seiki and Nippon Denso to India to collaborate with their Indian counterparts, which a small auto maker like Suzuki would not have possibly achieved. It seems that the Japanese have already a detailed blue print on how to occupy the Indian automobile and auto ancillary market. Nissan has taken an initiative to establish regular communication among Japanese auto makers intending to operate in India to discuss problems like 'how to avoid duplication in production' in particular items, so that they should be able to attain some measure of economies of scale (see, for example Table 3).

Collaboration with the Japanese has now become a practical solution for Indian auto parts makers to survive in the changing environment. Under the technical guidance of Japanese counterparts, there would be a greater possibility for Indian companies to get their supplies selected by auto makers who have collaborations with Japan. Moreover, by concluding a collaboration agreement, it is possible for them to import raw materials and capital goods at 45 per cent customs duties, much lower than the case of independent imports that are subject to penal rates of 75-115 per cent for capital goods and 60-250 per cent for raw materials. A typical example of an auto parts maker who tided over the problem with Japanese collaboration is Clutch Auto Ltd. It assembles CKD packs shipped from Japan to supply to MUL.

## CONCLUDING REMARKS

Whether or not to allow Japanese domination of India's automobile and auto ancillary industries should not be considered as a matter of ethical judgment. The liberalisation policy should be assessed only in terms of its costs and benefits in the long-run. Costs and benefits arising by adoption of a particular measure in the liberalisation policy would change from time to time in correspondence with the response of beneficiaries of the policy. They are also influenced by the other aspects of the same policy as well as by the industrial and commercial policy as a whole. As soon as a response is obtained from a particular policy, it has to be evaluated against the objectives of the policy. If it is found that the response is in a right direction and as expected, the policy will be justified. Otherwise, it should be subject to revisions or repeal immediately. Justifiability of a policy at a particular point of time, however, cannot be maintained always because the environment undergoes changes in response to the policy itself or on its own, or because of the shifts in policy emphasis. For meaningful implementation of liberalisation, the policy should be pointed and flexible, so as to be integrated into the dynamism of industrial competitiveness at any moment.

Take the instance of clutch assembly from CKD packs. The indigenisation has to be undertaken in this area itself so that the process in indigenisation of automobiles as a whole would make a move ahead. But soon after the clutch manufacturer achieves a certain level of indigenisation, the duty concessions given to the final assembler for clutch imports have to be reduced or withdrawn immediately so that the clutch maker would have some more time to achieve a higher degree of economies of scale by taking advantage of domestic demand. Otherwise, the liberalisation policy would prove to be detrimental to domestic industries and allow foreign dominance in the long-run.

In this particular context of indigenisation of the automobile industry, the following points should be taken care of:

(1) The liberalisation policy for the automobile industry should be more oriented towards the development of the auto ancillary industry in the long-run. The concessional import tariffs of 45 per cent provided for the manufacturer of fuel-efficient motor vehicles with engine capacity not more than 1000 cc are valid upto March 1990 with respect to the auto ancillary items like carburettors, auto electricals, steering gear and driven axle assemblies, clutch assemblies, brake assemblies, gear box, shock absorbers, dashboard assemblies and engine. A similar provision extends to the spares for the purpose of warranty coverage and after-sale service. This should not pose any undue competition to the domestic auto ancillary industries during the period of validity of the provisions. Otherwise, the skilled industries would be discouraged to expand their capacity because they cannot expect growth in demand for their products due to liberal imports. Or the auto entreprenuers who intend to enter foreign tie-ups would refrain from it facing tough competition from imports.

(2) The definition of project imports covering raw materials and capital goods is applied only to the case of establishment of a new unit or of a substantial capacity expansion. This may not be helpful for the auto ancillary units which already have attained a certain degree of skill and productive capacity. For them, marginal expansion or technological upgradation is sufficient, but they are not able to do so because of high tariffs on raw materials and capital goods imported beyond the scope of project imports.

(3) The policy on reservation of certain auto ancillary items to the small-scale sector has to be modified to accommodate the changes in demand of the automobile industry. The criteria for reservation should be designed on considerations of scale of production as well as of technology. It may be possible to develop a division of labour in the same auto ancillary item for the purpose of original equipment and for after-sale services according to the level of skills. In such a case, the reservation criteria only in terms of scale would be irrelevant.

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TABLE 3: INDIA-JAPAN COLLABORATION IN AUTO-ANCILLARY INDUSTRY

| Year | Name of Indian Company | Name of Foreign Collaborator | Item or Manufacture | Nature of Collaboration |
|---|---|---|---|---|
| 1982 | Escorts Employees Ancillaries Ltd | Kokusan Donki Co Ltd | Magnetos and single/three phase flywheel generators and CID units | technical |
| 1982 | Escorts Employees Ancillaries Ltd | Mikuni Shoku Corpn | VM 28-61 (left side) and VM 28-62 (right side) carburettors | Drawing and designs |
| 1983 | Alpha Toyo Pvt Ltd | Toyo Industry Co Ltd | Rear view mirrors | Drawing and designs |
| 1983 | J M A Industries Ltd | Jidosha Denki Kogyo Co Ltd | Wiper motors | Technical |
| 1984 | Haritia Engg Pvt Ltd | Kokusan Denki Co Ltd | Magnetos, ignition coils flywheel generators, contact breaker assemblies | Financial and Technical |
| 1984 | Hindustan Motors Co Ltd | Isusu Motors Co Ltd | Engines, transmissions and axles and spare parts thereof | Technical |
| 1984 | Kalyani Brakes Ltd | Nippon Air Brakes Co Ltd (with PBA Societe Anoyme, France) | Hydraulic brakes system | Technical |
| 1984 | Clutch Auto Ltd | Aisin Seiki Co Ltd | Automotive clutches | Technical |
| 1984 | Premier Instruments and Controls Ltd | Nippon Seiki Co Ltd | Dashboard instruments | Technical |
| 1984 | Rane Brake Linings Ltd | Nisshin Engg Co Ltd | Brake linings and disc pads | Technical |
| 1984 | Nikko Auto Pvt Ltd | Nikko Metal Industries Co Ltd | Electric horns | Designs and drawings |
| 1984 | Lumax Industries Ltd | Stanley Electric Co Ltd | Lighting equipments | Technical |
| 1984 | Premier Automobiles Ltd | Nissan Motor Co Ltd | Fuel efficient engine along with matching transmission | Designs and drawings |
| 1984 | Escorts Employees Ancillaries Ltd | Nikuni Shoeko Corpns | 100 cc carburettors VM-50-250 | Designs and drawings |
| 1984 | Ceat Tyres of India Ltd | Yokohama Rubber Co Ltd | Tyres and tubes | Technical |
| 1984 | Indo-National Ltd | Matsushita Electric Industries Co Ltd | Batteries | Technical and financial |
| 1984 | U K Jain | Matsuyama Seisakusho Co Ltd | Rear view mirror | Technical |
| 1984 | Willard India Ltd | Japan Storage Battery Co Ltd | Batteries | Technical |
| 1984 | International Instruments Ltd | Nippon Denso Co Ltd | Dashboard instruments | Technical |
| 1984 | The Bombay Co Ltd | NHK Springs Co Ltd | Precision springs | Technical |
| 1985 (January-March) | Asheesh Tiwari | Naigai Seiko KK Co Ltd | Tie rod end suspension joints and drag link assembly | Technical and financial |
| 1985 (January-March) | Jay Engg Works Ltd | Fuja Valve Co Ltd | Engine valve | Technical |
| 1985 (January-March) | Sankyo Vikas (I) Ltd | Sanden Corpn | Airconditioning compressors and clutches | Technical and financial |
| 1985 (January-March) | Shriram Fibres Ltd | Nippon Denso Co Ltd | Electricals like starter motors and wiper motors | Technical and financial |
| 1985 (January-March) | Yogesh Chander Munjal | Showa Mfg Co Ltd | Shock absorbers, front forks and Macpherson struds | Technical and financial |
| 1985 (January-March) | Shriram Pistons and Rings Ltd | Riken Corpn | Piston rings | Technical |
| 1985 (January-March) | Ramsons Cables Pvt Ltd, Bombay | Nippon Cables System Inc | Control cables for automobiles and general engg purposes | Technical and financial |

*Source*: Indian Investment Centre, Government of India, *Monthly Newsletters* (New Delhi), issues of 1982-85.

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## GNFC

GUJARAT NARMADA VALLEY FERTILISERS COMPANY (GNFC) has achieved record production of 4,74,302 tonnes of urea during the year ended June 1985, the third year of commercial operations. During 1982-83, production was 4,44,911 tonnes and during 1983-84 it was 4,73,382 tonnes. While the urea production scaled new heights during the year, the most significant achievement has been in the ammonia plant producing 3,00,895 tonnes as against 2,78,386 tonnes produced in 1983-84. In this, the highest on stream factor of 95.25 per cent was achieved during 1984-85 as against 76.42 per cent for 1983-84. GNFC has decided to install a captive power plant to meet internal power requirements in pursuance of the Government of India's decision to encourage continuous process industries to have their own captive power supply. The project is being implemented in two phases. The first phase will meet the power requirement of the ammonia-urea and methanol plants. The second phase will meet the power requirements of the formic acid plant, nitrophosphate plant and other projects under consideration by the company. The first phase, already under implementation, consists of installation of one oil/gas fired boiler of 180 tonnes per hour of steam generation capacity at 95 kg/cm pressure and 42°C temperature and steam turbo generator set of 25 MW/30 MVA capacity with necessary auxiliaries and utilities. The first phase is estimated to cost Rs 38.50 crore. The project is being financed partly by internal resources and partly by loans from financial institutions. The entire foreign exchange requirement of Rs 83.50 lakh will be covered by loans from financial institutions. In its expansion and diversification plans, the company is considering production of 475 tonnes per day each of nitrophosphate and calcium ammonium nitrate with which a project to produce concentrated nitric acid with capacity of 100 tonnes per day is also envisaged. Further, a large expansion of ammonia-urea capacity as well as of the recently commissioned methanol plant is under consideration. A project to produce butachlor and some other projects based on electronics in various fields are being explored.

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# Financing of Working Capital in Indian Industry

V S Kaveri

*This review of working capital finance, based on the Reserve Bank of India's studies on Finances of Large Public Limited Companies, concludes that Indian industry has by and large failed to change its pattern of working capital financing in keeping with the norm suggested by the Chore Committee. While the position of working capital management showed some improvement between 1975-79 and 1979-83, industries have not succeeded in widening the base of long-term funds to the desired extent.*

## I

## Introduction

WORKING capital generally refers to the investment in current assets which are required to carry on the operations of the business. Sometimes it is also referred to as the difference between current assets and current liabilities. Management of working capital considers both terms, i e, the investment in current assets (gross working capital) and the difference between current assets and current liabilities (net working capital). Gross working capital is used for assessing the quality and quantum of current assets, whereas net working capital is used for the study of financing of current assets. A high investment in the different forms of current assets helps in maintaining continuous production and sales but at the same time it will prove to be a costly affair to the firm as funds are obtained at a cost. On the other hand, a low investment in different forms of current assets may cause shortages and thus bring obstacles in the smooth flow of production and sales. So a balance has to be struck between these two extreme levels and in this context the review of the position of working capital at different intervals becomes necessary. To carry out this review, the balance sheet as a source of information would be of great help.

The balance sheet is a statement of position of assets and liabilities at a point of time. The financial position of the firm is assessed through the study of assets and liabilities. Current assets and current liabilities are the two major components of the balance sheet. Study of the position of gross working capital, i e, current assets, suggests the liquidity position of the firms. These current assets should not only be in liquid form but also be in line with the level of operations. The Tandon Committee suggested norms for inventory and book debts for 15 major industries. It is necessary to examine whether inventory and book debt levels of the firm are as per the suggeted norms. Similarly, study of the position of net working capital, i e, current assets less current liabilities, indicates short term solvency of the firm. Current ratio of the firm is the best indicator of the working capital position. The ratio should be at least 1.0; this is the manimum requirement. Efforts should be made to maintain a higher ratio.

Items in the balance sheet are interdependent. Hence, if the working capital position is unsound, the total financial position of the firm gets adversely affected. To elaborate, if the firm holds current assets more than necessary, it experiences shortages of long term assets, provided funds are limited. Similarly, if the long term funds are short of long term assets, short term funds have to be partially used for the long term assets. In such circumstances, the current ratio is unsatisfactory. Thus in the context of balance sheet analysis, the study of working capital position occupies a significant place.

Each industrial firm aims at maximising return on investment for which it keeps on acquiring assets and using them for productive uses on a regular basis. When this is done, it can maintain a steady growth in production, sales and profits. If profits are considerably and regularly ploughed back, it is possible to strengthen the capital base. Consequently, dependence on financial institutions for working capital in particular and term finance in general gets reduced over a period of time. This view was upheld by the study group to frame guidelines for follow-up of bank credit (Tandon Committee) appointed by the Reserve Bank of India in 1974. This study suggested three methods for computing maximum permissible bank finance, keeping in mind the need to provide sufficient time to borrowers to adjust their base of long term funds. In the context of a 'time-bound programme', the report states, "We feel that the third method is an ideal to reach, as it will provide the largest multiplier of bank finance; the next best method from this aspect is the second one, followed by the first. However, to avoid hardship to borrowers, we recommend that we should make a beginning with the first method and then move to the second and the third methods. It is necessary though, to have a time-bound programme and we suggest that banks should initiate immediate action to place all borrowers, say, those having credit limits in excess of Rs 10 lakh from the banking system, on the first method, beginning with the borrowers having weak financial positions, as early as possible, say, within a period of about one year. At that stage, the Reserve Bank may review the system and chalk out a further programme for switching over to the second and third methods, in stages, in the light of circumstances then prevailing" (para 6.10).

As recommended by the Tandon Committee, the Reserve Bank initiated a review exercise in 1979 by appointing a working group under the chairmanship of K R Chore to review the system of cash credit (popularly known as the Chore Committee). This working group looked into the feasibility of switching over borrowers from the first method to the second and the third methods. *Inter alia*, the report states, "Although it was the intention of the Tandon Committee that the borrowers should gradually progress from the first method to second, by and large, it has not happened in practice. A shift to the second method will necessarily imply increasing either the capital funds or the term borrowings. Because of the tax advantages in bank borrowings, borrowers are normally reluctant to improve their gearing ratio. Similarly, on account of the convertibility clause, borrowers are also reluctant to make increasing use of term borrowings. Because of the above considerations, it is hardly likely that, left to themselves, the borrowers enhance their contributions to working capital and to improve their current ratio it is necessary to place them under the second method of lending which would give a minimum current ratio of 1.33" (para 5.9).

It is apparent from the above statement that the Chore Committee suggested the second method mostly based on industrialists views about bank borrowings and not on the basis of a review of working captal finance of industries which the Committee was expected to do in 1979. Similarly, after the implementation of the Chore Committee's recommendations in respect of the second method, a fresh review is now expected to find out how far industries have changed their style of working capital finance as desired by the Chore Committee. This paper is written to fulfil these two expectations. To state more specifically, the paper makes a review of working capital finance of industries at two points of time: (i) 1979 and (ii) 1983 (the year for which latest data were available).

## II

## Data Base

The study used data as given in the Reserve Bank of India studies of finances of large public limited companies for the period 1975-1983. Data related to selected large, non-financial, non-government public limited companies (each with a paid-up capital of Rs one crore or above). The size of the sample of the selected companies varied from year to year. The number of the companies included in the study for the year 1975, 1979 and 1983 stood at 385, 415 and 478 respectively. Data covered major items of balance sheet, ratios and funds-flow statement. Companies in the sample closed their accounts during the period April 1 to March 31 of each year. On an average, 35 per cent of the selected companies closed their annual accounts in December, 27 per cent in June, 9 per cent in September and the rest in the other months. We collected data for each of the 12 major industries besides aggregate figures of all industries.

Balance sheet data speak of the position of various assets and liabilities at different points of time. Study of assets and liabilities with the use of ratios indicated liquidity, solvency, profitability and capital structure of the companies. From the data as given in the funds-flow statement, it was possible to get an idea of management of funds in general and of working capital in particular. Since balance sheet data are used, the study is not free from balance sheet limitations. Besides, it is difficult to assess the trend in working capital management since data were collected at three different intervals.

## III

## Methodology

Working capital is required to hold current assets which include raw materials, stock-in-process, finished goods, book debts and other current assets such as cash and bank balance, investment in government and other approved securities, deposits kept with suppliers, loans and advances (to be recovered during one year), etc. To finance these current assets, sundry creditors and other current liabilities, long term funds and bank borrowings are considered as sources. Other current liabilities include creditors for purchases of materials, advances from customers, accrued expenses, statutory liabilities and other known liabilities such as dividend payable, tax payable, etc. Long term funds include term liabilities (institutional term loans, debentures, term deposits, etc) and equity. Equity consists of paid-up value of share capital, reserves and surplus. Bank borrowings are made available to the firms on the basis of the method adopted for computing Maximum Permissible Bank Finance (MPBF).

The Tandon Committee suggested three methods for computing MPBF which are as shown in Table 1. It is apparent from the Table that the contribution of long term funds towards working capital increases under the second method and the same is further increased under the third method which is not in use.

To take any company from the first method to the second method, increase in long term finance should be substantial not only to ensure the expected contribution of long term finance towards financing of current assets under the second method but also financing of fixed assets and non-current assets. Let us take an example. Balance sheet of ABC Company Ltd as on 31st December, 1982 and 1983 as is given in Table 2. Increase in long term finance during 1982-83 was Rs 39 lakh, and this amount was utilised for financing fixed assets of Rs 30 lakh, non-current and miscellaneous assets of Rs 5 lakh and current assets of Rs 4 lakh. This contribution of Rs 4 lakh towards current assets from long term finance was adequate to put the company under the second method, when the current ratio increased from 1.25 in 1982 to 1.33 in 1983.

TABLE 1: METHODS OF COMPUTING MPBF AS SUGGESTED BY TANDON COMMITTEE

| 1st Method | 2nd Method | 3rd Method |
|---|---|---|
| (1) Current assets | (1) Current assets | (1) Current assets |
| (2) Current liabilities other than bank borrowings | (2) Current liabilities other than bank borrowings | (2) Core current assets |
| (3) Working capital gap (1 – 2) | (3) Working capital gap (1 – 2) | (3) Real current assets (1 – 2) |
| (4) Minimum stipulated net working capital (25 per cent of item 3) | (4) Minimum stipulated net working capital (25 per cent of item 1) | (4) Current liabilities other than bank borrowings |
| (5) Actual/projected net working capital | (5) Actual/projected net working capital | (5) Minimum stipulated net working capital (25 per cent of item 3) |
| (6) MPBF (3 – 4) or (3 – 5) whichever is lower | (6) MPBF (3 – 4) or (3 – 5) whichever is lower | (6) Actual/projected net working capital |
| | | (7) MPBF [3 – (4+5)] or [3 – (4+6)] whichever is lower |

*Note:* Net working capital = Total current assets – Total current liabilities (including bank borrowings).

TABLE 2: ILLUSTRATIVE BALANCE SHEET OF ABC CO LTD
(Balance Sheet as on December 31)

*(Rs lakhs)*

| Liabilities | 1982 | 1983 | Change | Assets | 1982 | 1983 | Change |
|---|---|---|---|---|---|---|---|
| Other current liabilities | 6 | 10 | 4 | Current assets | 30 | 40 | 10 |
| Bank borrowings | 18 | 20 | 2 | Fixed Assets | 60 | 90 | 30 |
| Long term finance | 76 | 115 | 39 | Non-current and miscellaneous assets | 10 | 15 | 5 |
| | 100 | 145 | 45 | | 100 | 145 | 45 |

This study considers five ratios, *viz*, (i) current ratio; (ii) bank borrowings as percentage of working capital gap or current assets; (iii) sundry debtors as percentage of sales; (iv) inventory as percentage of sales; and (v) debt as percentage of equity. As stated earlier, current ratio indicates the position of liquidity and short term solvency. It is also possible to understand the position of net working capital. Bankers' stake in financing of working capital gap or current assets can be judged from the ratio of bank borrowings as percentage of working capital gap or current assets. Bank borrowings were related to working capital gap and current assets under the first method and the second method respectively. Sundry debtors and inventory are the two major items of current assets. Hence, changes in these two items bring significant change in the total of current assets. Therefore, attempt should be made to hold sundry debtors and inventory in proportion to operations of the business. For this purpose, sundry debtors as percentage of sales and inventory as percentage of sales are computed. Finally, debt as percentage of equity suggests the capital structure of the firm. It is desired to have a lower ratio of 1:1. Lower the ratio, greater would be the contribution of equity to the net working capital. Thus, in this paper, it is attempted to use these five ratios for understanding the position of working capital. Data were available for computing these ratios.

We have used data for analysis in two ways, *viz*, (i) time analysis and (ii) industry-wise analysis. Under the time analysis, we have reviewed the working capital finance of all industries for the period 1975-1983. We considered the year 1975, when the Tandon Committee recommendations were accepted as the base. The latest data were available for the year 1983. In 1979, the Chore Committee recommendations were accepted. Hence, we reviewed the position of working capital at two points of time, *viz*, 1979 and 1983. Time analysis aimed at understanding how the working capital position of all industries changed from time to time in response to the recommendations of the Tandon Committee and Chore Committee. But under the industry-wise analysis, it was attempted to ascertain the performance of each of the 12 major industries in the management of working capital. Data were available for these 12 major industries. We analysed data in the following order:

(1) Study of figures of current assets, sources for financing of current assets and long

term funds and long term assets for 1975, 1979 and 1983.

(2) Study of selected ratios for 1975, 1979 and 1983 to find out the reasons for changes in figures as stated above.

(3) Study of funds-flow statements for 1975-79 and 1979-83. From this statement, we understood changes in (i) components of long term finance; (ii) long term finance *vis-a-vis* fixed, non-current and miscellaneous assets; and (iii) net long term finance [gross long term finance—(fixed + non-current + miscellaneous assets)] *vis-a-vis* current assets, bank borrowings and other current liabilities.

For time analysis, we analysed the data as stated above. But for industry-wise analysis, we restricted ourselves to the study of absolute figures and ratios.

## IV

## Results and Analysis

Data were analysed to review the working capital of the firms. The review was done on time basis and industry-wise basis. As regards the time analysis, the review was for two periods, i e, 1975-79 and 1979-83.

In Table 1, data relating to financing of current assets are given. As seen from the data, in 1975 working capital gap, under the first method worked out to be Rs 2,418 (Rs 4,623-Rs 2,205) crore, and hence long term finance and maximum permissible bank finance were expected to be Rs 604 crore (25 per cent of Rs 2,418 crore) and Rs 1,814 crore (75 per cent of Rs 2,418 crore) respectively. But actual long term finance and bank borrowings were Rs 1,248 crore and Rs 1,170 crore respectively. Since actual long term finance was greater than expected long term finance, bank borrowings had to be lower than maximum permissible bank finance. Therefore, current ratio was as high as 1.37. But this happy situation did not last long. In 1979, current ratio declined to 1.23 because the ratio of increase in current assets was lower than the rate of increase in current liabilities. The rate of increase in current assets and current liabilities in 1979 over 1975 was 34 per cent and 49 per cent, respectively. When we study changes in the components of current assets and current liabilities in 1979 over 1975, we do not find any marked change. For instance, inventory as percentage of total current assets declined from 57 in 1975 to 55 in 1979. But sundry debtors as percentage of total current assets increased from 20 in 1975 to 24 in 1979. These observations in respect of inventory and sundry debtors can also be confirmed from the study of other three ratios, *viz*, sundry debtors as percentage of sales, inventories as percentge of sales and sundry debtors as percentage of sundry creditors.

Higher rate of increase in current liabilities in 1979 over 1975 resulted in lower contribution of long term finance towards financing of current assets. This is evident from the study of figures as given in Table 3. It will be seen from the Table that the contribution of bank borrowings to financing of current assets increased from 25 per cent in 1975 to 29 per cent in 1979. Similarly, current liabilities other than bank borrowings went up from 48 per cent in 1975 to 52 per cent in 1979. As a result of the steep rise in the contribution of these two items, long term finance experienced a drastic cut in its share of financing of current assets from 27 per cent in 1975 to 19 per cent in 1979.

Thus far we have examined the position of current assets, current liabilities and long term finance as on the accounting year ending date of 1975 and 1979. Let us now examine what changes took place between these two dates from the study of funds-flow statement. The study of sources and uses of funds of all industries during 1975 to 1979 suggests reasons for the lower contribution of long term finance. A summarised funds-flow statement (1975-79) is given in Table 4. Long term finance [borrowings (long term) + share capital + reserves and surplus] fell short by Rs 72 crore to finance fixed assets and non-current assets. Consequently, short term funds, i e, current liabilities met this deficit.

From the above discussion, we conclude that industries did not widen the base of long term finance and hence the contribution of long term finance to working capital funds declined. Consequently, current ratio declined from 1.36 in 1975 to 1.23 in 1979. Although the Chore Committee suggested the second method in 1979, industries in general were not in a position to adopt the same in view of the declining position of long term finance. In fact, industries increased their dependence on bank borrowings for working capital and to certain extent, the same were also utilised for financing of fixed and non-current assets.

In 1983 current ratio improved marginally to reach 1.26 from 1.23 in 1979. Reasons for this marginal improvement include higher rate of increase in current assets over current liabilities and higher contribution of long term finance towards financing of current assets. The rate of increase in current assets and current liabilities in 1983 over 1979 was 98.5 per cent and 94.9 per cent respectively. When we study changes in the components of current assets and current liabilities in 1983 over 1979, we find that although inventory as a percentage of total current assets declined, sundry debtors and loans and advances as percentage of total current assets increased. Sundry debtors and other current liabilities together as percentage of total current liabilities went up very sharply from 53 in 1979 to 62 in 1983. But bank borrowings as percentage of total current liabilities declined steeply from 36 in 1979 to 29 in 1983.

As seen from the data given in Table 3, contribution of long term finance for financing of current assets increased marginally from 19 per cent in 1979 to 20 per cent in 1983. As a result of higher contribution of

TABLE 5: COMPUTATION OF MAXIMUM PERMISSIBLE BANK FINANCE
(Under Second Method)

*(Rs crore)*

| | 1979 | 1983 |
|---|---|---|
| Current assets | 6208 | 12323 |
| Contribution of long term finance—25 per cent of current assets (under the second method) | 1552 | 3080 |
| | 4656 | 9248 |
| Current liabilities other than bank borrowings | 3241 | 6982 |
| Maximum permissible bank finance | 1415 | 2266 |
| Actual bank borrowings | 1791 | 2829 |

TABLE 3: CURRENT ASSETS AND THEIR SOURCES

*(Rs crore)*

| | 1975 | 1979 | 1983 |
|---|---|---|---|
| Current assets | 4623 | 6208 | 12323 |
| Financed by: | | | |
| Current liabilities other than bank borrowings | 2205 (68) | 3241 (52) | 6982 (57) |
| Bank borrowings | 1170 (25) | 1791 (29) | 2829 (23) |
| Contribution from long term finance towards working capital | 1248 (27) | 1176 (19) | 2512 (20) |
| | 4623 (100) | 6208 (100) | 12323 (100) |

*Note:* Figures in brackets indicate percentage to total current assets.

TABLE 4: SUMMARISED FUNDS FLOW STAEMENT

*(Rs crore)*

| Use of Funds | 1975-79 | 1979-83 | Sources of Funds | 1975-79 | 1979-83 |
|---|---|---|---|---|---|
| Total current liabilities | 1657 | 4779 | Total current assets | 1585 | 6115 |
| Borrowings—long term | 622 | 2954 | Fixed assets | 1381 | 4334 |
| Share capital | 410 | 521 | Non-current and miscellaneous assets | 225 | 115 |
| Reserves and surplus | 502 | 2040 | | | |
| | 3191 | 10294 | | 3191 | 10294 |

current liabilities other than bank borrowings and of long term finance to financing of current assets, bank borrowings as percentage of total current assets declined sharply from 29 in 1979 to 23 in 1983.

The summarised funds-flow statement (1979-83) reveals that increase in current assets was Rs 6,115 crore during 1979-83 and nearly 22 per cent of total increase in current assets were financed by long term funds. As against this, during 1975-79, long term funds were short of financing of fixed assets and non-current and miscellaneous assets. Thus, during this period, i e, 1979-83, the base of long term funds widened. But the rise in long term funds was below what was expected under the second method. Hence, bank borrowings continued to be higher than maximum permissible bank finance (Table 5). Bank borrowings (actual) as percentage of maximum permissible bank finance declined slightly from 127 per cent in 1979 to 125 per cent in 1983. Thus, the recommendation of the second method, as suggested by the Chore Committee, was by and large not implemented by industries during the period of 1979-83.

### INDUSTRY-WISE PATTERN

Let us now examine performance of each of the major industries by using data as given in the Reserve Bank Study of Finance of Large Public Limited Companies for 1975, 1979 and 1983.

We computed bank borrowings as percentage of working capital gap for 12 industries for 1975, 1979 and 1983. The average percentage of bank borrowings to working capital gap of these industries for 1975, 1979 and 1983 was 96.2, 66.2 and 76.6 respectively. These data suggest that industries in general reduced their dependence on bank borrowings considerably in 1979. And in 1983, bank borrowings were found to be reasonable, considering the percentage of 76.6 in 1983 which was close to 75 per cent as suggested under the first method. Shipping, electricity and cement industries need a special mention here because of the fact that their current liabilities other than bank borrowings exceeded total current assets in 1983 and hence they were not expected to borrow from banks for working capital. But they did borrow and used the borrowed amount for long term assets. Cotton textile industry is another case which kept on increasing its dependence on banks. This is evident from the study of the percentage of bank borrowings to working capital gap, which went up from 60 in 1975 to 91 in 1983. Sugar industry also borrowed from banks for working capital more than the expected level of 75 per cent of working capital gap. Among these industries, silk and rayon industry needs to be rewarded because its dependence on bank borrowings was the lowest and percentage of bank borrowings to working capital gap was around 30 in 1975, 1979 and 1983. Similarly, engineering, chemicals and tobacco industries borrowed from banks on a moderate rate. In such cases, percentage of bank borrowings to working capital gap was less than 75 in 1975, 1979 and 1983. Thus there was wide divergence in respect of bank borrowings for working capital among industries.

APPENDIX TABLE 1: BALANCE SHEET AND INDICATORS—AGGREGATE

*(Rs crore)*

| | 1975 | 1979 | 1983 | Change 1979 over 1975 | Change 1983 over 1979 |
|---|---|---|---|---|---|
| Raw materials, components, etc | 923 | 1115 | 1957 | 192 | 842 |
| Finished goods | 750 | 958 | 1944 | 208 | 986 |
| Work in progress | 386 | 661 | 1296 | 275 | 635 |
| Others | 595 | 686 | 1252 | 91 | 566 |
| Inventories | 2654 | 3420 | 6449 | 766 | 3029 |
| Sundry debtors | 905 | 1507 | 3193 | 602 | 1686 |
| Loans and advances | 530 | 596 | 1539 | 66 | 943 |
| Investments | 166 | 229 | 352 | 63 | 123 |
| Advances of income-tax | — | — | — | — | — |
| Cash and bank balances | 368 | 456 | 790 | 88 | 334 |
| Total current assets | 4623 | 6208 | 12323 | 1585 | 6115 |
| Fixed assets (gross) | 5518 | 8060 | 14447 | 2542 | 6387 |
| Less depreciation | 2672 | 3833 | 5886 | 1161 | 2053 |
| Fixed assets (net) | 2846 | 4227 | 8561 | 1381 | 4334 |
| Other assets (non-current and miscellaneous) | 47 | 272 | 117 | 225 | –155 |
| Total of assets | 7516 | 10707 | 21001 | 3191 | 10294 |
| Sundry creditors | 1228 | 1852 | 3870 | 624 | 2018 |
| Other current liabilities | 469 | 818 | 2249 | 349 | 1431 |
| Provisions | 508 | 571 | 863 | 63 | 292 |
| Bank borrowings (short) | 1170 | 1791 | 2829 | 621 | 1038 |
| Total current liabilities | 3375 | 5032 | 9811 | 1657 | 4779 |
| Borrowings (long term) | 1182 | 1804 | 4758 | 622 | 2954 |
| Share capital | 1361 | 1771 | 2292 | 410 | 521 |
| Resources and surplus | 1598 | 2100 | 4140 | 502 | 2040 |
| Equity | 2959 | 3871 | 6432 | 912 | 2561 |
| Total of liabilities | 7516 | 10707 | 21001 | 3191 | 10294 |
| Indicators: Sales | 8018 | 12379 | 22495 | | |
| Current ratio | 1.37 | 1.23 | 1.26 | | |
| Debt as percentage of equity | 40 | 47 | 74 | | |
| Sundry debture as percentage of sales | 11.3 | 12.2 | 14.3 | | |
| Inventories as percentage of sales | 33.1 | 27.6 | 28.9 | | |

*Source: Reserve Bank of India Bulletin*, March 1977, July 1980, and January 1984.

Although industries in general reduced their dependence on bank borrowings, their average current ratio did not improve. It declined from 1.22 in 1975 to 1.10 in 1979. This situation arose due to the fact that the rate of increase in current assets was lower than the rate of increase in current liabilities in 1979 over 1975 figures. In 1983, the average current ratio of these 12 industries moved upwards marginally to reach only 1.12 from 1.10 in 1979. Current ratio fluctuated widely among the industries. Three industries, *viz*, silk and rayon, engineering and chemicals maintained current ratio which was above the average figures in 1975, 1979 and 1983. Ironically, current ratio of electricity and shippng industries was lower than 1.0 in 1975, 1979 and 1983. In four industries, *viz*, tobacco, cotton textile, cement and rubber, current ratio declined continuously and the rate of decline was very steep in 1983 over 1975. Percentage of bank borrowings to working capital gap increased steeply in 1983 over 1975.

Three ratios, *viz*, sundry debtors as percentage of sales, inventory as percentage of inventory and bank borrowings as percentage of working capital gap, were studied to ascertain why current ratio fluctuated widely among these industries. Silk rayon, chemical and engineering industries maintained higher current ratio because their inventory holding, book debts level and bank borrowings were reasonable. Levels of three ratios were mostly below the average figures in 1975, 1979 and 1983. Among these three ratios, bank borrowings as percentage of working capital gap was much below the average level, while the levels of other two ratios were almost close to the average levels. Hence, current ratio was high. But shipping and electricity industries maintained a lower current ratio because their dependence on bank borrowings was significant and their inventory holding and book debt level were found to be insignificant. This is evident from the comparative study of these ratios with the average figures for 1975, 1979 and 1983. Tobacco, cotton textile, cement and rubber industries experienced a sharp decline in current ratio in 1983 comparing to 1975 figures as there was a marked rise in the ratio of bank borrowings to working capital gap in 1983 over 1975. The average percentage

### APPENDIX TABLE 2: BALANCE SHEET AND INDICATORS—INDUSTRY-WISE

| | Sugar | | | Tobacco | | | Cotton Textiles | | | Silk and Rayon | | | Aluminium | | | Engineering | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1975 | 1979 | 1983 | 1975 | 1979 | 1983 | 1975 | 1979 | 1983 | 1975 | 1979 | 1983 | 1975 | 1979 | 1983 | 1975 | 1979 | 1983 |
| Inventories | — | 120 | 200 | 85 | 95 | 149 | 308 | 420 | 586 | 74 | 70 | 104 | 42 | 50 | 111 | 843 | 1056 | 2203 |
| Sundry debtors | — | 11 | 18 | 14 | 20 | 159 | 91 | 144 | 224 | 13 | 28 | 39 | 6 | 15 | 55 | 357 | 539 | 1173 |
| Other current assets | — | 10 | 50 | 5 | 13 | 39 | 37 | 53 | 79 | 33 | 20 | 44 | 13 | 19 | 36 | 74 | 29 | 333 |
| Total current assets | — | 141 | 268 | 104 | 128 | 347 | 436 | 617 | 889 | 120 | 118 | 187 | 61 | 84 | 202 | 1264 | 1624 | 3709 |
| Fixed assets (net) | — | 62 | 101 | 24 | 41 | 63 | 220 | 328 | 872 | 156 | 142 | 251 | 102 | 142 | 186 | 521 | 863 | 1823 |
| Other assets (non-current + miscellaneous) | — | 18 | 3 | 17 | 15 | 45 | 48 | 132 | 115 | 21 | 17 | 20 | 7 | 8 | 19 | 135 | 310 | 369 |
| Total assets | — | 221 | 372 | 145 | 184 | 455 | 704 | 1077 | 1876 | 297 | 277 | 458 | 170 | 234 | 407 | 1920 | 2797 | 5901 |
| Current liabilities other than bank borrowings | — | 66 | 135 | 32 | 45 | 271 | 188 | 283 | 596 | 73 | 63 | 108 | 40 | 54 | 142 | 652 | 959 | 1312 |
| Bank borrowings | — | 65 | 130 | 35 | 40 | 52 | 149 | 259 | 268 | 14 | 18 | 25 | 15 | 25 | 32 | 395 | 454 | 731 |
| Total current liabilities | — | 131 | 265 | 67 | 85 | 323 | 337 | 542 | 864 | 87 | 81 | 133 | 55 | 59 | 174 | 1047 | 1413 | 2043 |
| Borrowings (long term) | — | 47 | 75 | 17 | 28 | 38 | 128 | 260 | 598 | 27 | 34 | 93 | 24 | 21 | 33 | 254 | 459 | 2097 |
| Share capital | — | 27 | 40 | 28 | 36 | 41 | 100 | 138 | 161 | 49 | 40 | 46 | 42 | 51 | 57 | 342 | 471 | 634 |
| Reserves and surplus | — | 16 | 14 | 33 | 35 | 53 | 140 | 131 | 253 | 134 | 122 | 186 | 49 | 104 | 143 | 277 | 454 | 1127 |
| Equity | — | 43 | 54 | 61 | 71 | 94 | 240 | 269 | 414 | 183 | 162 | 232 | 91 | 154 | 200 | 619 | 925 | 1761 |
| Total liabilities | — | 221 | 372 | 145 | 184 | 455 | 705 | 1077 | 1876 | 297 | 277 | 458 | 170 | 234 | 407 | 1920 | 2797 | 5901 |
| Indicators: Sales | — | 173 | 322 | 197 | 229 | 290 | 920 | 1556 | 2022 | 294 | 288 | 424 | 94 | 176 | 345 | 2127 | 3361 | 6935 |
| Credit ratio | — | 1.08 | 1.01 | 1.55 | 1.51 | 1.07 | 1.29 | 1.14 | 1.03 | 1.40 | 1.46 | 1.41 | 1.10 | 1.42 | 1.16 | 1.21 | 1.15 | 1.82 |
| Bank borrowings as percentage of working capital gap/current assets | — | 87 | 96 | 49 | 48 | 69 | 60 | 78 | 91 | 30 | 33 | 32 | 71 | 15 | 53 | 65 | 68 | 49 |
| Sundry debtors as percentage of sales | — | 6 | 6 | 7 | 9 | 9 | 10 | 9 | 11 | 4 | 10 | 10 | 6 | 9 | 16 | 17 | 16 | 17 |
| Inventory as percentage of sales | — | 71 | 62 | 43 | 41 | 51 | 33 | 27 | 29 | 25 | 24 | 25 | 45 | 28 | 32 | 40 | 31 | 32 |
| Debt as percentage of equity | — | 109 | 139 | 28 | 39 | 40 | 53 | 97 | 144 | 148 | 21 | 39 | 26 | 14 | 17 | 41 | 50 | 119 |

| | Rubber | | | Paper | | | Electricity | | | Shipping | | | Chemicals | | | Cement | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1975 | 1979 | 1983 | 1975 | 1979 | 1983 | 1975 | 1979 | 1983 | 1975 | 1979 | 1983 | 1975 | 1979 | 1983 | 1975 | 1979 | 1983 |
| Inventories | 79 | 87 | 192 | 77 | 86 | 169 | 18 | 31 | 70 | 2 | 4 | 4 | 392 | 512 | 1056 | 72 | 85 | 165 |
| Sundry debtors | 28 | 72 | 145 | 17 | 27 | 75 | 25 | 51 | 139 | 12 | 17 | 27 | 119 | 273 | 515 | 21 | 33 | 36 |
| Other current assets | 11 | 20 | 75 | 18 | 29 | 66 | 12 | 22 | 39 | 72 | 15 | 29 | 110 | 126 | 249 | 14 | 32 | 58 |
| Total current assets | 118 | 179 | 412 | 112 | 142 | 310 | 55 | 104 | 248 | 86 | 36 | 60 | 621 | 911 | 1820 | 107 | 150 | 259 |
| Fixed assets (net) | 53 | 81 | 167 | 139 | 218 | 372 | 133 | 223 | 848 | 234 | 608 | 480 | 469 | 627 | 1399 | 115 | 139 | 452 |
| Other assets (non-current + miscellaneous) | 12 | 17 | 32 | 25 | 53 | 47 | 10 | 14 | 17 | 36 | 77 | 64 | 73 | 303 | 218 | 17 | 40 | 48 |
| Total assets | 183 | 297 | 611 | 276 | 413 | 729 | 198 | 341 | 1113 | 356 | 721 | 604 | 1163 | 1841 | 3437 | 239 | 329 | 759 |
| Current liabilities other than bank borrowings | 61 | 99 | 313 | 69 | 84 | 155 | 52 | 97 | 286 | 60 | 102 | 106 | 287 | 493 | 904 | 72 | 131 | 270 |
| Bank borrowings | 30 | 59 | 75 | 33 | 72 | 48 | 4 | 18 | 17 | 53 | 164 | 76 | 106 | 194 | 426 | 20 | 17 | 45 |
| Total current liabilities | 91 | 158 | 388 | 102 | 156 | 203 | 56 | 115 | 303 | 113 | 266 | 182 | 393 | 687 | 1330 | 92 | 148 | 315 |
| Borrowings (long term) | 20 | 36 | 97 | 237 | 80 | 301 | 56 | 89 | 500 | 137 | 323 | 284 | 210 | 308 | 785 | 53 | 52 | 215 |
| Share capital | 33 | 44 | 56 | 55 | 72 | 94 | 37 | 40 | 72 | 28 | 60 | 60 | 248 | 399 | 507 | 58 | 62 | 73 |
| Reserves and surplus | 39 | 39 | 70 | 80 | 105 | 131 | 49 | 97 | 238 | 78 | 72 | 77 | 312 | 447 | 815 | 36 | 67 | 156 |
| Equity | 72 | 83 | 126 | 135 | 177 | 225 | 86 | 137 | 310 | 106 | 132 | 138 | 560 | 846 | 1322 | 94 | 129 | 229 |
| Total liabilities | 183 | 297 | 611 | 276 | 413 | 729 | 198 | 341 | 1113 | 356 | 721 | 604 | 1163 | 1841 | 3437 | 239 | 329 | 759 |
| Indicators: Sales | 271 | 389 | 723 | 249 | 332 | 586 | 158 | 311 | 817 | 147 | 214 | 269 | 1227 | 2240 | 3942 | 194 | 361 | 660 |
| Credit ratio | 1.30 | 1.14 | 1.06 | 1.10 | 0.91 | 1.53 | 0.98 | 0.90 | 0.82 | 0.76 | 0.14 | 0.33 | 1.58 | 1.33 | 1.37 | 1.16 | 1.01 | 0.77 |
| Bank borrowings as percentage of working capital gap/current assets | 53 | 74 | 76 | 77 | 124 | 31 | 133 | 257 | * | 203 | * | * | 32 | 46 | 46 | 57 | 89 | * |
| Sundry debtors as percentage of sales | 10 | 19 | 20 | 7 | 8 | 13 | 16 | 16 | 17 | 8 | 8 | 10 | 10 | 12 | 13 | 11 | 9 | 5 |
| Inventory as percentage of sales | 21 | 22 | 27 | 31 | 26 | 29 | 3 | 10 | 9 | 1 | 2 | 1 | 32 | 22 | 27 | 37 | 20 | 25 |
| Debt as percentage of equity | 28 | 43 | 77 | 176 | 45 | 134 | 65 | 65 | 161 | 129 | 245 | 206 | 38 | 36 | 59 | 56 | 40 | 94 |

*Source: Reserve Bank of India Bulletin,* March 1977, July 1980, and January 1984.

of bank borrowings to working capital gap of these four industries went up from 55 in 1975 to 75 in 1983. Among these industries, cotton textile and cement industries relied considerably on banks for working capital. In the case of cement, there was no need to borrow from banks for working capital in 1983 since current liabilities other than bank borrowings exceeded current assets.

Chemical industry maintained higher current ratio and its debt/equity ratio was also very low in 1975, 1979 and 1983. As against this, shipping industry's current ratio was less than one and hence, its debt/equity ratio was as high as 246 per cent and 206 per cent in 1979 and 1983 respectively. Tobacco, cotton textile, cement and rubber industries experienced continuous decline in current ratio and they had similar experience in debt/equity ratio which kept on increasing. On the whole, these 12 industries increased their dependence on long term debt in 1983 compared to 1975. This is evident from the average debt/equity ratio of 12 industries which went up from 73.4 in 1975 to 102.4 in 1983. Since contribution of long term funds towards working capital increased, the average percentage of bank borrowings to working capital gap declined from 96.2 in 1975 to 76.6 in 1983.

## V

## Conclusions and Policy Implications

This review of working capital finance refers to two points of time, *viz*, the accounting years ending in 1979 and 1983 and is based on data as given in the Reserve Bank of India studies on Finance and Large Public Limited Companies for the respective dates. The findings of the review may be summarised as follows:

(1) Recommendation of the second method was not implemented by industries in general as seen from the study of data relating to 1979 and 1983. Current ratio remained much less than 1.33 in both years.

(2) Industries were not able to shift to the second method as they could not widen the base of long term funds to the extent desired. Relatively speaking, the position of working capital management during 1979-1983 appears to be more satisfactory than the same during 1975-1979. Long term funds contributed towards current assets to the extent of 22 per cent during 1979-1983 when their contributions to the same was negative during 1975-1979. Current ratio fell steeply from 1.37 in 1975 to 1.23 in 1979 and then moved up marginally to reach only 1.26.

(3) Among the 12 industries, silk rayon, chemical and engineering industries managed working capital satisfactorily during 1975-83. Their current ratio was above 1.0 and contribution of bank borrowings to working capital gap was found reasonable. Holding of inventory and sundry debtors was also found to be reasonable. Shipping and electricity industries required insignificant current assets. But their dependence on short term bank borrowings was sizeable and hence their working capital management was found to be unhealthy. Engineering industry witnessed heavy dependence on bank borrowings. Cement industry was not needed to borrow from banks for working capital since current liabilities other than bank borrowings exceeded current assets. Tobacco, cement, cotton textile and rubber industries experienced declining current ratio. Thus, quality of working capital management varied widely from industry to industry. But the average current ratio of these 12 industries remained less than 1.33. Therefore, by and large, the recommendation of the second method was not put into practice.

We can conclude that despite giving sufficient time to industries to readjust their capital structure so as to shift from the first method to the second method, progress achieved towards this end fell short of what was desired under the second method of working capital finance. In this context, we offer three suggestions:

(1) Industries have to strengthen their efforts to raise the base of long term funds for which they have to tap further resources in the capital market besides increasing the present rate of ploughback of profits.

(2) Banks have a vital note to play to keep a check over the sanction and use of working capital finance to industries. The sanction of working capital finance needs to be totally need-based and for this purpose banks have to install an efficient information system through which they would be able to interpret borrowers' data in the light of changes in the concerned industry. Dialogues with borrowers have to be more rational so as to verify assumptions made in their projections realistically. Besides need-based lending, banks have to gear up their post lending activities to ensure the effective use of borrowed funds. They have to set-up an effective follow-up system which can signal mis-use of funds at the early stage and they have to take appropriate action immediately. In respect of both credit appraisal and follow-up, banks' efforts are presently found inadequate. As a result of this, it has not been possible to bring industries under the second method.

(3) Borrowers should appreciate benefits of shifting over the second method. They have to share all useful information with banks, so as to see the results of borrowed funds. If necessary, they have to redesign their information system so as to provide information needed by banks.

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## UGANDA

# Second Coup d'Etat

**Henry Mapolu**

ON July 27 Milton Apollo Obote of Uganda made history by becoming the first African head of state to be overthrown by the army a second time. This second coup came only five years after he had been reinstated in power after being ousted by the first coup of January 1971. It was a dramatic turn of events, depicting in a rather bizarre manner some of the worst aspects of contemporary African politics.

Obote had resumed the presidency in 1980 with a very definite mission: to rehabilitate socio-economic life in the country following the massive ravages experienced under the decade-long military rule. Yet that second term of office of his was to be characterised by extreme ineptitude and blatant corruption. Indeed, for the mass of the Ugandan people life under the Obote regime was just as difficult as under the previous military administration. Obote's rule was so depraved that when in early July the commander of one brigade in the north of the country rebelled against the government, he was able to immediately amass support from many army units which then began to march southwards at such rapid pace that they were able to capture the capital city, Kampala, in less than two weeks. The city is situated in the extreme southern edge of the country. The rebellious troops encountered practically no resistance throughout the country. Strictly speaking, theirs was not an armed onslaught to demolish a regime, they rose merely to bury a body that was long dead.

### REPLAY OF 1971 COUP

The army that has overthrown Obote this time was constituted by Obote himself no so long ago. It grew out of the factionalised politics that Ugandan exiles carried out for years in Tanzania and elsewhere after the 1971 coup. It was only with the massive involvement of Tanzanian troops that this rabble of an army was able to oust the military dictatorship in 1979, thus paving the way for Obote's return to power. With the assistance of training initially from Tanzania and subsequently from Britain and North Korea, Obote was able to give that rabble the semblance of a national army. And it is that army that has finally turned against him, causing him to once again flee into exile in a most ignominious manner.

Thus in many respects the July coup was a replay of their 1971 one. For at that time also Obote had been overthrown by an armyman whom he had personally groomed for years: the now notorious Iddi Amin. Beginning in 1965 Obote had become more and more dictatorial in his administration, and by the end of the following year he had succeeded in establishing a veritable reign of terror: he had arbitrarily abrogated the constitution, banished the traditional rulers with whom he had had to share power, arrested more than a quarter of his own cabinet, and imposed a state of emergency. In all this, he inevitably had to rely more and more on the army, bringing it onto the fore of civil society. And he personally chose the barbaric Iddi Amin to help him accomplish his designs, promoting him to the rank of chief of defence forces. Having been thus tended so well by Obote, Amin by 1971 found Obote an anachronism and removed him without much ado.

And so this time also. A number of army officers had followed Obote into exile when he was first overthrown in 1971. On recapturing power, he appropriately remembered them, awarding the most senior one of them the post of chief of defence forces. It took Major General Tito Okello and his colleagues in the army less than five years to also find Obote redundant. His rule even in this his second term—euphemistically termed the 'liberation' era—was of such a militaristic nature that a civilian head of state indeed became anachronistic. Obote's preference for the post of chief of defence forces is characteristic: the more illiterate and savage, the better. Just as Iddi Amin had surprised the world by his uncouthness, so also Tito Okello surprised his listeners when he barely managed to read the one paragraph statement prepared for his swearing-in as head of state—in a country with one of the highest rates of literacy in Africa. We will have to wait to experience his reign, which he has promised will be brief.

The July coup was in fact the climax of a long process of political atrophy within Obote's administration. Ever since he had regained power in 1980, after elections which are widely acknowledged to have been rigged in his favour, Obote had once again installed in Uganda a reign of terror. In fact, in many respects he merely continued the repression for which Iddi Amin is so infamous. He thus antagonised large sections of the population and it is no wonder that over the years numerous armed opposition groups emerged throughout the country—groups that easily 'liberated' huge chunks of the country from his administration. Attempts by the army to root out these groups were always thwarted, for unlike Iddi Amin who had ignored the country as a whole but pooled all resources for the army, Obote treated the army in the same manner as he treated the other segments of the society: a means of personal enrichment. The army lacked the equipment, discipline, and above all popular support to be able to effectively fight the many guerilla units professing different ideologies in accordance with the social forces they materially represented. More and more, it assumed lumpen characteristics. Shirking the responsibility of fighting the guerillas, the army more and more turned on the civilian population: erecting numerous roadblocks everywhere ostensibly for carrying out security checks but in reality for harassing, robbing, and generally intimidating the population. No wonder, then, that in time the army found Obote's civilian government itself an obstacle to their looting.

### ARMY ON LOOTING SPREE

Contrary to other coups in Africa, the July coup in Uganda took place in broad daylight. The taking of Kampala occurred at mid-day as people went about their business. From about 11.00 a m lorries carrying soldiers began to enter the city; the streets were then full of people who simply gazed in bewilderment. Within a few minutes, however, the city was turned into an inferno. Apparently the soldiers had been detailed to secure various key installations in the city, and on reaching them, disembarked and began to fire indiscriminately without regard to the hundreds of civilians in their midst. The main post office, the central bank, and the headquarters of Obote's Uganda People's Congress are all situated in close vicinity to each other along Kampala's main thoroughfare: Kampala Road. It being a Saturday, the street was literally brimming with people; yet very heavy gunfire was used to secure those buildings as frightened civilians clambered in all directions, falling on each other in utter confusion.

Apparently no one was killed in all this tumult. Prior scouting had told the rebel troops that there would not be much resistance to beat off, and the soldiers had therefore entered the city in packed lorries and carrying only light arms as if going to a parade. All the shooting was in the air, and was intended to merely scare off people from the streets prior to announcing a curfew. We happened to be in the vicinity of the parliamentary buildings—grandiose and flamboyant, but hardly used for any serious purpose since the late 1960s. Along with hundreds of other passers-by, we were caught up in the middle of the intense action that was undertaken to secure those empty buildings. For all that, not a single shot was heard emanating from inside the buildings. Apart from wasting a great deal of ammunition and terribly ruffling up civilians—men, women, and children—there was absolutely no fight to secure the parliamentary buildings.

Within three hours the centre of the city had been completely deserted, save for hordes of soldiers. What ensued then, which was to be continued for the next two days, sharply depicted the nature of the contradictions in Uganda society. To begin with, the soldiers very soon abandoned their various assignments and instead went on a looting spree. In broad daylight they would break into shops and help themselves to whatever they chose. Soon they realised they could not carry much on their heads; every soldier now went for a vehicle—preferably a pick-up van—on which cookers, refrigerators, furniture, radio and TV sets, etc, would be stashed and driven to a hideout before returning for another helping. The looting was so thorough that by Monday afternoon it had completely stopped for the simple reason that there was nothing more to loot. All the casualties of the coup occurred during this period of looting, for anyone resisting to part with an item demanded by a soldier was quickly shot.

The second factor was the entry onto the scene of the lumpen proletariat. Although Kampala Radio had announced maximum curfew by Saturday afternoon, the city was full of people by 5.00 p m. It had emptied of the upper and middle classes just to be refilled by the lumpen proletariat—a class that in Uganda is so overgrown as a result of the rule of both Amin and Obote that it most typifies Kampala and other urban areas. As happens everywhere in the world, the lumpen proletariat holds its festivals during political upheavals; and so on this occasion Kampala's lumpen class came out in force.

We were very well situated to clearly observe the panorama that was unfolding, for the hotel in which we sought sanctuary and in which we remained trapped for several days happens to be in Bondo Road which, at the heart of the city adjoins Kampala Road, and at the other end is the main getaway to the north. Bondo Road closely by-passes the country's only university, Makerere, which is picturesquely located on a hill and on the plains inevitably surrounded by shanty suburbs. Indeed, it is the suburbs on the plains of Makerere Hill that constitute the main residence of Kampala's lumpen proletariat. And so, on Saturday evening and the whole of Sunday thousands of people trekked along Bondo Road to the centre of the city and returned with all sorts of goods. Absolutely oblivious of the gunshots that were heard continuously day and night, members of the lumpen proletariat—men, women, and even children—looted shops, offices, garages, and eventually private homes. Normally, the soldiers would shoot at the padlock, enter the premises, and help themselves to the most expensive items which would be packed on the looted cars. As soon as the soldiers had left, the civilians would come in next, with women and children coming in last to scavenge among the debris.

In time organisational structures began to form so as to scaffold the exercise. Groups of soldiers would form bands with lumpen civilians; the soldiers provided weapons and the surety that looted property was not requisitioned by other soldiers, in turn the civilians provided information on places both for looting and for hideouts as well as numerous skills—e g, opening a safe, repairing a faulty vehicle, driving a vehicle without a switch, etc. Some bands took to driving around town requisitioning anything carried by civilians who ventured into the streets unescorted by armed bands.

The alliance between the soldiers and the lumpen elements was easy to forge because, in essence, the Ugandan army is a lumpen army. It recruits its rank and file from the depraved fringes of both urban and rural communities, and concentrates mainly on the northern districts of the country where economic conditions are the worst. Furthermore, since Obote's return to power the army as an organisation encouraged very much the lumpenisation of the soldiery. Frequently troops were not paid salaries, and officers were known to appropriate moneys meant for their men who then would be left to fend for themselves through extortion at roadblocks and direct robbery. And that is the army that Obote relied upon to check the growth of the many 'bandit' units.

The character of the army could be clearly seen in the manner in which the soldiers treated civilians and public utilities. They treated these with utmost disdain; soldiers with a lorry full of looted property would occasionally stop to rob an elderly lady of the pair of aluminium pots she had managed to obtain, or a youngster—clad in tatters—of the pair of tennis shoes he had scavenged somewhere. They definitely behaved worse than an army of occupation. It was significant that they had no mercy even for those insitutions that one would think the army would need if it was going to rule the country effectively: having secured both the central bank and the post office, the soldiers entered the buildings and took whatever they thought was worthwhile and vandalised whatever they thought was worthless. By Tuesday afternoon, when it became possible to walk into the streets *albeit* in a tense atmosphere, we trampled upon heaps of treasury bills and other important documents thrown about in Kampala Road by the soldiers who were now guarding the two institutions.

### Lumpenised Society

Obote's administration was inclined to lumpenise not only the soldiery but practically all sectors of the working people. Civil servants frequently went without salaries for several months, and its was officially acknowledged that even senior civil servants could never survive on the salaries they earned—they had to engage in all sorts of activities, legal and illegal, to be able to survive. At the state owned Lake Victoria Hotel in Entebbe employees had not been paid for upto three months at the time of the coup, and had been scrounging on the guests—cheating them on this and that, begging for money, pinching from rooms, etc—although during that time the hotel was nearly always full.

As a result of the International Monetary Fund's economic prescriptions and the corrupt and compradorial nature of Obote's regime, socio-economic conditions in the country had over the years been deteriorating very fast for the vast masses of the people. Inflation was running at breakneck speed: at the beginning of the decade the US dollar was equal to some 60 Ugandan shillings, but by the time of the coup the ratio had reached some 650 shillings to the dollar. The legal minimum monthly wage at the time of the coup stood at 6,000 shillings—enough to buy only two litres of beer, or four bars of laundry soap, or three kilograms of meat.

Yet during that time Kampala literally wallowed in consumer luxuries. Soon after regaining power, Obote, who also doubled as his own Finance Minister, introduced a system whereby the country's foreign exchange reserves, earned through the export mainly of peasant produce and mineral goods, were periodically auctioned to buyers who used it to import goods into the country. Needless to say, they imported only those goods whose turnover would be fast and large, i e, luxuries to satiate the demands of the Ugandan bourgeoisie and that of neighbouring countries. Kampala became the most attractive shopping centre in Eastern Africa.

But in all the wealth of wares vended, one sought in vain for even a simple good with the mark 'made in Uganda'; for industrial production was practically at a standstill as a result of both sheer neglect and the government's import policy. At times industry was strangled in a most brutal and direct manner; we learnt, for instance, that a dignitary in Obote's government had the curious habit of constantly ordering restraint in production at the brewery whenever sales of imported beer—a business he controlled—were not upto his liking. If then the economic policies pursued by the Obote regime under the guidance of the IMF benefited anybody it is the multinational companies which used Uganda as a dumping ground and captive market, and secondarily the compradorial bourgeoisie that carried out import-export trade. The working people fared worst of all.

If there was one clique which was notorious for its brazen enrichment at the expense of the country, it was Obote's own cabinet. Although nearly all of Obote's ministers had been needy exiles during Amin's reign, nearly all of them became millionaires in two to three years, running numerous businesses within the country and outside as well. With Obote at the helm, politics became such a lucrative business that when he announced that civil servants and parastatal employees seeking election in the parliamentary elections scheduled for December 1985 would have to resign their posts by June 1985, Makerere University lost 13 of it its professors. The chief executive of a state-owned factory in Jinja town similarly resigned, but had the foresight and brazenness to take with him all the company's funds, in both local and foreign currency, so that by July the factory had stopped production for lack of inputs and working capital.

Such was the level of official looting perpetrated daily in high circles under Obote. Clearly, then, the three-day looting that was a sequel to the coup was merely a concentrated form of the long-term looting carried out by the authorities. If Obote had regained power with a promise to clean up the mess created by Iddi Amin, in actual fact he merely confounded that mess. And he still would have continued to reign for long if he had not committed fatal political blunders. For, strictly speaking, the factors that precipitated the coup that ousted him for a second time were of his own making. Previously Obote had been completely oblivious of the various cleavages that necessarily arose in his corrupt regime As long as each faction generally looked to Obote for political clout, he did not give a damn for all the infighting that characterised his government. As is well known, political struggles in Africa very soon acquire a tribal and/or religious shrouding, and in Uganda this factionalised politics was of late reaching such proportions that Obote's own actions began to be associated with it. Lacking the tact to steer clear of that politics, he thought he could clamp down on it by lending his weight on one side. It was a fatal mistake. Having an army which is predominantly of one tribe, Obote made it appear that he was siding with a tribal grouping that enjoys a minority position in the army. The officers from the majority tribe could not but be alarmed, and when they ordered their men to march on Kampala, Obote had no option but to flee.

Such, then, is the brankruptcy of politics in Africa. For it should not be thought that these features are purely Ugandan, in truth they characterise political developments in the continent as a whole. The political decay differs from one African country to another only in its degree.

### NO POLITICAL DIRECTION

It is true, though, that in the case of Uganda these common aberrations have tended to manifest themselves most sharply, and the political decay has thus appeared in a most exaggerated form throughout the history of independent Uganda. Indeed, the people of Uganda have suffered a lot; for two decades a beautiful country has been severely ravaged by savage rulers. The people's resourcefulness is vindicated by their ability to survive and indeed make progress in practically all fronts despite almost insurmountable odds. Economically, for instance, self-reliant acumen has been demonstrated; for if industry proper has been crippled, the outskirts of towns are full of small scale industrial enterprises that use local resources and skills. Similarly, peasant achievement in food production can only be described as highly commendable. With a different political system the Ugandan people could do wonders.

How they are going to fare under General Okello still has to be seen. But one cannot hope for much. To begin with, the new military leadership is completely devoid of political direction. It was perhaps significant that upon capturing the capital city, the troops for a while attempted to celebrate their victory in the streets but were absolutely unable to coin even a single slogan that would express their sentiments and also rally support from the civilian population. The attempt was immediately abandoned; theirs was a movement without a mission. The entire horizon of their social vision ended at the doorstep of the consumer shop, which they looted extravagantly in emulation of their political rulers.

Secondly, it should not be forgotten that basically it is only Obote and very few of his close colleagues who have left the political scene. The new rulers are so incapable that they have been looking for collaborators from the remnants of the old regime. Four weeks after the coup, they had not yet succeeded in forming a full cabinet—posts have been dished out to individuals and groups on a piece-meal basis. The task of securing agreement from all the warring groups seems a very tough one for them. At most, therefore, one can only hope that some form of general accommodation will be reached in the near future so as to give the Ugandan people peace—*albeit* necessarily a temporary one. For the possibility of a popular democracy is still as remote as ever.

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# The New UNIDO

## Expectations *versus* Realities

### S Nanjundan

THE first part of the first session of the General Conference of the United Nations Industrial Development Organisation (UNIDO) in its new capacity as an autonomous specialised agency of the United Nations system was held in Vienna from August 12 to 17. 110 of the 120 member states, seven observer states, as well as observers from other United Nations and International Organisations participated in the Conference.

UNIDO takes it place as the 16th independent agency in the United Nations system. It has been in existence as an autonomous or semi-autonomous organ of the United Nations General Assembly since 1966. The conversion of UNIDO into an independent specialised agency was among the measures recommended by the second General Conference of UNIDO at Lima in 1975. The present Conference is the culmination of 10 years of preparatory work by United Nations member states to achieve this independent status.

The Conference appointed as its first Director General, Domingo L Siazon of the Philippines who had been in Vienna for years in the Philippine Mission and in recent years as the Ambassador of that country. Most of the time of the Conference was taken over the election of the Director General by its Industrial Development Board. After a series of five sets of balloting among three candidates (respectively from the Philippines, Mexico and Nigeria), spread over a period of three days, the Philippine candidate was finally elected by a simple majority of 24 out of 53 members of the Industrial Development Board.

The other tasks accomplished by the first session of the first Conference were the election of the Industrial Development Board and the Programme and Budget Committee, as well as provisionally approving Rules of Procedure and an Agreement with the United Nations. The new Director General and the Secretariat will have until the end of September to prepare a Programme Budget for the biennium 1986-87 and to make proposals on the re-organisation of the Secretariat. The budget as well as these proposals will be considered by the Programme and Budget Committee which will meet from the last day of September. The Industrial Development Board will meet in November, with the second and final part of the first General Conference in December, to approve the scale of assessment for members of the organisation, to approve the budget, to approve staff rules and regulations and agreements with UNDP and UNIDO, in order that the new organisation begins functioning *de jure* from January 1, 1986.

### NATURE AND FUNCTIONS OF THE NEW ORGANISATION

That a new autonomous agency of the United Nations system has been created in the 40th year of the anniversary of the United Nations is considered significant and an omen of the good intentions of the international community in regard to fulfilling the objectives of industrialisation and economic development of the Third World. In reality, however, it is the first time that an organ of the United Nations General Assembly, hitherto financed from the budget of the United Nations, is being converted into a specialised agency. The new agency will be independent of the United Nations General Assembly, it will have its own budget approved by its General Conference, resources being raised by assessment from its member countries, as is the case with other autonomous agencies such as FAO, ILO, UNESCO, WHO, etc. The developing countries which proposed an autonomous agency in 1975 considered autonomous functioning essential for fulfilling the Lima target and Lima objectives of industrialisation and international co-operation. At that time, 10 years ago, even though the first oil shock had happened; it was a period of optimism for North-South co-operation. The special session of the United Nations General Assembly held later in that year not only endorsed the Lima Declaration but also exuded optimism in relation to industrial redeployment and re-structuring as well as flow of resources from the North to the South.

In the changed circumstances of today when the world economy is at a standstill if not stagnating, when the burden of debt of the developing countries and the lack of growth of developed countries has led to drying up of multilateral assistance, when it will be difficult to raise additional resources, it is a moot question whether the conversion of UNIDO will be to the long-run advantage of industrialisation of the developing countries.

The objectives and functions of the new organisation, contained in articles 1 and 2 of the Constitution (see Appendix), are broad-based and are no different from those of the present organisation. The silver lining in the cloud is in fact the greater enthusiasm of the developed countries than the developing for the establishment of the new organisation which may lead to provision of more support and resources to the new organisation, provided acceptable policies and programmes are undertaken.

### Developing Countries and UNIDO

From its beginning in 1966 UNIDO, like UNCTAD, has been regarded as the organisation *of* the developing countries, instead of *for* the developing countries. It has always been headed by a person from a developing country. It has sought to become a forum for consultations on issues of re-deployment and re-structuring as well as of industrial financing. Such a rule has not been acceptable to the developed countries, who have sought to emphasise the technical assistance role of the organisation. In reality technical co-operation with developing countries in the establishment and improvement of industries, through the deployment of UNDP and other bilateral resources, has become the major function of UNIDO. Expenditures on technical co-operation projects in developing countries amount to $ 80-90 million per year.

It is the hope of the developed countries that UNIDO would shed its role of being a forum for debating North-South issues and strengthen its role as a professional body providing technical assistance and co-operation for the industrialisation of the developing countries. The Constitution of the new UNIDO, which requires the programme and budget to be approved by a two-thirds majority of 27 members of the Programme and Budget Committee (15 from developing countries, 9 from developed market economies, and 3 from developed socialist countries), will tend to ensure the realisation of such an expectation.

There is much to be said for UNIDO streamlining its activities and concentrating on becoming a leader in providing advice on industrialisation issues and in co-ordinating technical co-operation for industrial development, rather than engaging in discussions, debates and consultations for the purpose of negotiation of concessions from developed countries, for which other UN fora exist.

### India and UNIDO

While India has always played a leading role in UNIDO's governing bodies and in its Secretariat, the government does not seem to have a clear perception of its role or of what it wants to achieve from or through UNIDO as such. It lacks a strategy on its role in UNIDO. India has always lent strong support to the executive head of the organisation. It has made available voluntary contributions in a generous manner. However, it has not succeeded in bringing cohesiveness or working out meaningful co-operation within the Group of 77. There is lack of co-ordination in approaches towards the same issues coming up in different governing bodies such as those of UNIDO, UNDP and ECOSOC. For example, India's assistance to ECA on the Industrial Development Decade for Africa is not co-ordinated with its assistance to UNIDO for the same programme. The approaches to issues in the United Nations General Assembly or its committees might differ from those in the Conference or Industrial Development Board of UNIDO. The creation of the new UNIDO offers a unique opportunity for India to review its role, policy and strategy in relation to the new organisation, taking into account the short-term and long-term advantages to the country in its relations with both the developing and the developed countries.

### Appendix

Article 1: *Objectives*

The primary objective of the organisation shall be the promotion and acceleration of industrial development in the developing countries with a view to assisting in the establishment of a new international economic order. The organisation shall also promote industrial development and co-operation on global, regional and national, as well as on sectoral levels.

Article 2: *Functions*

In fulfilment of its foregoing objectives, the organisation shall generally take all necessary and appropriate action, and in particular shall:

(a) Encourage and extend, as appropriate, assistance to the developing countries in the promotion and acceleration of their industrialisation, in particular in the development, expansion and modernisation of their industries;

(b) In accordance with the Charter of the United Nations, initiate, co-ordinate and follow up the activities of the United Nations system with a view to enabling the organisation to play the central co-ordinating role in the field of industrial development;

(c) Create new and develop existing concepts and approaches in respect of industrial development on global, regional and national, as well as sectoral levels, and carry out studies and surveys with a view to formulating new lines of action directed towards harmonious and balanced industrial development, with due consideration for the methods employed by countries with different socio-economic systems for solving industrialisation problems;

(d) Promote and encourage the development and use of planning techniques, and assist in the formulation of development, scientific and technological programmes and plans for industrialisation in the public, co-operative and private sectors;

(e) Encourage and assist in the development of an integrated and interdisciplinary approach towards the accelerated industrialisation of the developing countries;

(f) Provide a forum and act as an instrument to serve the developing countries and the industrialised countries in their contacts, consultations and, at the request of the countries concerned, negotiations directed towards the industrialisation of the developing countries;

(g) Assist the developing countries in the establishment and operation of industries, including agro-related as well as basic industries, to achieve the full utilisation of locally available natural and human resources and the production of goods for domestic and export markets, as well as contribute to the self-reliance of these countries;

(h) Serve as a clearing-house for industrial information and accordingly collect and monitor on a selective basis, analyse and generate for the purpose of dissemination information on all aspects of industrial development on global, regional and national, as well as on sectoral levels including the exchange of experience and technolgical achievements of the industrially developed and the developing countries with different social and economic systems;

(i) Devote particular attention to the adoption of special measures aimed at assisting the least-developed, land-locked, and island developing countries, as well as those developing countries most seriously affected by economic crises and natural calamities, without losing sight of the interest of the other developing countries;

(j) Promote, encourage and assist in the development, selection, adaptation, transfer and use of industrial technology, with due regard for the socio-economic conditions and the specific requirements of the industry concerned, with special reference to the transfer of technology from the industrialised to the developing countries as well as among the developing countries themselves;

(k) Organise and support industrial training programmes aimed at assisting the developing countries in the training of technical and other appropriate categories of personnel needed at various phases for their accelerated industrial development;

(l) Advise on and assist, in close co-operation with the appropriate bodies of the United Nations, specialised agencies and the International Atomic Energy Agency, the developing countries in the exploitation, conservation and local transformation of their natural resources for the purpose of furthering the industrialisation of developing countries;

(m) Provide pilot and demonstration plants for accelerating industrialisation in particular sectors;

(n) Develop special measures designed to promote co-operation in the industrial field among developing countries and between the developed and developing countries;

(o) Assist, in co-operation with other appropriate bodies, the regional planning of industrial development of the developing countries within the framework of regional and subregional groupings among those countries;

(p) Encourage and promote the establishment and strengthening of industrial, business and professional associations, and similar organisations which would contribute to the full utilisation of the internal resources of the developing countries with a view to developing their national industries;

(q) Assist in the establishment and operation of institutional infrastructure for the provision of regulatory, advisory and developmental services to industry;

(r) Assist, at the request of governments of the developing countries, in obtaining external financing for specific industrial projects on fair, equitable and mutually acceptable terms.

[This article reflects the personal views of the author and not those of the organisation with which he was till recently associated.]

## REVIEWS

# Technology as Manna from Heaven

### Monojit Chatterji

**Capital and Technological Progress in the Indian Economy, 1950-51—1980-81** by S Hajra; Radiant Publishers, New Delhi, 1985; pp xvi + 198, Rs 95.

THIS book deals with an important topic. The slow and uneven growth performance of the Indian economy has been the cause of much soul-searching and hand-wringing amongst economists, politicians and policy-makers. Part of the concern stems from the fact that, unlike many other underdeveloped countries, our rate of savings and investment has been fairly impressive. Thus one of the pre-conditions of high growth, *viz*, a high and relatively stable investment path has more or less been met in India. Despite that, our growth performance has been inadequate. This is one of the author's central concerns in this book. The other main concern is to shed some light on the optimality or otherwise of the sectoral allocation of investment. The author's main conclusions are that the unsatisfactory growth performance of the Indian economy is due to a low rate of technological progress and that "a step up in the rate of capital formation in the private corporate sector (as opposed to the public sector) will contribute to higher growth of industry" (p 186). The main policy conclusion that he draws from this is that "modernisation, technological absorption and technological upgradation are a must" (p 190). In this context the author endorses "the recent liberalisation of the policy of technology import . . ." (p 190). The reader may well ask on what analytical and empirical foundations these strong conclusions are based.

The author's methodology is simple if not simplistic. He estimates Cobb-Douglas production functions allowing for simple exogenous manna-from-heaven type technological progress. In this approach, technological progress is viewed quite simply as that contribution to production which cannot be explained by the standard factors of production. In other words, technological progress is another way of expressing our ignorance of the forces affecting the productive process. Since capital and labour are highly correlated, the author fits the production functions using capital alone. Land is omitted presumably on the grounds that it is not a scarce resource in India. In log-linear form the author's basic estimating equation is: $\log y(t) = a + b \log k(t) + ct$ where $y(t)$ is output at time t, $k(t)$ is capital stock at time t, and a, b, and c are the parameters to be estimated: b is the economies of scale parameter while c is the technological progress parameter.

Estimates of a, b, and c were obtained both for the whole economy and for various sub-sectors of the economy using CSO data obtained from the National Accounts Statistics. The capital stock series had to be constructed from the investment series available from these sources. Given the well known problems of measuring capital, this is a tricky business. The author appears to have simply cumulated the relevant investment series without any attempt to allow for depreciation or to use an appropriate benchmark for the value of the initial period capital stock. In the light of this, the author's well determined estimates of a, b, and c must be treated with some caution. However, the main problem is not so much the statistical shortcomings but the interpretation of the results. Even if one took the author's estimates at face value, serious difficulties remain.

The author's basic estimating equation (above) can be differentiated with respect to time to obtain the growth equation: $g(y) = c + b\ g(k)$ where $g(y)$, $g(k)$ are respectively the growth rates of output and capital. Along a steady state growth path the capital-output ratio is constant so that the growth rates of capital and output are the same. Denoting this common steady state growth path by g, the growth equation can be rearranged as: $c = (1 - b)g$. Given the values of b and g, the steady-state warranted value of c can be calculated. If the actual value of c turns out to be lower than this warranted value then the capital-output ratio is rising and steady growth cannot be maintained. The Indian economy has indeed been characterised by a steadily rising capital-output ratio. The author merely confirms this by obtaining an estimated value of c considerably lower than the warranted c. Hence the author's claim that our poor growth performance is due to too low a rate of technological progress as measured by the parameter c.

This is not a very helpful finding; indeed it is almost tautologous. Since technical progress is not modelled or explained in any way, what are we to infer from this? The author notes that other (high growth) countries have had a higher rate of technical progress (a higher c). Since c is treated like an exogenous god-given constant, are we to infer that our poor growth performance is because god likes us less than she/he does other countries? Certainly there is nothing in the author's estimates to suggest that liberalising the import of technology will increase the value of our c. If anything, the import of capital-intensive technology from the advanced countries will further increase our capital-output ratio. In the author's framework this will further increase our warranted c and thus we will need an even higher actual c to maintain steady growth.

The author's other main conclusion regarding the desirability of restructuring investment towards the private sector is even more curious. On page 90 the author reports the estimated values of b and c for private and public sector manufacturing industry. The private sector has a much higher value of c (god likes the private sector more than the public sector?) but a much lower value of the scale parameter b Indeed the public sector's scale parameter is not significantly different from unity. This implies that the elasticity of output with respect to capital accumulation is considerably higher in the public than in the private sector—nearly three times as much if the author's estimates are taken seriously. The growth of private sector output is, relatively speaking, due to technical progress. The implication seems to me to be quite clear—we should allow god to help out her/his friends in the private sector whilst we humble humans should direct our investments towards the public sector where they actually produce results. A similar argument follows if the estimates for another almost exclusively public sector industry, *viz*, gas, electricity and water (page 141) are examined.

The real difficulty for all of this stems from the overly simple methodology the author has adopted. There is no attempt to connect the various sectors in order to test for a leading sector type hypothesis. In an underdeveloped country where backward and forward linkages are likely to be important, such an approach might well yield insights, particularly on the question of intersectoral investment. An attempt to explain technical progress would also have been very useful. A proper treatment of the disease (of low technical progress) might then be more successful. Despite these shortcomings, the book raises some important issues. In that it serves a useful purpose.

# Not Official History, Not Independent Evaluation

### Bhabatosh Datta

**Reserve Bank of India: Fifty Years, 1935-85** by E P W da Costa; Reserve Bank of India, Bombay, 1985; pp 161, Rs 50.

ON the occasion of the completion of its fifty years of operation, the Reserve Bank commissioned E P W da Costa to write a book "which would highlight the landmarks in the development of the Bank as an institution, bringing out in full flavour its major contributions as a central banking institution". Da Costa, very naturally, has not gone beyond his brief and the occasion was not one in which the Reserve Bank would be wanting to publish itself a critical analysis in depth of its working over the fifty-year period. This task, it may be expected, will be taken up by others. The official history edited by S L N Simha covers the first sixteen years in great detail, but an official history suffers from certain limitations. It is time that the later history was analysed in detail and an evaluation made of the success and failures of the Bank.

Within the constraints of the assignment, which spoke only of 'landmarks' and 'contributions', da Costa has written an eminently readable book. The chapter on the political and economic environment of the thirties gives a clear picture of the backdrop on which the Reserve Bank was introduced. The only vital missing point relates to the gestation period from 1927 to 1934 on which an interesting paragraph or two could have been written. It should also have been mentioned, without any suggestion derogatory to the Bank, that the Reserve Bank of India Act was finally passed in 1934, not because of the recognition of the monetary needs of the economy, but because the European business interests were insistent that power over finance and banking must not be transferred to Indian ministers before an independent central bank had been established.

The treatment of the subject in da Costa's book is historical and the account given is short but fairly full. Certain things have to be glossed over, like the position taken by the Bank when the Travancore National and Quilon Bank failed in 1938. More important is the rather superficial description of the role of the Reserve Bank in expanding the rupee circulation during the War, when it was made to accept large amounts of sterling and when half-hearted attempts to stem the inflationary pressures were found to be inadequate. On the credit side, there could be some mention of the positive part played by the Bank in saving some commercial banks from the serious pressures of the immediate post-War years.

Chintaman Deshmukh gets full attention, but the other governors are referred to only casually. The full story of Osborne Smith's departure will perhaps never be told. Da Costa's statement that Benegal Rama Rau resigned in 1957 "apparently because of differences with the then Finance Minister T T Krishnamachari" is a polite understatement, when it is well known that Rama Rau was asked to resign within a very short time-limit. Perhaps the author did not want to go into the question of the relationship between the Finance Ministry and the Reserve Bank. There is thus no mention of the fact that important decisions were (and still are) taken without consulting the Bank. The most glaring example was that of the decision to nationalise 14 major commercial banks in 1969, which was taken without any discussion with the Bank. In fact, even the Finance Minister was not consulted. Of course, a golden jubilee celebration, with the Prime Minister presiding, is not the right occasion to raise the question of the autonomy of the Bank and its right to be heard when important financial decisions are taken.

The account given in the book of the recent years is rather superficial, though the chapter on rural credit is fuller than those on industrial development, export credit, etc. The chapter on 'Stabilisation, Destabilisation and Restabilisation of Prices' does very little to justify the high-sounding title. And the rather purple paragraphs at the end of the book on "the most surprising of all political developments since Independence" and the "smooth, miraculously smooth, process of desirable change" could have been left out in a work which though commissioned as a publicity handout, is written by one who begins the book by asking Memory to hold the door. There is no reason why da Costa's memory should be myopic.

The book of course serves its purpose as a publicity handout. While many unpleasant facts are brushed under the carpet, the more obvious facts are there including details about the later careers of some governors. Some omissions could however have been rectified. For example, there is a table on the money stock ($M_1$ and $M_3$) from 1969-70 to 1984-85 in the Appendix, but the explanation in the text is sketchy. The historical information could also have been checked carefully. For example, it is not quite correct to say that under the Currency Act of 1927, "the government had the option of giving gold or sterling against rupees". In fact the option was given to the buyer to demand gold provided that he tendered rupees equivalent to the value of 400 ounces of gold at Re 1 = 8.47512 grains (i e, 1,065 tolas at Rs 21. 3 as. 10 p per fine tola). Gold dealers could easily offer the required Rs 22,620 and that kept the market price of gold at a little below Rs 22 per tola.

A brief reference has been made to the Research and Statistics unit of the Bank. The book could have given a fuller account of the important work done by this unit and of the immensely valuable publications, besides the *Bulletin*. No serious student of economics can do without the *Reports on Currency and Finance*, the *Annual Reports* and the *Monthly Bulletin* and there is rich material in the various special reports and occasional papers. It will not perhaps be uncharitable to say that the general reader will get a better idea about the Bank from its staff publication on "Functions and Working" than from da Costa's book. But the book is apparently meant for a different clientele.

It is time that the Reserve Bank took up the preparation of the second volume of the official history, the first volume of which covered the first sixteen years from 1935 to 1951. An official history is not a substitute for an independent expert evaluation, but it provides the base for further work. A convenient cut-off date for the second volume will be 1969-70 covering the activities and performance of the Bank from the First Plan to the beginning of the Fourth Plan, i e, over three five-year plans and three years of 'plan holiday'. The seventies brought in a new position with the Reserve Bank at the head of a nationalised banking system and also brought the Bank face to face with the problems of severe inflation and of uncomfortable increases in foreign reserves. Probably the appropriate period of study for the third volume will be 1970-1985. If da Costa's evaluation of the Bank being "poised for a new adventure" in 1985 is correct, that year ought to turn out as a water-shed.

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## Colour-Chem

COLOUR-CHEM's Chairman B M Ghia has reiterated his plea to the Central government of urgent revision of the anomalous import duty structure. At the company's annual general meeting in Bombay he said the extent of actual imports—totally unwarranted in areas where efficient import substitution has already been well achieved—should cause concern to all those interested in the nation's industrial base. Some sectors of the chemical industry in particular are being severely hit by the continuance of indiscriminate imports, though the national exchequer also pays dearly for them. Referring to the current working of the company, the Chairman says that in spite of turbulent conditions in some of the major consuming centres, turnover has been some eight per cent ahead of the same period last year. The company's project for setting up a plant for manufacture of meta phenoxy benzaldehyde (MPB) at Roha in Maharashtra is likely to commence regular production very soon.

# Exploitation and Labour Theory of Value

## A Critique of Roemer's General Theory of Exploitation and Class

**Khalid Nadvi**

*The uniqueness in J Roemer's work lies in his attempt to put forward a model to deal with exploitation in all modes of production. It is the author's contention, however, that Roemer's method and the model that it produces are highly flawed and reject certain aspects of a Marxian approach which are central.*

*Roemer posits a model of exploitation based upon unequal ownership of human (skills) and non-human property (land, means of production) and seeks to prove the superiority of this property rights model over the conventional surplus labour model of exploitation. In rejecting the labour theory of value, however, Roemer loses the core of the Marxist theory of exploitation, namely, the social relations of production between commodity producers and the exploitation of labour through the creation of surplus value at the point of production.*

*This paper begins by presenting a brief outline of the leading features of Roemer's model. This is followed by the author's major criticisms of the substance and methodology of Roemer's General Theory. Finally, the author puts forward his arguments for the need for a surplus labour theory to understand exploitation and restates his position on the centrality of the labour theory of value.*

### I

### Introduction

OUT of the celebrated debate on the transformation problem there has arisen what is rather fancifully termed as a neo-Marxian approach, whose most renowned exponent Steedman has utilised the Sraffian system to obtain a formulation for prices. (See Steedman 1977 and Steedman, Sweezy, *et al*, 1981.) Such neo-Ricardian analysis has concerned itself primarily with value and prices. However the recent works by Roemer (Roemer, 1982a, 1982b) which we argue have to be seen as an extension of this school, have taken such neo-Ricardian analysis onto an altogether different dimension; from specific price formation models to the level of a general theory of exploitation. His writings have without a doubt taken Marxist academia by storm, a reflection of their novelty as well as quality. A few excellent commentaries and critiques of Roemer have appeared (notably Abell 1983; Eatwell 1982; Przeworski 1982; Elster 1982; Wright 1982); however, surprisingly, none have seriously dealt with the implications, both in terms of theory and praxis, of Roemer's rejection of the labour theory of value. This rather simple oversight on the part of these commentators is the focus of our arguments against Roemer in specific and the neo-Ricardian school in general.

The uniqueness in Roemer's work lies in his attempt to put forward a model to deal with exploitation in all modes of production. The aim of such a general theory being to lay the foundations for an analysis of the laws of motion of socialism. Such an aim is an achievement in itself and deserves applause. There is without a doubt a need for Marxists to provide critical analysis of the socialist mode of production which goes beyond the individual, concrete, case specific approach put forward within the format of the Marxist theories of the State.

Nevertheless, it is our contention that Roemer's method and the model that it subsequently produces are highly flawed and reject certain aspects of a Marxian approach which we consider central. Roemer, who professes to be a concerned Marxist, somewhat cheerfully, acknowledges the 'heresy' in his writing and yet bravely carries on not so much in providing a critique of the contradictions in Marxist thought, but in putting forward *a priori* statements. He posits a model of exploitation based upon unequal ownership of human (skills) and non-human property (land, means of production). He goes to great lengths to prove the superiority of this property rights model over the conventional surplus labour model of exploitation. In rejecting the labour theory of value Roemer loses what we believe to be the core of the Marxist theory of exploitation, namely, the social relations of production between commodity producers and the exploitation of labour through the creation of surplus value at the point of production.

In the following section we present a brief outline of the leading features of Roemer's model. We state at the outset that we shall not attempt to deal with the more detailed mathematical proofs of Roemer's theorems. This is followed by our major criticisms of the substance of and methodology within Roemer's General Theory. We are not convinced by the arguments used by Roemer for the suitability of a games theoretic approach and the need for a synthesis between the neo-classical general equilibrium and Marxist schools through the structure of mathematical modelling. Such a noble task is in our opinion doomed to failure due to the quite distinct approaches and contradictory aims of the two disciplines. Finally, we put forward our arguments for the need for a surplus labour theory in understanding exploitation, we restate our position on the centrality of the labour theory of value.

### II

### Outline of Roemer's General Theory

As has been noted, Roemer attempts to put forward a theory of exploitation which encompasses feudal, capitalist and socialist modes of production. Exploitation in each mode comes about as a result of an unequal distribution of property rights. Consequently feudal exploitation is derived from differential access to freedem from bondage, where such freedom (to freely trade) is itself a property right. Interestingly, Roemer equates feudal exploitation with what he terms as "neo-classical" exploitation where factors of production are no longer paid their marginal product. Capitalist exploitation results from unequal ownership of the means of production, i e, alienable non-human assets. Socialist exploitation is a consequence of inequitable distribution of inalienable, human property. Differential endowments of human assets taking the form of skill and status exploitation (and, presumably, gender and race exploitation).

Under feudalism all three forms co-exist. The transition from feudal to capitalist mode of production brings about the eradication of feudal exploitation (the removal of the barriers of free trade). Similarly, the transition from capitalism to socialism entails the destruction of capitalist exploitation. In Roemer's words, "each revolutionary transition has the historical task of eliminating its characteristic associated form of exploitation" (Roemer, 1982a; p 21).

The test for exploitation put forward by Roemer ranks as one of the most novel features of his model. Exploitation is said to exist if a coalition of agents could withdraw from the given social and economic relations, with their per capita share of the inequitably distributed property rights (assets) and subsequently raise their social welfare levels (whatever that social welfare criterion may be).

This concept of 'contingently feasible alternatives' is not a purely abstract tool to ascertain exploitation by positing an alternative state where the coalition of agents can be better off by not facing such exploitation; it is in fact conceived as being hypothetically feasible. Consequently the test for exploitation under feudalism involves the elimination of feudal bonds, where a coalition of oppressed agents (serfs) could raise their standards of living, income, welfare by withdrawing from the master-serf relations with the land they operate and the tools they utilise for production. Similarly, capitalist exploitation exists if a coalition of workers can withdraw from the capitalist economy with their per capita share of the means of production and raise their welfare levels.

Roemer argues that this model of exploitation based upon property rights is superior to the orthodox Marxist definition based upon extraction of surplus labour in that exploitation can be shown to exist in the absence of employment relations.

The logical proof of this is provided in the model of a subsistence economy. Roemer shows that in such an economy, agents optimise their leisure (i e, minimise hours worked) while maintaining subsistence needs on the basis of their given endowments. If a labour market with uniform technology and identical subsistence patterns exist, then agents will trade in labour endowments in order to satisfy consumption needs, while minimising the actual labour performed. There will be agents who will acquire their subsistence needs through the purchase of the labour power of others, and there will be agents who will have to sell all their labour in order to meet their subsistence requirements. Those who work more than is socially necessary to satisfy subsistence needs are considered exploited while those who work less than is socially necessary are exploiters. Exploitation is judged on the basis of labour time.

From this Roemer derives what he calls the Class-Exploitation Correspondence Principle (CECP). Given the choice of hiring labour, working for oneself and selling labour (or a combination of these) Roemer constructs five distinct 'class' categories on the basis of given endowments. They can be described as follows: (i) pure capitalists who only hire labour; (ii) small capitalists who both hire others and work for themselves; (iii) petit bourgeois who only work for themselves; (iv) mixed proletarian who work for themselves as well as selling part of their labour power; and (v) proletarians who only sell their labour. Roemer's rank ordering puts the pure capitalists and small capitalists at the top of the wealth hierarchy as the richest and most exploitative members of society, while the mixed and pure proletarians are on the lowest rungs of the wealth ladder, being the poorest and most exploited strata.

Having constructed the link between exploitation and class, Roemer goes on to show that a labour market need not exist for such a link to hold. If the labour market is replaced by a capital market we find that the class structure embodied in the CECP still holds. Agents attempt to satisfy their subsistence needs on the basis of their given capital endowments. Consequently, as in the labour market economy, an agent faces the choice of lending capital to others at a given rate of interest, working one's own capital or borrowing capital, or some combination of these. Thus a producer with limited capital endowments will have to borrow capital at the given rate of interest in order to finance his/her production. As above, at an equilibrium solution with given equilibrium price vector, those agents who work less than the socially necessary labour time are the exploitative class, while those who work more than is socially necessary to satisfy consumption needs form the exploited class. Thus, as before, in the rank ordering of classes, the exploited are the borrowers of capital while the exploiters are the lenders of capital. The significance of this is outlined by Roemer:

> In class and exploitation properties the two solutions are isomorphic; the credit and labour markets are functionally equivalent. We can thus produce the highly articulated class structure usually associated with a labour market, with no institutions for labour exchange, and using just a credit market. The heresy is complete. Not only does exploitation emerge logically prior to accumulation and institutions for labour exchange but so does the articulation of exploitation into class (Roemer, 1982b; p 265).

Exploitation can now be explained without recourse to any understanding of wage relations or analysis of the labour process. The conclusion of Roemer's exercise is that the inequality of wealth endowments (property rights) is a sufficient condition for exploitation to occur.

Within an accumulating economy, the analysis is much the same. As agents differ in their endowments of assets, at an equilibrium solution there will exist the conditions for exploitation (in contradiction to the neoclassical gains from trade arguments). Exploitation occurs when a producer "cannot possibly command as much labour value, through the purchase of goods with his revenues, as the labour he contributed in production, and an exploiter is one who unambiguously commands more labour time through goods purchased no matter how he dispenses his revenues" (Roemer, 1982b; p 269). This definition narrows the exploited and exploiter classes within the CECP, hence widening the 'grey area' of producers who are neither exploited nor exploiting.

On exposing his model to production technology sets more general than the simple Leontief input-output matrix (where each good is produced by precisely one process) Roemer comes up with a surprise. As he outlines, in order to explain exploitation in general technology models one has to define the concept of labour embodied in a commodity. However, when using the traditional Morishima definition of labour embodied (where labour embodied in a commodity bundle x is the minimum amount of direct labour used amongst all the possible ways of producing $\underline{x}$) Roemer finds that the CECP breaks down. In the face of the possible destruction of his model, Roemer constructs an ingenious, if somewhat dishonest, escape path from the problem.

He puts forward an alternative definition of labour embodied. Instead of Morishima's method which is to scan all the production processes in order to find the one with the least direct labour used, Roemer argues that at the going equilibrium prices, one must scan those processes which are maximally profitable. Thus the labour value embodied is " . . . the minimum amount of direct labour used in producing $\underline{x}$ minimised over the set of maximally profitable processes. This generates a definition of exploitation for which the CECP is true in the general constant returns to scale model of production" (Roemer, 1982b; p 272). In the Morishima definition of labour embodied, labour value is a function of the technology used and is independent of prices. For Roemer's definition, however, labour values are purely dependent on price; price precedes value. In Roemer's words, "equilibrium prices must be known before labour value can be said to exist" (Roemer, 1982a, p 150). This new definition overthrows the traditional Marxist view that values precede prices. It is, as Roemer is the first to acknolwedge, somewhat heretical. There is a hint of determinism in Roemer's arguments. Before we can estimate value we must know the vector of all equilibrium, profit maximising, prices.

Having inverted this aspect of the labour theory of value, Roemer goes on to argue for a labour theory of exploitation. In his eyes there is nothing intrinsically unique in labour power that gives it the property of creating surplus value.

> Indeed, in an economy capable of producing a surplus, any commodity has this magical property [of creating surplus]. If we choose corn as the value numeraire and calculate embodied corn values of commodities and the embodied corn value of corn, we can prove that the economy is capable of producing a surplus if and only if corn is exploited, in the sense that the corn value of a unit of corn is less than one. There is absolutely nothing special about labour power in this regard (Roemer, 1982b; p 273).

Nevertheless, within the capitalist mode of production labour power is the only asset uniformly distributed; so Roemer argues if, as historical materialists, we are concerned with a theory that deals with class struggle, the conflict between the exploited and the exploiter, then that theory can only be the labour theory of exploitation. For Roemer

> The accumulation of capital can . . . be explained, as a technical fact, by choosing any commodity as value numeraire. But class struggle between proletarians and capitalists can only be explained by choosing labour as the value numeraire (Roemer, 1982b, p 275).

To summarise, Roemer's property rights model of exploitation and class presents us with a number of interesting and novel features. He begins by explaining exploitation in the subsistence economy as being based upon an unequal endowment of wealth. He goes on to argue that for such exploitation to exist there is no need to have a labour market, a credit market will suffice in its place (heresy No 1?). Differential initial wealth endowments and the consequent trading relations in endowments between exploiters and exploited leads to the presence of a class structure, the CECP.

The argument is much the same for an accumulating economy, with Leontief technology. While the subsistence requirements are rejected as being subjective preferences, a differentiation of society into exploiters and exploited along class lines akin to the CECP is found. On introducing more general technology sets, the CECP falters when faced with Morishima's definition of labour embodied. Roemer's new definition of labour embodied leads us to the consequence of equilibrium prices determining values (heresy No 2?). Another argument for the rejection of the labour theory of value.

We now have the conditions for a general theory of exploitation which incorporates exploitation under feudal, capitalist and socialist modes of production. Roemer's ingenious test for exploitation uses games theory to construct "contingently feasible alternative states" under which exploited agents could improve their welfare by 'withdrawing' with their share of society's alienable and inalienable assets.

Exploitation on the basis of inequitable distribution of property rights leads to feudal exploitation, capitalist exploitation and socialist exploitation. It is the last which is the unique feature of the general theory of exploitation. Exploitation under socialism results from an inequitable distribution of human endowments. It takes the form of exploitation based upon skill and status (and, presumably, gender and race). The historical task of the socialist transformation is to eliminate capitalist exploitation by bringing the means of production under social ownership. Any resultant exploitation such as skill/wage differentials or race and gender exploitation are a feature of socialist exploitation and hence beyond the realms of socialist transformation. Roemer concedes that at certain historical moments socialist exploitation may be considered socially necessary (this is so when the welfare of the withdrawing coalition is diminished by withdrawing from the economy, for reasons such as lack of pooling of skills or loss of incentives). A crucial element within the game theory, withdrawal analysis states that exploited agents cannot improve their welfare or their class status by remaining within the exploitative economy. An individual's class status and degree of exploitation is determined by his/her given alienable and inalienable wealth endowments. He/she cannot improve his/her class position except by withdrawing as a member of a coalition from that economy. Consequently exploited agents under socialism cannot improve their welfare within socialism (unless of course such exploitation is considered socially necessary for reasons as described above); and like the proletariat withdrawing from the capitalist mode of production and initiating the socialist transition, so exploited coalitions under socialism must withdraw from that state and hence initiate the transition to the next (presumably communist) mode of production.

Now that we have the essence of Roemer's model, *albeit* in a much simplified form, we can move to our own criticisms of Roemer's work.

## III

## Criticisms of Roemer's Model

It is probably not surprising that Roemer's model has been more favourably received by neo-classical economists than by Marxist theoreticians. A reflection not only of the fact that Roemer's highly technical method is immersed in the language of neo-classical economics, but furthermore, that Roemer's understanding of Marxism has strayed extensively from the traditional discipline of dialectical historical materialism.

Our major criticism of Roemer lies in his rejection of the labour theory of value and the surplus labour approach to exploitation. We shall leave the discussion of this issue to the last when we shall present our arguments for the centrality of the labour theory of value in Marxist thought.

Our initial criticism of Roemer's model lies in its inherent static nature; a feature determined by his use of Walrasian, dynamic statics, general equilibrium analysis. Despite a taxonomy of exploitation under socialist, capitalist and feudal modes of production, Roemer's method deals only with static equilibria in each case. He constructs ideal states of each mode of production for the purposes of comparisons of qualitatively different forms of exploitation. He shows limited awareness of historically progressive transition from mode to mode. At most he argues that the historic duty of any revolutionary transition is to eradicate the characteristic form of exploitation of the mode of production against which it is in struggle. There is little understanding of the dynamics of transition states and none whatsoever of the concept of the dialectic. Roemer's Marxism is bereft of the dialectic form.

There is no analysis in his arguments of the relative autonomy of political determinism in class formation and revolutionary transition. In order to explain revolutionary transition one has to explain class struggle in somewhat more detail than Roemer does, in simplistically reducing it to the struggle between exploiters and exploited. In order to understand class struggle one has to be aware that there are political factors that play a part in the determination of class struggle. As Wright has pointed out class cannot be defined in purely economic terms. "Class is an intrinsically political concept and for it to serve its explanatory purposes it must have its political dimensions systematically represented within the concept itself" (Wright, 1982). While we may disagree with Wright as to the degree of relative autonomy of politics from economic determinants within the class formation matrix; Wright's arguments, nevertheless, point to a chronic failure on the part of Roemer to break from the narrow confines of his economistic method.

As a consequence of a dynamic statics approach Roemer, like his neo-classical friends, takes property relations in ideal states as being given ahistorically. Given that power relations, class and exploitation are all derived from inequitable property endowments, this has serious implications. There is no explanation as to the historical accumulation of wealth. Roemer discounts the orthodox argument that surplus labour plays a role in capital accumulation. "The accumulation of capital can . . . be explained, as a technical fact, by choosing any commodity as value numeraire" (Roemer, 1982b; p 275). With no understanding of the historical process of capital accumulation there is no way to explain the inequitable distribution of wealth endowments.

A further implication of this is that with an agent's class position and degree of exploitation determined by his or her given property endowments, there is no way for such an agent to improve his or her welfare within the mode of production in which such exploitation is dominant. The only method by which the agent can break such a deterministic hold is by joining a coalition group of other exploited agents and withdrawing from that state. This argument seems to contradict the struggle of trade unions to raise the welfare and living standards of their members, usually exploited proletariat, while remaining within the confines of the capitalist economy. (A struggle which Marxists have invariably supported despite the implications of economism of such labour action.)

A further result of given property relations is that optimal technique paths are derived from those property relations prior to the determination of an agent's class position or the existence of exploitation. Production techniques are therefore taken as given and are constructed by neo-classical resource allocation exercises.

Another point of debate is Roemer's concept of 'contingently feasible alternative' states to which coalitions of agents can withdraw. It is difficult to take this notion of withdrawal literally since, as Przeworski points out, " ... the comparisons of the welfare of groups within and without a particular economy are based exclusively on the properties of static equilibria" (Przeworski: 1982; p 292). Nevertheless if, as we have seen above, agent's class position and degree of exploitation is determined by their wealth endowment, and that the only method available to them to transform their destiny is by joining a withdrawal coalition of agents, then the concept of withdrawal no longer remains a purely abstract, hypothetical formulation for the testing of exploitation; it acquires a political reality and becomes a form of concrete action. Roemer is somewhat confused on this issue. While the task of an alternative is to define exploitation in the state against which the alternative is posited, that alternative becomes somewhat more concrete than an abstract construct. As Roemer outlines

> ... the device for defining exploitation conceives of agents as exploited at a particular allocation, with respect to a particular alternative. The formulation ignores ... [the] sort of problems [such as]: Is the realisation of payoffs [to coalition agents] in some way feasible? What are the costs of coalition formation? How will the coalition arrange to distribute [endowments] among its members? (Roemer, 1982a; p 199).

In his discussion on feudal, capitalist and socialist exploitation, Roemer is fully aware that there are costs involved for the withdrawing coalitions. For example, a coalition of serfs withdrawing from feudalism face the loss of military protection traditionally provided by their lord. Roemer acknowledges this as a very real cost; but he argues, unless the coalition can provide protection for themselves and if the return from the lord's protection is greater than loss of welfare for a serf incurred through bondage, then the coalition will be worse off by withdrawing. If this is so, Roemer argues, then such a group of agents is not feudally exploited in the first place. The same argument can thus be applied to coalitions withdrawing from capitalism or socialism. This leads us to the question of how one is to quantify the costs of withdrawal or, for that matter, the costs of coalition formation? Roemer does not explain how exploited agents can actually form an organised, cohesive, coalition through cooperation, and furthermore, in what fashion can they actually withdraw. As he implies unless one is aware of these costs it is not possible to judge whether a withdrawing coalition is 'properly exploited'.

Another point of criticism connected with the different forms of exploitation within Roemer's model is that nowhere does he mention the existence, or even possibility of, race and gender exploitation. If race and gender are seen as purely inalienable, human property then it must be considered a feature of socialist exploitation (for racism and sexism do exist in many socialist states), which co-exists in other modes of production (although many would argue that socialist societies have been far more successful at fighting racist and sexist attitudes and exploitation). It could be said, however, that race and gender exploitation are fully realised in the capitalist mode of production, such as in low-wage female sweat shop labour in Hong Kong, or low-paid (relative to their white colleagues) black miners in South Africa. Roemer seems to be unaware that racism and sexism do not only act as forms of social control and legitimation but are very real methods of economic exploitation.

This leads us to Roemer's explanation of the socialist exploitation. As he outlines inequalities exist under socialism due to skill differentials, i e, inequitable distribution of inalienable, human, property. Hence the basis of socialist exploitation. Another exploitative feature under socialism, he argues, is status exploitation. Benefits derived through membership of the party, fringe benefits acquired by party and state-bureaucratic elites. Although such status exploitation is anomolous to socialism, it is a common feature of socialist societies where Stalinist party structures predominate (it should be noted that only the Chinese have attempted to eradicate status exploitation during their Cultural Revolution, although it would seem that the attitude of the present leadership is to provide tacit encouragement to status exploitation). Under certain conditions, capitalist exploitation may also be a feautre of socialism, implemented by the state in order to raise the level of the productive forces.*

Skill and wage differentials are for Roemer a necessary feature of socialism:

> It is not the historical task of the socialist transition to eliminate socialist exploitation. What inequalities exist because of differential remuneration to skills should be expected under socialism (Roemer, 1982a; pp 259-60).

Consequently Roemer criticises the Chinese Cultural Revolution for attempting to combat inequalities that lay beyond the task of socialist societies. Their efforts at "the elimination of skill wage differentials led to a retardation in development, labour productivity and material welfare ... these egalitarian experiments were premature" (Roemer, 1982a; p 241). In Roemer's eyes, therefore, socialism's concern lies solely in raising the levels of the productive forces of society, and not in transforming the social relations of production.

Despite Roemer's concern in incorporating inequalities under socialism within his general theory of exploitation, we are not entirely convinced that his method of doing so provides us with a satisfactory basis on which to analyse the laws of motion of socialism. In our opinion an understanding of a given socialist society must incorporate a historical analysis of the process of revolutionary change, of the class structures and dynamics that bring about the revolutionary transformation. These are the forces that in many respects work

tion of the nature of the socialist society. Finally, we believe that no analysis of socialist societies is complete without an account of the state and the bureaucracy. The monolithic structure of the state and party under socialism has to be adequately explained. Roemer, it seems, is apparently aware of the monolithic state and the relative autonomy that it and the bureaucracy enjoy, yet he does not include this within his discourse on the socialist mode of production.

> It is precisely the role of the bureaucracy and the state which obscures the nature of the property relations between the means of production and the workers (Roemer, 1982a; p 253).

Consequently it seems to us that it is far more preferable to use Marxist theories of the state than Roemer's theory of exploitation to analyse socialist societies.

Roemer notes that there is a tendency amongst some Marxist writers of confusing alienation under socialism with exploitation under capitalism by placing an undue emphasis upon the analysis of the labour process. "A misplaced emphasis on the labour process", he argues, "can lead to a faulty, or at least non-materialist analysis" (Roemer, 1982b; p 267). Study of the labour process concerns itself with the organisation of the workplace, and given that Roemer rejects the surplus labour value theory for a property rights model, such work as undertaken by Braverman and others do not, for Roemer, shed any light on exploitation. For him exploitation can be logically divorced from the point of production. A direct result of his rejection of the notion that exploitation is necessarily linked to a market for the exchange of labour power. Roemer's 'historical materialism' concerns itself with an anlysis of property relations rather than the organisation of work. In response to the tendency to equate alienation under socialism with exploitation under capitalism due to similar forms of organisation at the workplace, he argues that the distinguishing features are the given property relations.

> When two different regimes give rise to similar organisational work forms, it is the property relations that define the nature of exploitation and surplus extraction, not the organisational work forms which define the nature of alienation (Roemer, 1982b; p 267).

While we acknowledge the distinction to be made between alienation and exploitation, Roemer's dismissal of the labour process analysis as having little significance leads us back to our first and most substantive criticism of Roemer, namely his rejection of the labour theory of value, and with it the idea that surplus value is created by labour at the point of production and, hence, it is at the point of production, i e within the labour process, that exploitation is located in the capitalist mode of production. Roemer argues that

> ... to characterise Marxian exploitation, [i e exploitation within the capitalist mode of production] in terms of property relations is

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* Capitalist exploitation, Roemer argues, is apparent in Yugoslavia where there exists unemployed labour which could improve its welfare if it was given its per capita share of the means of production.

> superior to doing so in terms of surplus value. The idea of property relations makes clear what is the ethical imperative when one speaks of exploitation in that it allows us to conceive of an alternative in which the proletariat [or the exploited coalition] has access to its per capita share of society's productive assets (Roemer, 1982b; p 280).

We now turn to our defence of the labour theory of value.

## IV

## Labour Theory of Value and Its Ethical Imperative

There is, it seems, a misconception on the part of many writers and Roemer is certainly not the first, as to the true meaning of the labour theory of value. There is a tradition amongst some mathematically inclined economists imbued in the method of neo-classical economics, and yet identifying themselves with the political economy school, and here the names of Morishima, Catephores and Roemer spring to mind, to conceive Marx as a proto-mathematical economist whose objective lay in constructing economic models. These writers have been concerned solely with one aspect of the value theory, that is the value magnitude or the determination of commodity prices and have neglected the critical qualitative features of value theory, namely the value form and the substance of value. This betrays a very odd, to say the least, reading of Volume 1 of Marx's "Capital". In keeping with this tradition Morishima transforms the classical Marxist theory of value as follows:

> The classical labour theory of value is rigorously mathematised in a familiar form parallel to Leontief's inter-sectoral price-cost equations. The hidden assumptions are all revealed and, by the use of the mathematics of the input-output analysis, the comparative statistical laws concerning the behaviour of the relative values of commodities are proved. There is a duality between physical outputs and values of commodities, which is similar to the duality between physical outputs and competitive prices. It is seen that the labour theory of value may be compatible with the utility theory of consumers' demand or any of its improved variations (Morishima, 1973; p 5).

The labour theory of value does serve a purpose in determining prices of commodities, under general commodity production, by aggregating the socially necessary labour time embodied within the commodities. This, as Marx notes in Volume 3 of "Capital", leads to first approximations for commodity prices. In other words those commodities with identical exchange values, that is equal amounts of socially necessary labour time embodied within them will exchange on a one-to-one basis. Consequently prices of commodities can be obtained as ratios of the money commodity, i e the representation of general, social, abstract labour. Any distortion of the price from the socially necessary labour time embodied within the commodity is due to the short term vagaries of supply and demand; nevertheless, as a first approximation labour values and prices will tend to be equated.

But there is more to Marx's value theory than purely a formation to determine prices on the basis of social labour embodied within commodities. That takes us little further than the Ricardian theory of value. Ricardo's prime concern lay in estimating prices for which he picked labour as the value numeraire. What sets Ricardo's value theory apart from Marx's was that Ricardo failed to realise that labour had two distinct forms.

In order to understand this one needs to explain Marx's method. Whereas Ricardo and more recently the neo-Ricardians concern themselves with prices at the level of appearance, and hence fall into the trap of vulgar economy which Marx describes "feels especially at home in the alienated external appearances of economic relations" (Marx, 1959; p 796); Marx abstracts from value at the level of superficial appearances to present the real process underlying it, the essence or its inner nature. Having separated the essence from appearance one simply retraces one's steps back to the level of appearance; the apparent form is consequently realised.

Marx applied this method of abstraction to the apparent or specific commodity form to find that property which was common to all commodities, namely simple labour or labour in its social form. That is, while labour produced commodities which bore use-value and therefore were the product of a concrete and specific type of productive labour activity, once commodities were exchanged they also began to embody exchange value. Thus what was common amongst exchanged commodities was not only use-values (without which of course they could not be traded) but exchange value. They were the product of labour, general social labour, abstract labour, i e, sheer physical human energy. It was the possession of this common property of commodities that led to their exchange. Thus under exchange relations all concrete or specific productive labour activity could be reduced to abstract or social labour.

Ricardo's value numeraire of concrete, specific and heterogeneous labour is hence inadequate in estimating the value magnitude or the ratio or basis of exchange between two commodities. As Marx noted

> Ricardo's mistake is that he is concerned only with the magnitude of value ... But the labour embodied in [commodities] must be represented as social labour (Marx, 1971; p 131).

Roemer, like Ricardo and the neo-Ricardian writers in the transformation problem debate has, it seems, failed to grasp the dual character of labour, the distinction between individual concrete labour and general social labour. Under general commodity production a traded commodity is a bearer of exchange value, and the exchange value of the commodity is the aggregate of the abstract labour embodied within it, in other words socially necessary labour time. With abstract labour as the property or characteristic common to all traded commodities and the measure of exchange value it is, therefore, also the essential money commodity.

The significance of this finding that all commodities bearing exchange value embody abstract social labour is not simply to assist in the purely accounting task of price estimation, but to understand that all commodities are the bearers of social relations of production between commodity producers. Within bourgeois society the direct producers of commodities are increasingly detached from their exchange forum, the market place. Consequently the social relations of production between producers are represented as social relations between products. The commodity takes on a social form and thus gains a relative 'independence' from its producer. It becomes reified and hence both mystifies and dominates its producer. The phenomena of commodity fetishism is no illusion, rather its form is real, but it obscures the underlying relationship between commodity producers such that they are expressed as material relations between labour and social relations between commodities. The producers of commodities for exchange do not perceive their products as social objective forms embodying general labour but rather as having mystical and sensuous characteristics, consequently the social aspect of labour is shrouded from their view. This is the 'natural' outcome when commodities are transformed into exchange values. In the contradictory nature of capitalist production

> It was solely the analysis of the prices of commodities which led to the determination of the magnitude of value, and solely the common expression of all commodities in money which led to the establishment of their character as values. It is however precisely this finished form of the world of commodities—the money form—which conceals the social character of private labour and the social relations between the individual workers, by making those relations appear as relations between material objects, instead of revealing them plainly (Marx, 1976; pp 168-69).

The consequence of this for commodity producers is that "their own movement within society has for them the the form of a movement made by things, and these things far from being under their control, in fact control them" (Marx, 1976; pp 167-68).

Thus we arrive at what may be called the 'ethical imperative' of historical materialist study, praxis. The lifting of the veil of false consciousness, which shrouds the minds of direct commodity producers through the fetishism of commodities, is the political imperative to which Marx directs us.

Roemer argues that the superiority of the property rights approach lies in its explicit statement of the ethical imperatives of historical materialist study by positing 'feasible alternatives' to exploitations within a given mode of production. While it is undoubtedly true that the labour theory of value is of use to us purely for the purpose of analysing the capitalist mode of production and no other; yet it is within the labour theory of value that the 'ethical imperatives' lie. If, as Roemer argues, our taks is to explain and direct class struggle, the only fashion by which this can be done is by understanding the process of valorisation. Labour creates surplus value, capital utilised in the productive process can itself be reduced to embodied dead labour, the labour of a previous production process. It is by way of this method that we can understand the history of capital accumulation. The labour theory of value, by explaining the process of surplus value creation at the point of production, i e, within the labour process, brings to us the proof of the existence of capitalist exploitation. The false consciousness that arises through commodity fetishism, i e, the domination and mystification of the producers by the product in commodity exchange leads naturally to the imperative of political action in raising the veil from the true and contradictory nature of capitalist production.

The beauty of the labour theory of value is that it provides the links between commodity exchange, the labour process and capitalist exploitation. By encapsulating all three within one unified structure, Marx is able to put forward the true 'ethical imperative' of political action. Elson summarises it as follows:

> What Marx's theory of value does is provide a basis for showing a link between money relations [commodity exchange] and labour process relations in the process of exploitation. The process of exploitation is actually a unity . . . Neither money relations nor labour process relations in themselves constitute capitalist exploitation; and neither one can be changed very much without accompanying changes in the other. Marx's theory of value is able to show this unity of money and labour process because it does not pose production and circulation as two separate, discretely distinct spheres, does not pose value and price as discretely distinct variables . . . The key to understanding this contradictory process [of capitalist exploitation] is that although money relations and labour process are aspects of the same unity, internally dependent on other, they are nevertheless relatively autonomous from one another. In that relative autonomy lie the seed of potential crisis. This is important politically, not because such a crisis in itself constitutes the breakdown of capitalism—it clearly does not—but because it indicates a potential space for political action (Elson, 1979, pp 172-73).

This is the true 'ethical imperative' of dialectical historical materialism, not Roemer's 'alternatively feasible states'. In rejecting the labour theory of value Roemer rejects the Marxian method. Consequently his anslysis of the capitalist mode which can only be applied at the level of circulation, concerns itself solely with superficial phenomena and fails to grasp the inner content of generalised commodity production.

## V

## Conclusion

John Roemer's property rights model of exploitation is undoubtedly unique; nevertheless, as we have shown in our discussion on the labour theory of value, it is devoid of a crucial aspect of Marxian political economy, namely, an explanation of social relations of production between commodity producers as embodied within the commodity form.

His failure to grasp the dialectical method reflects his concern with the superficial aspects of economic modelling, consequently the essence of commodity production escapes him. Roemer's attempt at putting forward a taxonomy of exploitation which incorporates feudal and socialist exploitation with capitalist exploitation within a single, highly technical, model has been described by some commentators as a 'tour de force' (a reflection possibly of the mathematical fetishism that such commentators suffer from). It is certainly laudatory that Roemer has attempted to tackle the thorny question of the nature of the socialist mode of production. As we are all fully aware, socialist societies are presently undergoing a crisis of immense proportions. A crisis of the legitimacy of the state and the crisis of alienation in the workplace. The sole attempt by a socialist state to comprehensively deal with such crisis, namely, the Chinese Cultural Revolution, is under ridicule. Marxists have to focus their thoughts on these questions, for it is only by presenting a clear picture of the socialist mode can they muster the progressive forces for political action against the capitalist mode of production and its resultant form of social relations. In order to do so one needs the labour theory of value.

It is far from being iconoclastic to suggest that if there is a central concept within the Marxian method, it lies within the labour theory of value. Without it there cannot be a Marxian analysis of bourgeois economy nor an understanding of the political imperative facing those who desire to change such societies. Roemer cannot have it both ways, rejecting the labour theory of value and still proclaiming himself as a concerned Marxist.

The question then that has to be faced is where does Roemer really lie. We have argued that his analysis cannot be seen as Marxist; nor, despite the extensive use of general equilibrium models, can it be considered as neo-classical. His concern with the apparent, phenomenal, form of economic relations, his failure to recognise abstract labour as the common denominator of all commodities and his arguments on price preceding value would suggest that Roemer's true company lies amongst the neo-Ricardians who occupy the expansive and ill-defined grey area separating the polar camps of the Marxists and the neo-classicals.

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# Sizing Up the Black Economy
## Some Issues Raised by the NIPFP Methodology

**Arun Kumar**

*The method used by the National Institute of Public Finance and Policy in its report "Aspects of the Black Economy in India" to obtain the size of the black economy, while representing a major new effort, promises far more than it delivers and a reliable and accurate method of estimating the size of the black economy still remains elusive.*

*The questions raised by the NIPFP's estimate of the size of the black economy are definitional and methodological.*

THE National Institute of Public Finance and Policy (NIPFP) reports that, "For 1980-81, our calculations indicated black income generation in the sectors covered could be placed in the range of 18-21 per cent of GDP" (NIPFP, 1985: 432). It is further assumed that, "the same percentage of GDP were generated as black incomes in those sectors in 1983-84 . . .". On this basis, it is then stated that, "A total black income generation of Rs 36,786 crore or in round numbers Rs 37,000 crore out of a total GDP of factor cost of Rs 1,73,420 crore seems to be on the high side, although it turns out to be less than 30 per cent of GDP as against some extravagant estimates placing it at 50 or even 100 per cent of GDP" (p 434).

These statements suggest two things. First, that a certain degree of confidence can be attached to the range of 18-21 per cent of GDP for the size of the black economy in India. This is in contrast to statements made at other points that what is presented is "a rough estimate of black income generated in India" (Preface). One may also note that not only are the various components of the estimate given 'guesstimates' (see pp 166 to 168) but it is clearly stated that, "our basic, official NAS-based estimates of tax-evaded income are, very probably, quite conservative" (p 175) and further, "for lack of sufficient data, we have been forced to adopt in some cases, what may be called the minimum estimate approach" (p 409).

In effect, the accuracy that the final estimate claims is not borne out by the assumptions used in the calculations. Thus, the obvious question in the reader's mind is what is the degree of reliability of the now widely quoted figure of Rs 37,000 crore or of the estimate of 18-21 per cent of GDP.

Secondly, there is also an attempt to compare the estimate obtained by the fiscal method used in the report with alternative figures arrived at by using other methods (specifically, the monetarist approach yielding the approximate figure of 50 per cent). The question arises, are the definitions of black incomes used in the different approaches the same, i e, could we be comparing oranges and apples by comparing the different estimates?

In a nutshell, the questions raised by the NIPFP estimate of the size of the black economy in India are definitional and methodological. On both these grounds, the study raises more questions than it provides answers to. Thus, instead of the hoped for clarity on the subject, greater confusion is likely to be the outcome, in spite of the enormous effort that has gone into the exercise.

## I

The NIPFP estimate bases itself on the definition that black incomes are those "incomes which are taxable but are not reported to the tax authorities" (p 10). This is a definition in which a tax man is interested.[1] The definition does not discriminate between whether the economic activity in which the black income is generated is legal or illegal. However, the definition leaves out all incomes which may be illegally generated but lie below the taxable limit.

The definition is also unconcerned with issues of whether the national accounts total is underestimated either on account of deficiency of data or due to tax evasion itself or that capital gains and certain transfers that take place between individuals (bribes and pay-offs) are not included in the national income total.

The monetarist approach generally used tries to identify all transactions where cash is used either with the object of evading taxes or where some illegality is involved. The incomes associated with these transactions are assumed to be black incomes. Thus, all incomes (including those below the taxable limit) which are not a part of the white economy are treated as black. Further, since the white economy is taken to be the accounted national income, the portion of national income not accounted for by deficiency of data and methodology also becomes black.

In the fiscal approach, these last two elements are excluded. Only incomes above the taxable limit are involved. Also, the national accounts total as measured is used as the controlling total. No accurate estimate of the missing total on account of deficiency of data and methodology can be made. Further, apart from a guesstimate, no accurate estimate is possible of underestimation of national income on account of under-reporting of output for tax related reasons.

Thus, *a priori*, one may expect that the estimate of black incomes based on the monetarist approach would be higher than the one obtained from the fiscal approach.[2] The monetarist measure would be higher by the extent of black incomes below the taxable limit and the underestimation of national incomes both due to methodological and data deficiency problems as also under-reporting for tax related purposes.[3]

The NIPFP methodology attempts to incorporate the last element through a guesstimate but only to the extent that incomes are above the taxable limit. Thus, the NIPFP estimate is not directly comparable to the estimate given by the monetarists.

This is a fairly simple proposition. What is far less clear is what exactly does the NIPFP methodology include? There are two kinds of estimates that are given. The first, presented in Chapter V and claiming a fair degree of rigour, tries to estimate the black incomes generated in current legal activities only, excluding capital gains on sale of assets. There is another total, given in Chapter XII, called the 'global estimate'. It is an amalgam of the first estimate and various other guesstimates.

The guesstimates include undeclared capital gains on the sale of immovable assets, black incomes generated in exports, imports, fixed capital formation in the private corporate sector and public sector, smuggling of gold, and finally, import licences and imported goods. A number of problems arise here.

The most obvious and one which is theoretically intractable is that of adding stocks and flows. Undervaluation of immovable property has been taken to be the black income generated in the sale of these assets. This is not correct since only the increment in the undervaluation (the difference between the present and the previous transaction) can be taken as the undisclosed capital gain. This is the black income which accrues in that year. It may be noted, this issue is in addition to the as yet unresolved problem of whether or not capital gains ought to be included in national income accounts, and, if so, in what form?

The treatment of undervaluation of immovable properties as black incomes is also not consistent with the definitions of black income used (NIPFP, 1985: 10). There are two reasons for arguing this. First, as pointed out above, undervaluation of immovable property is not the income that ought to have been reported to the tax authority but was not. The black costs need to be subtracted first. Second, various deductions are available on capital gains and to be consistent with the methodology in Chapter V, these need to be taken into account. Some of these allowed deductions can go upto 100 per cent of the capital gains.

The only redeeming feature of the formulation is that the income tax department would treat the entire undervaluation, if discovered, as undisclosed income for that year. Thus, the total as calculated may be of interest to the income tax department. However, theoretically, as pointed out above, the NIPFP total for black incomes is neither definitionally consistent nor a dimensionally homogeneous total. In addition to these theoretical problems, there are errors in the calculation of the capital gains itself and we take them up below.

The global estimate also suffers from the problem of degree of reliability that can be placed on the final figures given. For instance, if it was assumed, following the data collected for Delhi, that only 50 per cent of the value of documents registered in Book I (the register so designated for the compulsory registration of certain documents pertaining to the transfer of immovable property under the Indian Registration Act, 1908) corresponds to the sale of immovable property, the black income estimates would have come down substantially (50 per cent). However, if following the analysis of lower value property in the Delhi data, it was assumed that the black to white ratio is 2:1 and not 2:3 (as assumed in the Report, p 414), the black income total would have gone up by 300 per cent. Thus, the final figure for 1975-76 could decrease by Rs 1,100 or go up by Rs 4,500 crore. The uncertainty amounts to about 8.5 per cent of the GDP at factor cost for that year. It may be made clear that these variations are in addition to the necessary corrections, mentioned above, for allowed deductions.

The above example only suggests that the various guesstimates in the global estimate are subject to wide fluctuations. Also, when compared with the methodology adopted in Chapter V, the degree of precision attempted for the guesstimates is of a very different order of magnitude. Thus, the accuracy aimed at in Chapter V is nullified. For instance, for 1975-76, the fiscal approach yields, with considerable accuracy, a total for black income generation in legal activities of Rs 3,741 crore. To this is added a figure of Rs 3,318 crore, a guesstimate on account of possible underestimation of official GDP. Another Rs 900 crore is added for illegal transfers from public expenditure (p 167). In the global estimate for 1975-76, guesstimates add upto Rs 6,200 crore, 170 per cent of the accurately arrived at figure (p 431). Thus, guesstimates dominate both for the fiscal approach estimate of black incomes generated in legal current economic activities and in the global estimate. Hence, it is the uncertainty associated with the guesstimates which would characterise the reported estimates of black incomes generated.

However, this in itself may still not be entirely objectionable. The more important drawback of the whole exercise is that it is unclear as to what are the various components of black incomes which get included in the fiscal approach used in Chapter V. In other words if one does not know whether some of the sectors of the economy are getting excluded or not then one would not be able to identify and add the missing elements alone and may end up double counting some of the components. This point is discussed below in some detail.

## II

The methodology used in the fiscal approach (pp 96-98) depends on the NCAER (1980) to provide a distribution of personal incomes for the year 1975-76. Assuming that the distribution represents the true income distribution, it is applied to the personal income total based on National Accounts Statistics (NAS). From this, using various other assumptions, the total taxable incomes are calculated. (See Appendix I of this paper for the steps used in the methodology.)

Three points arise here. First, for the NCAER data to yield the *true* income distribution in the country, households are required to report accurately their incomes, i e, their black incomes in addition to the white incomes. If black incomes are not reported by sample households, i e, only those incomes are reported which are also reported to tax authorities then the taxable incomes total calculated from the NAS should be *no* different from the total reported by the income tax department and the method should yield *zero* black income generation in the country. If black incomes are not reported by the sample households and the methodology yields a certain amount of black income generation, it may simply be the result of the assumptions made. It may be mentioned that the NCAER survey was in any case biased in favour of higher income households (NCAER, 1980: 46).

Second, working on the assumption that black incomes are also reported by sample households so that the resulting income distribution is the *true* income distribution in the country, we can argue that black incomes from illegal activities must also be reported. Black incomes from legal activity are as illegal as those from illegal activities. Since many of the illegal activities are a part of business activities (like smuggling, under- and over-invoicing of exports and imports, and bootlegging) or of other activities for which the NCAER survey sought information (like, bribes and cuts received during one's legal work or activity for which one is paid a salary or a wage), incomes from many of the illegal activities *may* have been captured in the NCAER survey.

Finally, if the NCAER sample is representative and the households report their correct incomes, the total of personal incomes from the NCAER data should at least be equal to the total of personal incomes obtained from NAS. In fact, the total should be larger for two reasons. First, for many of the sectors NAS estimates depend on tax-related data and, therefore, would be underestimated. Secondly, due to data and methodological deficiencies in the case of certain sectors, the NAS total would be expected to be short of the actual.

The implication of the above is that the personal income total from the NCAER data should be much higher than that obtained from NAS. Instead, what is observed is that higher than the NCAER total. This, in spite of the fact that the population total and its distribution between the urban and rural households is consistent with those of the 1971 and 1981 Census (p 133). In other words, a substantial portion of the household incomes are being missed out of the NCAER sample. Thus, it is unclear as to how the NCAER sample can be taken to yield the *true* distribution of personal incomes in the country.

The Report tries to argue that reporting is never satisfactory in household surveys (p 114). If this is the case then the NCAER-obtained distribution cannot be satisfactorily used. Further, much of NAS is also based on surveys of various kinds (India, 1980) and should also show the same kind of bias. Finally, much of the NAS estimation is based on surveys conducted 10 to 15 years back. It is often argued that this would bias downwards the NAS total. In contrast, the NCAER survey is less old and ought to reflect more accurately the underlying data. In other words, the lower total from the NCAER sample is probably due to reasons other than its being a household survey where there is a lack of complete reporting.

If it is argued that the NCAER data only gives the true distribution of personal incomes in the country without necessarily matching the income total, then it is not clear why the distribution is not applied straightaway to the NAS total. What is the necessity to match the NCAER total of personal incomes with that of NAS by 'scaling up' the distribution? Quite clearly, the NIPFP methodology accepts that the NCAER sample not only yields a distribution but an absolute total of personal incomes which at least ought to match the NAS total before the underlying distribution can be used. Once this is accepted, it follows that the assumption must have been made that the NCAER data yields the correct distribution of personal incomes. If this is accepted, it must follow that black incomes, whether from legal or illegal activities are assumed to have been reported to the NCAER survey.

Two things then follow. The NCAER total must turn out to be greater than the NAS total and incomes from illegal activities cannot be separately added. The NIPFP estimate errs on both these counts.

The bias in the NCAER survey which yields a lower total for personal income than the NAS estimate needs to be investigated and pinpointed before the NCAER distribution can be accepted as a true representation of the underlying data.

A possible indication of the existence of a bias is that in the NAS data the share of the sector agriculture, forestry and logging and fishing was 47.5 per cent in 1970-71 and 37.3 per cent in 1980-81 (p 584). According to the NCAER sample, the contribution of these sectors in 1975-76 would work out to 46.5 per cent (p 129) as opposed to the figure of 41.5 per cent for 1975-76 from NAS (India, 1982). One would have expected that this percentage in official statistics would turn out to be higher than the actual, given that agricultural incomes with no direct taxes to pay ought to be fully reported while other sectors would tend to under-report.[4] Further, it is the tertiary sector which has been growing the fastest and according to most observers the most underestimated in NAS. Thus, in any *true* distribution of national income, agricultural sector ought to have a much smaller weight than in NAS.

To give an example of why it is essential to first know the nature of the bias in the NCAER based distribution before applying the 'scaling up' factor, one only needs to consider who are the tax-evaders and what kind of under-reporting they would resort to. Analysis of income tax data shows the likelihood of a large number of evaders manipulating their incomes in such a manner as to not enter the tax net at all. In other words, many high income earners either do not file returns or show incomes which fall below the exemption limit [see Kumar (1985) for related data].

Most of these people are non-salary and wage earners since the scope for manipulation of incomes is far less for salary and wage earners. Thus, an equiproportionate adjustment (p 119) across all income classes would not capture the kind of under-reporting that may be the cause of the discrepancy between the NCAER and the NAS based totals of personal incomes. A large number of salary earners would find themselves moving into higher income brackets, where they would not really belong. This would also alter the amount of deductions that could be claimed. Clearly, the total for black incomes estimated on the basis of equiproportionate adjustment would be the result of the assumptions made and not related to the process of black income generation.

## III

The principal technical problem (as opposed to the above discussed methodological drawbacks) which arises is that which occurs in going from household income distribution to individual earner distribution and then 'scaling up' to account for missing incomes. In fact, the resolution of this problem *could* reduce to *near zero* the estimated size of the black income generation from current legal activities as expected (and pointed out earlier) in case reporting of data to the NCAER survey is the same as to tax authorities.

The error may be easily noted if one analyses the corrected (for under-reporting) estimated distribution of gross personal income (p 123) and the estimated distribution of the number of earners by income ranges for earners (p 547). One finds that incomes per earner in the high income groups are grossly overestimated. Actually, as the Table shows, the average income per earner in the range Rs 40,001 to Rs 60,000 turns out to be Rs 1,71,087 and in the range Rs 7,501 to Rs 10,000 turns out to be Rs 15,699, etc.

Not only are these figures inflated but they also do not lie in the correct income ranges. Thus, on the one hand, the calculation of deductions have been wrongly done while on the other hand, the taxable income has been incorrectly estimated both because the exemption limit is incorrectly applied and also because the incomes in the higher income brackets are over stated.

The equiproportionate blowing up of incomes adopted in the Report to adjust for missing incomes causes the incomes to shift out of the income ranges to which they originally belonged. For example, if in the income class Rs 15,001 to Rs 20,000 the average income per earner was even Rs 15,001, the new income per earner would be around Rs 21,000 and would no more lie in this income range. This shift of incomes across income ranges has neither been commented upon in the methodology nor seems to have been taken into account for calculating the deductions and applying the exemption limits. Thus, various errors are likely to result.

Let us now consider certain other issues related to the detailed calculations. They give the impression that there are not only *ad hoc* assumptions but that, in places, the knowledge of the functioning of the black economy has not been fully utilised.

TABLE: AVERAGE PER EARNER INCOME FOR SELECT INCOME RANGES IN NIPFP OBTAINED DISTRIBUTION

| Income Range for Earners (Rs) | Number of Earners (Millions) | Gross Personal Income (All-India) Case 1 (U:R = 1:2) (Rs Millions) | Average Income Per Earner (Rs) | |
|---|---|---|---|---|
| | | | Scaled-up Distributions | Unscaled Distribution |
| 1 | 2 | 3 | 4 | 5 |
| -1,200 | 60.4616 | 30,941.0 | 512 | 823 |
| 3,601-4,800 | 12.6835 | 77,434.6 | 6,105 | 4,121 |
| 7,501-10,000 | 4.0188 | 63,093.2 | 15,699 | 6,102 |
| 20,001-25,000 | 0.4288 | 16,861.9 | 39,300 | 22,348 |
| 30,000-40,000 | 0.0756 | 10,577.3 | 1,39,911 | 34,304 |
| 40,001-60,000 | 0.0436 | 7,459.4 | 1,71,087 | 47,252 |
| 60,001 and above | 0.0306 | 21,289.9 | 6,95,752 | 84,775 |
| Total | 177.3243 | 645,030.0 | 3,638 | 2,543 |

*Sources:* Column 2: NIPFP, 1985, p 547.
Column 3: NIPFP, 1985, p 123.
Column 4: Column 3/column 2.
Column 5: Calculated from NIPFP, 1985, pp 131-132 and column 2.

For instance, the 'missing income' has been split up between urban and rural earners in the ratio 1:2, 1:1.5 and 1:1 to represent three different scenarios (pp 117-124). This is a rather mechanical use of data. Should it not be the case that, as argued earlier, the value added from agriculture in NAS is unlikely to be under-reported,[4] so that we have a fairly accurate controlling total which could provide the 'scaling up' factor?

Similarly, the validity of the *derived* earner-wise distribution is claimed on the basis that it resembles closely the 'raw NCAER data'. However, it is well known that high income households tend to split up their incomes for purposes of tax planning (as opposed to evasion). Thus, household incomes are likely to be far more skewed than earner-wise distributions. This is also true of the NIPFP methodology even though the report does not point this out. However, from this one cannot conclude the validity of the procedure as the expected difference in the degree of skewedness has not been derived.

In going from household distribution to earner-wise distribution, it is assumed that each earner in a multi-earner household has the same income. No doubt this is a simplifying assumption; however, it would cause the income distribution to be less skewed than it should actually be. The NCAER recognises that in a multi-earner household there is a major earner (NCAER, 1980: 95). It is clear that if incomes are equally divided between all earners of a household, there would be less earners than the actual number in the high income categories. Similarly, the minor earners who should have gone lower down in the distribution move up. Thus, the procedure would tend to distort the distribution both at high and low income ranges by weighing the distribution in favour of the middle ranges. However, it is clear that equal sub-division would lead to a reduction in the net taxable incomes and the tax payable.[5]

The issue of how various deductions are to be subtracted from the gross income (pp 133-148) also needs a more careful scrutiny. Take, for example, agricultural incomes. Some households will have agriculture as their source of income while others will not. This will actually make many earners fall below the taxable limit and after the distribution of taxable incomes as compared to the case where the deductions are applied on the average to each tax slab (pp 135-140) leaving the distribution unchanged. Application of each deduction is specific to certain kind of incomes and alters the distribution of taxable income earners. Thus, the method of treating deductions would raise the total of taxable incomes.

The taxable incomes for 1980-81 are calculated from the 1975-76 data on distribution of incomes under certain assumptions regarding unchanged distribution of incomes between the rural and urban areas, across income classes and between the various sectors. This, in spite of the knowledge that the share of agriculture has declined substantially during the period. Use of agricultural incomes as a more reliable 'controlling total' may have obviated the need for some of the assumptions.

Correction for possible underestimation of GDP on account of evasion apart from being *ad hoc* and a guesstimate seems also to pose a methodological problem. It is assumed that either three-quarter or half of such 'omitted GDP' accrues to earners in the form of taxable incomes (p 164). This is in contrast to the situation where taxable incomes as a percentage of the GDP turn out to be roughly 10 per cent (p 154). Thus, the GDP and the 'omitted GDP' clearly have very different distributions and if the former is distributed log normally, the latter would not show this characteristics. The totality of all incomes would then also deviate from log normal.

Thus, the NCAER-based distribution treated in some sense as the correct distribution of national income gets distorted. The distribution that results from *ad hoc* assumptions about 'controlling totals', 'omitted GDP' and 'unchanged distribution' between 1975-76 and 1980-81 can lead to an arbitrariness in the estimated amount of black income generation.

## IV

As already argued, if the NCAER-based distribution is the true distribution, it must be so inclusive of illegal incomes and portions of undeclared capital gains which get included in business income. Thus, by adding these once again to arrive at the global estimate (pp 412-434) one may be double counting.

Additionally, various errors have crept in in the calculation of undeclared capital gains. Some of them have already been pointed out in Section I, like, the percentage of documents to be treated as constituting sales and the ratio of white to black. Further, by ignoring power of attorney transactions and sales of flats, a few hundred crores of black income generation is missed out.

One may conclude by saying that the estimate of black incomes generated in India, obtained by NIPFP, faces a major methodological problem related to the correctness of the NCAER-based distribution of personal incomes. If the distribution is broadly speaking correct, black incomes, including illegal incomes must have been reported and the absolute total of incomes from the NCAER sample must be larger than the NAS-based total of personal income. If the distribution is not representative of the true distribution, then the black incomes total estimated is a function of the assumptions made. Detailed alternate calculations using the NIPFP methodology may actually show that no black incomes are generated through legal activities. In this case, the nature of the bias in the NCAER sample needs to be explored more fully before any calculations are attempted.

In the second case, the estimate begins to approximate a guesstimate whose accuracy and reliability would be far less than claimed in the report. In any case, the magnitude of the various guesstimates (for black incomes generated in real estate, public expenditures, illegal activities, etc) added to the more 'scientifically' derived estimate to obtain the global total overwhelm the latter so that the reliability of the final total is that of the guesstimates. As shown with the example presented from real estate, depending on the assumptions, the variation from one source alone may be eight per cent of the GDP. The 'scientifically derived' estimate of black incomes generated in legal current activities itself is susceptible to far greater uncertainty than is admitted by the report.

Thus, it appears that the method used by NIPFP to obtain the size of the black economy while representing a major new effort promises far more than it delivers. As such, a reliable and accurate method for estimating the size of the black economy still eludes one.

## Appendix

The principal steps used by NIPFP to estimate the size of black incomes generated in India (NIPFP, 1985: 96-98):

(i) The official National Accounts Statistics (NAS) are used as a starting point to derive an estimate of gross personal income accruing to households.

(ii) For essentially the same concept, namely, gross personal incomes, the all-India survey of household incomes for 1975-76 by the National Council of Applied Economic Research (NCAER) provides estimates of the distribution of incomes, separately for urban and rural *households* (NCAER, 1980). These distributions by *household* are converted to distributions by *earner* on the basis of certain assumptions. To facilitate further computations the actual distributions are then approximated by normal distributions.

(iii) The total gross personal income estimated by the NCAER survey falls substantially below the corresponding estimate in the NAS. We treat the NAS total as the controlling one and 'scale-up' the NCAER-based distributions according to several alternative assumptions.

(iv) The log-normal, earner-wise distributions of income, so obtained, constitute our key analytical tools. Working with these distributions we proceed to make allowances for the major exclusions, exemptions and deductions permitted under the Income-Tax Act. This is done separately for the urban and rural distributions, with due allowance for different components of income (salary, business, etc). The result of these labours yields estimates under alternative assumptions, of the total income which should have been declared for income-tax assessment.

(v) These estimated totals are then compared with the information from the AIITS (suitably adjusted for under-coverage) about the total of non-corporate incomes *actually* assessed to tax. The discrepancies yield alternative estimates of black income under the fiscal approach.

(vi) The results obtained for 1975-76 are extrapolated to 1980-81 on the basis of a number of assumptions and some more recent information.

(vii) Thus far the analysis is predicated on the assumption that the gross personal household income is correct. Next we relax this assumption and explore the consequences of some alternative assumptions regarding the extent to which the NAS estimates may be biased downwards because of tax evasion and related factors.

(viii) The entire analysis is subject to a large number of qualifications and shortcomings. In each case we offer a judgment about the direction of resulting bias in our estimates of black income.

## Notes

1 Another definition, economically more meaningful, is also given (p 12).

2 Assuming of course that the difficulties associated with the monetarist's estimate, namely, the identification of the base year and the velocity of circulation can be taken care of satisfactorily. Further, the underestimation of the size of the accounted economy also creates its own complications.

3 For a more detailed discussion of the various definitions of black incomes and which elements are included or excluded, see Kumar (1984) and Kumar (1985).

4 Value added in agriculture, in fact, does not depend directly on reporting of incomes. It is estimated on the basis of various surveys and crop-cutting experiments (India, 1980).

5 For many of the minor earners where deductions ought not to be applicable because in actuality their incomes are below the taxable limit, deductions would be applicable in the NIPFP methodology. Further, in the taxable brackets as *net* assessed incomes rise, average deductions claimed rise in absolute amounts but fall as a percentage of the income; thus, deductions would be over-estimated if incomes are biased downwards. Finally, incomes of some major earners which should have been above the exemption limit fall below it due to equal sub-division. In these cases, the deductions would not be applied. However, in the multi-earner households, the number of minor earners would be much larger than the number of major earners hence more incomes would go up than come down. Thus, deductions are likely to be over-estimated and *net* taxable incomes and tax payable underestimated. Tax payable would also be underestimated because of the progressive nature of income taxation.

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# Theory of Pricing in Socialist Countries

**B Debroy**

THE theory of pricing in socialist countries is an important enough area and any contribution towards understanding price formation in these countries would normally have been welcome. Unfortunately, the intention of Jaya Mehta's recent paper is not at all clear.[1] It cannot be taken as a description of methods of price formation in the socialist countries, since no such description is attempted. It cannot be taken to be a survey of the literature on pricing in socialist countries, since an inadequate familiarity with the literature is exhibited. There is no reference to Bettelheim's excellent survey of the debate on pricing in socialist countries, nor to Tarnovsky's illuminating account of actual methods of price formation in the CMEA countries.[2] Nor can the paper be regarded as a theoretical study which brings together under an integrated framework the different systems of pricing adopted and discussed in the socialist countries. One looks for such an integrated framework in vain.

Five different systems of pricing are mentioned and inadequately discussed in the paper—the dual price system, a price system based on values, the production price system, the two-channel price system and the shadow price approach of Nemchinov, Novozhilov, Kornai, *et al*. Strangely enough, Kornai is not even mentioned in the paper. These five systems of pricing are never contrasted with one another, their differences are not made explicit, nor are the problems associated with each price system discussed specifically. What we have instead is a welter of symbols and equations which do little to further our understanding.

Consider, for example, the dual price school which Mehta refers to as the approach of "the traditional economists". This school advocated the computation of prices on the basis of socially necessary costs augmented by a profit margin. Socially necessary costs consist of average direct and indirect labour costs. This approach thus differed from a pricing system based on values in that surplus value was not included, except through the profit margin. In actual practice, the dual price system boiled down to a pricing system based on the own cost of production or what Ganczer calls the averaged value-type price system.[3] The problems associated with this system of pricing, abundantly discussed in the literature, do not receive even a cursory mention from Mehta. For example, it does not seem to be realised that a price system based on average labour costs runs into serious problems if one takes into account the time structure of production. The dual price system also suffers from the obvious disadvantage that the scarcity value of factors of production should ideally be determined by marginal costs rather than by average costs. One also fails to understand why Turetsky and Maizenberg are mentioned in connection with the dual price school, but Mstislavsky is not. Similarly, under the value school, Strumilin and Kronrod are mentioned, but Bor and Kondrashev are not. Nor is it made clear that the value school advocated that surplus value was to be added at every stage of the production process. Herein lies the essential difference with the averaged value-type price system. Nor is it made clear that a crucial assumption was required before the price of any commodity could be obtained under the value approach. This required that the share of the surplus was proportional to labour costs. Mehta does not seem to realise that with differing capital/labour ratios, the value price school would have to face the important problem of differing profit rates in different sectors. Under the production price school, Scherbakov's name is not mentioned, nor is there any reference to the interesting arguments of Bachurin and Kulikov, even in passing. Bachurin and Kulikov argued that in obtaining prices for natural resources, differential rents should be included in addition to interest. Montias has made the point that if quasi-rents are included, the production price system is tantamount to a system of pricing based on marginal costs.[4] The paper makes no mention of another issue that was regarded as crucial by several socialist authors writing on the pricing debate. This relates to the question of circularity or the simultaneous determination of costs and prices. It is not that costs determine prices. The causal relationship runs both ways, since costs are money costs and wages cannot be determined independently of prices. The computational burdens of simultaneously determining costs and prices can be quite severe. Empirically, it is also interesting to know by how much prices based on values would differ from prices based on production prices, and by how much they would differ from prices then prevailing. Such figures are not given by Mehta although they are readily available.[5]

The upshot is that an original and integrated framework which might have made up for the lack of familiarity with the literature is missing. As such, the paper remains a maze of equations for the value school, the production price school, etc, all equations which have been reproduced a countless number of times in the literature. The only section which is purportedly novel is the section on price bases and production structure. An objection to this section is that an adequate acknowledgement to the literature has not been made. There are two references to Brody's book.[6] There is however nothing to indicate that all of the section on price bases and production structure is reproduced verbatim from pages 20-25, 29-30, 35-37, 45-46 and 81 of Brody's book, with mathematical symbols changed now and then. An example is in order. Without quotes, the paper states, "While $a_{ij}$ stands for the amount of product i used up to produce one unit of product j, $b_{ij}$ stands for the amount of product i tied up in the same process." On page 35 of Brody's book we find, "While $a_{ik}$ stands for the amount of product i used up to produce one unit of product k, let $b_{ik}$ stand for the amount of product i tied up in the same process." There are also minor inaccuracies, which a careful reading of Brody's book should have avoided. 'a' cannot be the row vector of direct labour coefficients; it has to be the row vector of direct manhour coefficients. It has to be the latter rather than the more general former to ensure consistency. In the two-channel price system, Esze and Nagy advocate prices with a mark-up on cost, with the mark-up being partly proportional to fixed capital and partly to wages. The paper seems to suggest that the mark-up is fully proportional to fixed capital and to wages. The obsession with Brody also probably explains the lack of any reference to the transformation problem, although Seton's paper is included in the bibliography. To what avail is never quite clear. It must be pointed out that whatever be the importance of the transformation problem from the theoretical point of view, and Brody would hold that it is not terribly important, Brody himself recognises the practical importance of the transformation problem in the process of computing prices from a value price system.

In discussing the current Hungarian reform, it is not made at all clear that the important point is not that the prices of traded goods should depend on world market prices, but that the prices of all goods, internationally traded or not, should depend on world market prices. The Hungarians have discussed at great length the problems of actually determining world market prices. No awareness is shown of this extensive literature.[7]

All of these objections contribute to our conviction that the paper adds nothing to our understanding of price formation in the socialist countries.

## Notes

[1] 'Theory of Pricing in Socialist Countries: Case of Industrial Producer Goods', J Mehta, *Economic and Political Weekly*, Vol 20, No 8, February 23, 1985, Review of Management, pp M-33 to M-47.

[2] "The Transition to Socialist Economy" by C Bettelheim, Harvester Press, 1975 and O Tarnovsky, 'Tsenoobrazovanie v promishlennosti evropeiskikh stran SEV' *Voprosy ekonomiki*, No 7, 1966, pp 82-93.

[3] 'Price Calculations in Hungary on the Basis of Mathematical Methods' by S Ganczer, *Economics of Planning*, Vol 5, No 3, 1966, pp 67-79.

[4] Also see, Bettelheim, op cit.

[5] For example, in Ganczer op cit.

[6] "Proportions, Prices and Planning" by A Brody, Akademiai Kiado, Budapest, 1970.

[7] See the various papers by Hungarian authors in the Hungarian issue of the journal *Economics of Planning*, Vol 5, No 3, 1965.

# Comparable Estimates of Net State Domestic Product at Factor Cost by Industry of Origin, 1980-81

## (AT CURRENT PRICES)

*(Rs lakh)*

| Industry | Andhra Pradesh | Assam | Bihar | Gujarat | Haryana | Himachal Pradesh | Jammu and Kashmir | Karnataka | Kerala | Madhya Pradesh | Maharashtra | Manipur | Meghalaya | Nagaland | Orissa | Punjab | Rajasthan | Tamil Nadu | Tripura | Uttar Pradesh | West Bengal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | -(11) | (12) | (13) | (14) | (15) | (16) | (17) | (18) | (19) | (20) | (21) | (22) |
| (1) Agriculture | 305902 | 119365 | 312004 | 226156 | 161451 | 26302 | 33467 | 213845 | 129465 | 289733 | 352934 | 11013 | 6819 | 4281 | 189422 | 218996 | 203236 | 133795 | 14055 | 666195 | 262307 |
| (2) Forestry and logging | 4456 | 3627 | 4539 | 1879 | 1389 | 6463 | 7125 | 5090 | 5564 | 24349 | 11677 | 146 | 76 | 99 | 4564 | 759 | 1095 | 1169 | 504 | 14396 | 1739 |
| (3) Fishing | 8114 | 6173 | 6681 | 5586 | 164 | 124 | 512 | 3950 | 8016 | 662 | 9270 | 442 | 88 | 5 | 4611 | 176 | 829 | 5025 | 564 | 2542 | 18949 |
| (4) Mining and quarrying | 7499 | 3329 | 48786 | 6378 | 1178 | 93 | 190 | 3586 | 531 | 24591 | 5633 | — | 68 | — | 7777 | 12 | 9071 | 2960 | 2 | 4732 | 16839 |
| (5) Manufacturing | | | | | | | | | | | | | | | | | | | | | |
| (5.1) Registered | 46902 | 11361 | 38798 | 103373 | 29681 | 1154 | 2038 | 61499 | 30637 | 56553 | 291212 | 95 | 181 | — | 16422 | 26162 | 21260 | 107706 | 233 | 66447 | 127879 |
| (5.2) Unregistered | 34109 | 5975 | 15918 | 48634 | 10188 | 1339 | 3464 | 54359 | 32360 | 24128 | 114591 | 734 | 434 | 262 | 8028 | 30372 | 21694 | 73555 | 784 | 71919 | 60769 |
| (6) Construction | 30746 | 11700 | 34266 | 36349 | 15248 | 8269 | 6694 | 36693 | 16609 | 39894 | 72150 | 1865 | 2063 | 1790 | 17165 | 20873 | 27298 | 33866 | 1336 | 68199 | 32416 |
| (7) Electricity, gas and water supply | 11543 | 1650 | 6583 | 11908 | 3208 | 543 | 666 | 11235 | 7898 | 8519 | 27123 | (–)254 | 416 | (–)69 | 5505 | 11463 | 6582 | 11465 | 38 | 21506 | 10849 |
| (8) Transport, storage and communication | | | | | | | | | | | | | | | | | | | | | |
| (8.1) Railways | 8718 | 2206 | 11677 | 4745 | 1770 | 55 | 90 | 1880 | 1173 | 9887 | 8229 | — | — | 10 | 2525 | 2316 | 4312 | 5851 | 10 | 16040 | 8704 |
| (8.2) Transport by other means and storage | 26245 | 3115 | 15774 | 22505 | 7812 | 2886 | 8702 | 13866 | 23866 | 14750 | 64206 | 601 | 184 | 46 | 5411 | 14363 | 8525 | 30338 | 1203 | 34363 | 30844 |
| (8.3) Communication | 4560 | 1126 | 2459 | 4352 | 1018 | 600 | 665 | 3719 | 2949 | 2955 | 14284 | 37 | 151 | 20 | 1293 | 1785 | 2235 | 8037 | 73 | 5964 | 6565 |
| (9) Trade, hotels and restaurants | 119007 | 21951 | 93289 | 159121 | 51581 | 5976 | 12988 | 86325 | 67960 | 70537 | 242455 | 2102 | 1605 | 512 | 33461 | 91479 | 50743 | 151767 | 3087 | 174590 | 126701 |
| (10) Banking and insurance | 16942 | 3143 | 10060 | 25624 | 5525 | 1260 | 1685 | 18637 | 11194 | 12162 | 81535 | 246 | 310 | 142 | 4527 | 11074 | 9874 | 23086 | 316 | 25086 | 41120 |
| (11) Real estate, ownership of dwellings and business services | 23477 | 1953 | 11935 | 16458 | 4296 | 1283 | 1624 | 13798 | 7557 | 11149 | 33 | 142 | 261 | 83 | 6566 | 6998 | 5354 | 31010 | 604 | 51230 | 35658 |
| (12) Public administration | 29383 | 8826 | 21849 | 17574 | 7119 | 4331 | 5542 | 17809 | 15769 | 18410 | 47434 | 2135 | 2350 | 1935 | 12713 | 12084 | 14506 | 25738 | 2215 | 36751 | 31141 |
| (13) Other services | 44325 | 17261 | 28403 | 34990 | 11439 | 5974 | 6082 | 26825 | 28281 | 31885 | 74463 | 2837 | 1061 | 1793 | 17171 | 23712 | 26056 | 35460 | 2091 | 68892 | 45920 |
| (14) Total | 721928 | 222761 | 663021 | 725632 | 313067 | 66652 | 91534 | 573116 | 389829 | 640164 | 1450393 | 22141 | 16067 | 10909 | 337161 | 472624 | 412670 | 680828 | 27115 | 1328852 | 858400 |
| (15) Estimated population ('000) | 530773 | 196335 | 692421 | 337539 | 127925 | 42435 | 59097 | 367502 | 253120 | 517423 | 622632 | 14059 | 13205 | 7581 | 262104 | 166279 | 338136 | 481844 | 20243 | 1096767 | 541148 |
| (16) Per Capita (Rs) | 1360 | 1135 | 958 | 2150 | 2447 | 1571 | 1549 | 1559 | 1540 | 1237 | 2329 | 1575 | 1217 | 1439 | 1286 | 2842 | 1220 | 1413 | 1339 | 1212 | 1586 |

*Note:* These estimates have been prepared for the specific use of the Planning Commisssion for allocation of funds to the states. For inter-temporal comparisons reference may be made to the official series of SDP prepared b the respective SSBs.

*Source*: Central Statistical Organisation, Government of India.

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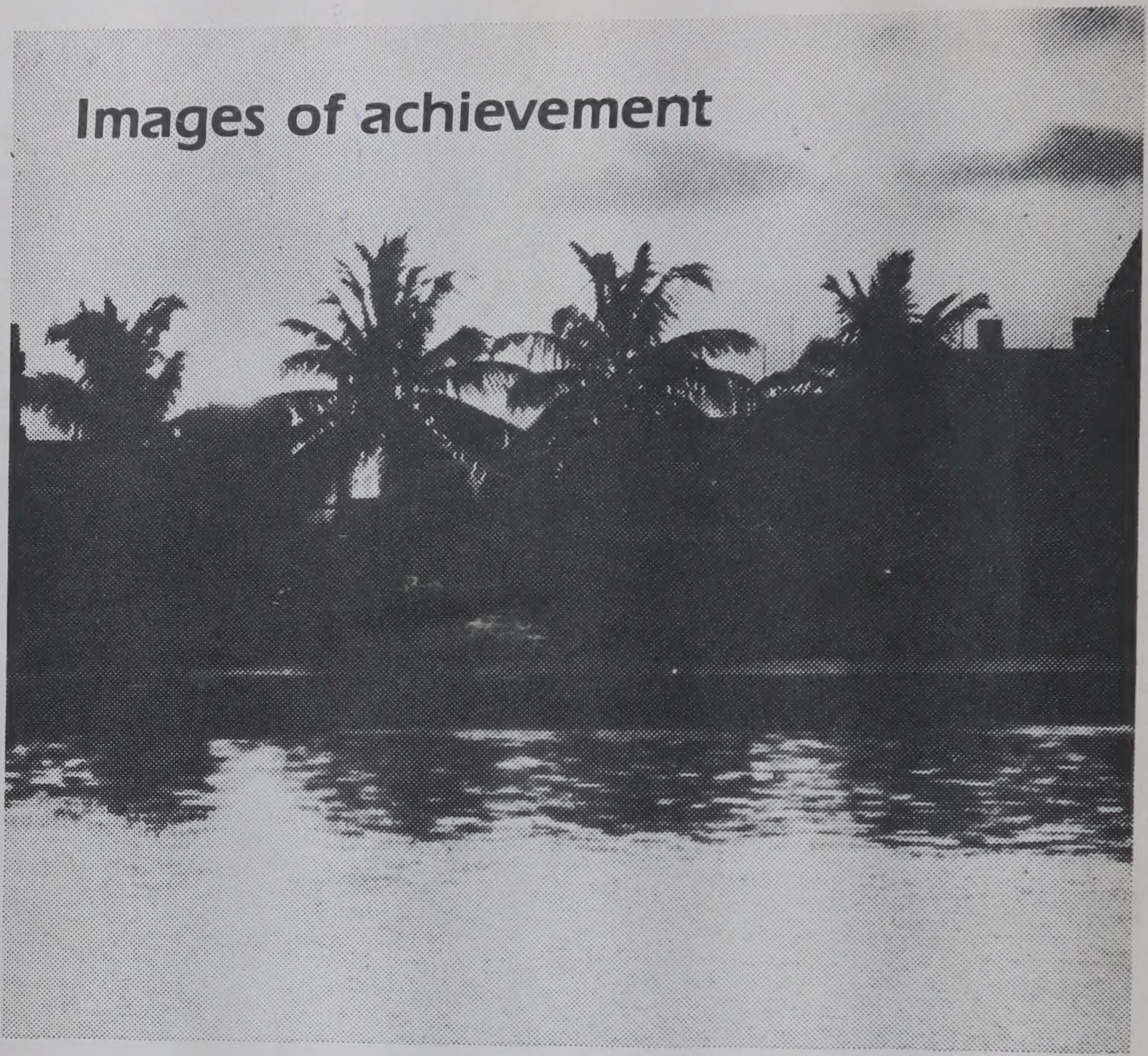

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